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*This announcement and the listing documents referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing documents) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing documents referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.*

*Notice to Hong Kong investors: The Issuer (as defined below) confirms that the Notes (as defined below) are intended for purchase by professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) only and have been 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 OFFERING CIRCULAR AND PRICING SUPPLEMENT**

### **CHINA DEVELOPMENT BANK HONG KONG BRANCH**

**(as Issuer)**

**Issue of**

**RMB2,500,000,000 2.65 per cent. Notes due 2024 (the “Notes”) (Stock Code: 86007)**

**under the**

**U.S.\$30,000,000,000 Debt Issuance Programme (the “Programme”)**

**established by**



### **CHINA DEVELOPMENT BANK**

*(formerly known as China Development Bank Corporation)*

*(a limited liability company incorporated under the laws of the People’s Republic of China)*

**and**

### **CHINA DEVELOPMENT BANK HONG KONG BRANCH**

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

Please refer to the offering circular dated 16 October 2020 (the “**Offering Circular**”) in relation to Programme and the pricing supplement dated 10 June 2021 in relation to the Notes, as amended and restated on 17 June 2021 (the “**Pricing Supplement**”) appended herein. As disclosed in the Offering Circular and the Pricing Supplement, the Notes were intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular and the Pricing Supplement do not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular and the Pricing Supplement must not be regarded as an inducement to subscribe for or purchase any securities of China Development Bank or China Development Bank Hong Kong Branch, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular and the Pricing Supplement.

Hong Kong, 21 June 2021

*As at the date of this announcement, the board of directors of China Development Bank consists of Mr. Zhao Huan, Mr. Ouyang Weimin and Mr. Zhou Qingyu as executive directors; Mr. Lian Weiliang, Ms. Zou Jiayi, Mr. Li Chenggang and Ms. Zhang Xiaohui as government agency directors; Mr. Zhang Shenghui, Mr. Bian Ronghua, Mr. Zhang Yong and Mr. Wu Zhenpeng as equity directors.*

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**APPENDIX 1 – OFFERING CIRCULAR DATED 16 OCTOBER 2020**

## IMPORTANT NOTICE

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND, IN CERTAIN CASES, ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"))**

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

**Confirmation of Your Representation:** This Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached document, you shall be deemed to represent to each of the Issuers, the Arrangers and the Dealers (each as defined in this Offering Circular) that (1) you and any customers you represent are not U.S. persons (as defined in Regulation S under the Securities Act) and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuers, the Arrangers and the Dealers nor their respective affiliates and their respective directors, officers, employees, representatives, agents and each person who controls any of the Issuers, the Arrangers and the Dealers or their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

**Restrictions:** The attached document is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein. You are reminded that the information in the attached Offering Circular is not complete and may be changed.

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER 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 THE SECURITIES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES OR, IN CERTAIN CASES, TO OR FOR THE ACCOUNT OR BENEFIT OF ANY U.S. PERSON, 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. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT, AND IN CERTAIN CASES, ONLY TO NON-U.S. PERSONS.**

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Issuers, the Arrangers or the Dealers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealer or any affiliate of it is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by it or such affiliate on behalf of the relevant Issuer in such jurisdiction.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession this 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 authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached Offering Circular.

**Actions that You May Not Take:** If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

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**国家开发银行**  
**China Development Bank**

(formerly known as China Development Bank Corporation)

(a limited liability company incorporated under the laws of the People's Republic of China)

## US\$30,000,000,000 Debt Issuance Programme

We, China Development Bank (the “**Bank**”), are a state-owned development finance institution. Under the US\$30,000,000,000 Debt Issuance Programme described in this Offering Circular (the “**Programme**”), (i) the Bank and (ii) China Development Bank Hong Kong Branch (the “**Hong Kong Branch**”) (each an “**Issuer**” and together, the “**Issuers**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the “**Notes**”).

Each Series (as defined in “Terms and Conditions of the Notes”) (the “**Conditions**”) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”) (collectively, the “**Global Note**”). Interests in a temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent Global Note on or after the date 40 days after the relevant issue date, in the case of Notes for which US Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (the “**D Rules**”) are specified in the relevant Pricing Supplement (as defined in “Summary of the Programme”) as applicable, upon certification as to non-U.S. beneficial ownership. Each Series of Notes in registered form 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. Global Notes and Global Certificates (as defined in “Summary of the Programme”) may be deposited on the issue date with a common depository on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”) (the “**Common Depository**”) or with a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the “**CMU Service**”). 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”.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered, sold, pledged, transferred or (in the case of Notes in bearer form) delivered within the United States or, in certain cases, to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”)), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered only in offshore transactions in reliance on Regulation S, and in certain cases, only to non-U.S. person. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see “Subscription and Sale” in this Offering Circular.

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the foreign debt quota granted to the Bank by the NDRC pursuant to the Filing and Registration Certificate of Enterprises’ Foreign Debts 《企業借用外債備案登記證明》(發改辦外資備[2020]169號) issued on 26 March 2020, unless otherwise specified in the relevant Pricing Supplement. After the issuance of such relevant Tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the prescribed time period.

Application has been made to The Stock Exchange of Hong Kong Limited (the “**SEHK**”) 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 SEHK and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, “**Professional Investors**”) only during the 12-month period from the date of this document on the SEHK. 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.**

**Notice to Hong Kong investors:** The Issuers confirm that the Notes are intended for purchase by Professional Investors only and will be listed on the SEHK on that basis. Accordingly, the Issuers confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

**SEHK 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 Programme and the Notes on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuers or quality of disclosure in this document.** Hong Kong Exchanges and Clearing Limited and the SEHK 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.

However, unlisted Notes 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 SEHK (or any other stock exchange).

**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 Issuers have determined, and hereby notify 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) 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).

The Programme is rated “A+” by S&P Global Ratings (“**S&P**”). Such rating is only correct as at the date of this Offering Circular. Tranches of Notes (as defined in “Summary of the Programme”) 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 rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

### Arrangers

HSBC

Standard Chartered Bank

Bank of China (Hong Kong)

### Dealers

HSBC

Standard Chartered Bank

Bank of China (Hong Kong)

ABC  
International

Bank of  
Communications

CCB  
International

ICBC (Asia)

ICBC  
International

This Offering Circular is dated 16 October 2020.

## IMPORTANT NOTICE

This 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 Issuers. Each of the Issuers 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 the Issuers' knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Listing of the Notes on the SEHK is not to be taken as an indication of the merits of us or the Notes. You should rely only on the information contained in this Offering Circular in making your investment decision. Neither ourselves nor any Arranger, Dealer, fiscal agent or paying agent participating in the Programme or any of their respective affiliates or advisors has authorized anyone to provide you with any other information.

None of us, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited and Bank of China (Hong Kong) Limited (together, the “**Arrangers**”), ABCI Securities Company Limited, Bank of Communications Co., Ltd. Hong Kong Branch, CCB International Capital Limited, ICBC International Securities Limited and Industrial and Commercial Bank of China (Asia) Limited (together with the Arrangers, the “**Dealers**”) is making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this Offering Circular and the offering of the Notes under the Programme may in certain jurisdictions be restricted by law. None of us, the Arrangers and the Dealers represents that this Offering Circular 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.

Each prospective purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of us, the Arrangers, the Dealers, the fiscal agent or the paying agents shall have any responsibility therefor.

Prospective investors in the Notes should rely only on the information contained in this Offering Circular. None of us, the Arrangers, the Dealers, the fiscal agent or the paying agents has authorised the provision of information different from that contained in this Offering Circular, to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by us, any of the Arrangers, the Dealers, the fiscal agent or the paying agents. The information contained in this Offering Circular is accurate in all material respects only as at the date of this Offering Circular, regardless of the time of delivery of this Offering Circular or of any sale of the Notes. Neither the delivery of this Offering Circular or any Pricing Supplement nor any offering, sale or delivery made hereunder shall under any circumstances imply that there has not been a change or development in our affairs or any of them since the date of this Offering Circular or that the information set forth herein is correct in all material respects as at any date subsequent to the date of this Offering Circular.

No representation or warranty, express or implied, is made by any Arranger, Dealer, fiscal agent, paying agent or any of their respective officers, employees, affiliates, advisors or agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or should be, relied upon as a promise or representation by any Arranger, Dealer, fiscal agent, paying agent or their officers, employees, affiliates, advisors or agents.

The Arrangers, the Dealers, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Arrangers, the Dealers, the fiscal agent, the paying agents or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arrangers or Dealers or on their behalf in connection with us or the Programme or the issue and offering of the Notes under the Programme. The Arrangers, the Dealers, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes. No offer or solicitation with respect to the Notes may be made in any jurisdiction or under any circumstances where such offer or solicitation is unlawful or not properly authorized. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons who come into possession of this Offering Circular are required by us as well as the Arrangers and the Dealers to inform themselves about, and to observe, any such restrictions.

No action is being taken or will be taken in any jurisdiction to permit an offering to the general public of the Notes or the distribution of this Offering Circular. For a description of certain restrictions on offers, sales and deliveries of our Notes and on distribution of this Offering Circular, see the section entitled “Subscription and Sale” in this Offering Circular.

Each person receiving this Offering Circular acknowledges that: (a) such person has not relied on the Arrangers, the Dealers, the fiscal agent or the paying agents or any of their respective officers, employees, affiliates, advisors or agents or any person affiliated with the Arrangers, the Dealers, the fiscal agent or the paying agents in connection with any investigation of the accuracy or completeness of such information or its investment decision; and (b) no person has been authorised to give any information or to make any representation concerning us, the Programme and the Notes (other than as contained herein) and, if given or made, any such other information or representation should not be relied upon as having been authorised by us or the Arrangers, the Dealers, the fiscal agent or the paying agents.

Neither this Offering Circular nor any other information supplied in connection with the Programme or the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by us, the Arrangers, the Dealers, the fiscal agent or the paying agents that any recipient of this Offering Circular, or any other information supplied in connection with the Programme or the offering of the Notes, should purchase the Notes. In making an investment decision, you must rely on your own independent examination of us, the terms of the offering, including the merits and risks involved.

None of us, the Arrangers, the Dealers, the fiscal agent or the paying agents, or any of their respective officers, employees, affiliates, advisors or agents is or are making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this Offering Circular to be legal, business or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Notes.

**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 assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any



person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; 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 (by either adopting or refining the target market assessment) 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 Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

**IMPORTANT — EEA AND UK RETAIL INVESTORS** — If the Pricing Supplement in respect of any Notes includes a legend entitled “**PRIIPs Regulation — 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; (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; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). 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.

**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 Issuers have determined, and hereby notify 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) 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).

**IN CONNECTION WITH THE ISSUE OF ANY TRANCHE (AS DEFINED IN “TERMS AND CONDITIONS OF THE NOTES”)** OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) (OR ANY PERSON ACTING FOR ANY OF THEM) IN THE APPLICABLE 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, BUT IN SO DOING, THE STABILISATION MANAGER(S) OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER(S) SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE RELEVANT ISSUER. 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 RELEVANT TRANCHE OF 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 RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

## **FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this Offering Circular. The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “forecast”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements.

Forward-looking statements are statements that are not historical facts. These statements are based on our current plans, estimates, assumptions and projections and involve known and unknown developments and factors that may cause our financial condition or results of operations or business environment to be materially different from that expressed or implied by these forward-looking statements. Therefore, you should not place undue reliance on them. Actual results, performance or achievements may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including changes in interest rates, exchange rates, inflation rates, PRC economic, political and social conditions, government fiscal, monetary and other policies as well as the prospects of China’s continued economic reform. Additional factors that could cause actual results, performance or achievements to differ materially include, without limitation, those discussed under “Risk Factors” and elsewhere in this Offering Circular. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events.

## **ROUNDING**

Percentages and certain amounts in this Offering Circular, including financial, statistical and operational information, have been rounded. Any discrepancies in any table between totals and sums of amounts listed in the table are due to rounding.

## **CERTAIN DEFINITIONS AND CONVENTIONS**

Unless otherwise indicated, all references in this Offering Circular to “the Bank”, “we”, “us”, “our” and words of similar import are to China Development Bank itself or China Development Bank and its subsidiaries, as the context requires; all references in this Offering Circular to “China” or the “PRC” are to the People’s Republic of China; all references to “Mainland China” are to the People’s Republic of China other than Hong Kong SAR, Macau Special Administrative Region and Taiwan; all references to “Hong Kong SAR” or “Hong Kong” are to the Hong Kong Special Administrative Region of China.

All references in this Offering Circular to “non-resident enterprise” are to any enterprise not resident in Mainland China that (1) has not established any offices or premises in Mainland China or (2) has established such offices and premises in Mainland China but there is no real connection between the income and the offices or premises so established by such enterprise; and all references in this Offering Circular to “non-resident individual” are to any individual who does not have any domicile and does not reside in Mainland China, or any individual who does not have any domicile in Mainland China and has resided in Mainland China for less than one year.

Unless otherwise indicated, all references in this Offering Circular to “Renminbi” or “RMB” are to the lawful currency of Mainland China; all references to “Hong Kong dollar(s)” or “HK\$” are to the lawful currency of Hong Kong SAR; and all references to “U.S. dollar” or “US\$” are to the lawful currency of the United States of America.

Solely for your convenience, we have translated amounts between different currencies for the purpose of consistent presentation in this Offering Circular. These translations follow the rates of exchange we use in preparing our accounts as described in note 3(8) to our financial statements on page F-13. We are not making any representation that Renminbi or any other currency referred to in this Offering Circular could have been or can be converted into any other currency at any particular rate or at all.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

This Offering Circular should be read and construed in conjunction with each applicable Pricing Supplement, the most recent audited annual accounts of the Bank published on the Bank's website ([www.cdb.com.cn/english](http://www.cdb.com.cn/english)) or any replacement website from time to time (if any) 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. Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any business day (Saturdays and public holidays excepted) from the specified offices of the Fiscal Agent and the Paying Agent (each as defined in "Summary of the Programme") set out at the end of this Offering Circular. See "General Information" for a description of the consolidated financial statements currently published by the Bank.

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## SUMMARY OF CHINA DEVELOPMENT BANK

*This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire Offering Circular, including the section entitled “Risk Factors” and our consolidated financial information and related notes thereto, before making an investment decision.*

### CHINA DEVELOPMENT BANK

We are a state-owned development finance institution. We report directly to the State Council of the PRC (“**State Council**”) on important matters relating to our business and operations, and are subject to the supervision and direction of China Banking and Insurance Regulatory Commission (the “**CBIRC**”, formerly known as China Banking Regulatory Commission prior to merging with China Insurance Regulatory Commission) with respect to our banking operations. Our operations are subject to the direct leadership of the State Council, in support of the development of key sectors and weak areas in the PRC economy. To anchor our mission of supporting national development and delivering a better life for the people, we align our business focus with China’s major medium- and long-term economic development strategies.

We are currently wholly owned, directly or indirectly, by the PRC government, with the Ministry of Finance of China (“**MOF**”), Central Huijin Investment Ltd. (中央匯金投資有限責任公司) (“**Huijin**”), Buttonwood Investment Holding Company Ltd. (梧桐樹投資平臺有限責任公司) (“**Buttonwood**”) and the National Council for Social Security Fund each holding an equity interest of approximately 36.54%, 34.68%, 27.19% and 1.59%, respectively.

We are headquartered in Beijing, China and currently have 37 tier-one branches and four tier-two branches in Mainland China, and one branch and 10 representative offices outside Mainland China. Our major subsidiaries include China Development Bank Capital Corporation Ltd. (國開金融有限責任公司) (“**CDB Capital**”), CDB Securities Co., Ltd. (國開證券股份有限公司) (“**CDB Securities**”), China Development Bank Financial Leasing Co., Ltd. (國銀金融租賃股份有限公司) (“**CDB Leasing**”), China-Africa Development Fund (中非發展基金有限公司) and CDB Development Fund Co., Ltd. (國開發展基金有限公司) (“**CDB Development Fund**”). Our place of business in Mainland China is No. 18 Fuxingmennei Street, Xicheng District, Beijing, the People’s Republic of China and our place of business in Hong Kong SAR is located at 33/F, One International Finance Center, No. 1 Harbour View Street, Central, Hong Kong SAR, China.

As set forth in our articles of association approved by CBIRC, the scope of our principal business activities includes:

- deposit taking from corporate customers;
- making short-, medium- and long-term loans;
- entrusted loans;
- making sub-loans with the support from small- and medium-size financial institutions;
- domestic and international settlement;
- acceptance and discount of negotiable instruments;
- issuance of financial bonds and other marketable securities;

- acting as agent for the issuance, repayment and underwriting of government bonds, financial bonds and credit bonds;
- trading in government bonds, financial bonds and credit bonds;
- interbank borrowing and lending;
- sale and purchase of foreign exchange on our own account or for customers;
- settlement and sale of foreign exchange;
- trading derivatives on our own account or for customers;
- letter of credit related business and issuance of guarantees;
- collection and payment agent and bancassurance business;
- safety deposit box services;
- asset management business;
- asset securitisation business;
- consultancy;
- banking business of our overseas branches authorised by us and permitted under local law;
- business such as investment and investment management, securities, financial leasing, banking and asset management legally carried out by our subsidiaries; and
- other business permitted by the banking regulatory authority under the State Council.

The following summary of our historical financial information as of or for the years ended 31 December 2018 and 2019 is derived from our audited consolidated financial statements included in this Offering Circular. We have prepared and presented our consolidated financial statements in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, our relevant audited consolidated financial statements and the notes thereto included elsewhere in this Offering Circular.

	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>(in millions of RMB)</b>	
<b>Income Statement Data Summary</b>		
Interest income . . . . .	630,661	617,161
Interest expense . . . . .	(456,712)	(434,213)
Profit before income tax . . . . .	145,552	131,560
Profit for the year . . . . .	118,511	112,056

	<b>As of 31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>(in millions of RMB)</b>	
<b>Balance Sheet Data Summary</b>		
Cash and balances with the central banks . . . . .	189,237	275,168
Deposits with banks and other financial institutions.. . . .	522,571	758,539
Loans and advances to customers . . . . .	11,713,333	11,198,375
Total assets . . . . .	16,504,575	16,179,820
Total liabilities . . . . .	15,110,840	14,879,097
Total equity . . . . .	1,393,735	1,300,723

## THE HONG KONG BRANCH

We established the Hong Kong Branch in July 2009 to develop cross-border banking businesses.

We are a licensed bank (Licence No. B296) in Hong Kong SAR and are regulated by the Hong Kong Monetary Authority (the “HKMA”). The core business strategy of the Hong Kong Branch is to develop and expand corporate banking services for the Bank’s China-based clients and their overseas subsidiaries. As of 31 December 2019, the Hong Kong Branch had 179 employees.

The products and services offered by the Hong Kong Branch include the following:

- multi-currency denominated lending services, including term loans, syndicated loans, commercial lending and mortgage lending;
- issuance of guarantees, standby guarantees and counter-indemnities;
- trade finance, including issuing letters of credit, shipping guarantees, trust receipts and inward collections, advising and confirming letters of credit, negotiation of letters of credit, outward collections, bill discounts and packing loans;
- deposit and remittance services; and
- issuance of certificates of deposit.

## OUR STRATEGIES

To anchor our mission of supporting national development and delivering a better life for the people, we align our business focus with China’s major medium-and long-term financing and comprehensive financial services, so as to raise and channel economic resources in support of the following areas:

- economic and social development, including infrastructure, basic industries, pillar industries, public services and management;
- new urbanization, urban-rural integration, and balanced regional development;
- programmes vital for national competitiveness, including energy conservation, environmental protection, advanced manufacturing, and the transformation and upgrading of traditional industries;

- public welfare, including affordable housing, poverty alleviation, student loans, and inclusive finance;
- national strategies, including those in science and technology, culture and people-to-people exchange;
- international cooperation, including the Belt and Road Initiative, industrial capacity and equipment manufacturing projects, infrastructure connectivity, energy and resources, and Chinese enterprises “Going Global”;
- initiatives that support China’s development needs and economic and financial reforms; and
- other areas as mandated by and aligned with national development strategies and policies.

## **OUR COMPETITIVE STRENGTHS**

We believe that our strong performance and stable market position are largely attributable to our following competitive strengths:

- a development finance institution wholly owned by the PRC central government and relying on state credit to raise medium-and long-term funds;
- strategically positioned in the PRC national economy with quality customer base, well-regarded brand name and solid financial partners;
- the largest bond house amongst Chinese banks, a major player in the debt capital market in Mainland China and a leader in financial innovation;
- sound risk management and quality assets;
- reasonable and steady profitability and efficient operation management; and
- experienced management team and well-trained work force.

## **OUR CHALLENGES**

We face challenges in our business operations, including:

- uncertainties in macro-economic development;
- adjustments and changes in macro-control and regulatory policies;
- credit risks of our borrowers and any decline in the value of collateral securing our loans;
- financial disintermediation and changes in funds available in the market; and
- risks relating to adverse changes in interest rate, exchange rate and other market factors.



## CREDIT RATINGS

*The credit ratings accorded to us by rating agencies are not recommendations to purchase, hold or sell our Notes or any of our other securities since such ratings do not comment as to market price or suitability for you. A rating may not remain in effect for any given period of time or may be suspended, downgraded or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant, and if any such rating is so suspended, downgraded or withdrawn, we are under no obligation to update this Offering Circular.*

International rating agencies such as Moody's and S&P Global Ratings ("**S&P**") put us at the same level as China's sovereign rating. As at the date of this Offering Circular, Moody's assigns to us a long-term rating of "A1" with a stable outlook, and S&P assigns to us a long-term rating of "A+" with a stable outlook.

The Programme is rated "A+" by S&P. Such rating is only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "Summary of the Programme") 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 ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

## RECENT DEVELOPMENT

Since the outbreak of Novel Coronavirus Disease 2019 ("**COVID-19**") in January 2020, the prevention and control of COVID-19 has been going on and throughout the world. We will earnestly implement the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the People's Bank of China (the "**PBOC**"), the MOF, CBIRC, China Securities Regulatory Commission ("**CSRC**") and State Administration of Foreign Exchange ("**SAFE**"), and strengthen financial support for the epidemic prevention and control.

We have been closely monitoring the impact of developments on our business and have adopted emergency measures. COVID-19 has certain impact on the business operation in some areas and industries. This may affect the quality or the yields of our credit assets and investment assets in a degree, and the degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies.

We will keep continuous attention on the situation of COVID-19, assess and react actively to its impacts on our financial position and operating results.

## SUMMARY OF THE PROGRAMME

*The following summary contains some basic information about the Notes and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in “Terms and Conditions of the Notes” and “Summary of Provisions relating to the Notes while in Global Form” shall have the same meanings in this summary. For a more complete description of the terms of the Notes, see “Terms and Conditions of the Notes” in this Offering Circular.*

Issuer . . . . .	China Development Bank (the “ <b>Bank</b> ”) or China Development Bank Hong Kong Branch (the “ <b>Hong Kong Branch</b> ”), as specified in the applicable Pricing Supplement
Description . . . . .	Debt Issuance Programme
Size . . . . .	Up to US\$30,000,000,000 aggregate principal amount of Notes outstanding at any one time. The Bank may increase the aggregate principal amount of the Programme in accordance with the terms of the Dealer Agreement.
Arrangers . . . . .	The Hongkong and Shanghai Banking Corporation Limited Standard Chartered Bank (Hong Kong) Limited Bank of China (Hong Kong) Limited
Permanent Dealers . . . . .	The Hongkong and Shanghai Banking Corporation Limited Standard Chartered Bank (Hong Kong) Limited Bank of China (Hong Kong) Limited ABCI Securities Company Limited Bank of Communications Co., Ltd. Hong Kong Branch CCB International Capital Limited ICBC International Securities Limited Industrial and Commercial Bank of China (Asia) Limited
	References in this Offering Circular to “Permanent Dealers” are to the persons listed above as Permanent Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated).
Dealers . . . . .	The Bank may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers in respect of the whole Programme. The relevant Issuer may, in respect of any single Tranche of Notes, from time to time appoint additional Dealers. References in this Offering Circular to “Dealers” are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Tranches.
Fiscal Agent and Paying Agent . . .	Bank of Communications Co., Ltd. Hong Kong Branch
Transfer Agent . . . . .	Bank of Communications Co., Ltd. Hong Kong Branch
Registrar . . . . .	Bank of Communications Co., Ltd. Hong Kong Branch

CMU Lodging Agent . . . . .	Bank of Communications Co., Ltd. Hong Kong Branch
Method of Issue . . . . .	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ <b>Series</b> ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches 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 of interest and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the applicable pricing supplement (the “ <b>Pricing Supplement</b> ”).
Issue Price . . . . .	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Form of Notes . . . . .	The Notes may be issued in bearer form (“ <b>Bearer Notes</b> ”), or in registered form (“ <b>Registered Notes</b> ”). Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i> .  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 applicable Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream and/or, as the case may be, the CMU Service 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 applicable Pricing Supplement, for definitive Notes. If the D Rules are specified in the applicable 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 Certificates. Certificates representing Registered Notes that are registered in the name of a nominee for one or more of Euroclear, Clearstream and the CMU Service are referred to as “Global Certificates”.
Clearing Systems. . . . .	The CMU Service, Clearstream and/or Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Fiscal Agent (or the CMU Lodging Agent, as the case may be) and the relevant Dealer.

Initial Delivery of Notes. . . . .	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream or deposited with a sub-custodian for the CMU Service 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 relevant Issuer and the relevant Dealer. 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 nominees or a common nominee for, such clearing systems.
Currencies . . . . .	Notes may be issued in any currency agreed between the relevant Issuer and the relevant Dealers, subject to compliance with all applicable legal and/or regulatory requirements.
Maturities. . . . .	Any maturity, subject to compliance with all applicable legal and/or regulatory requirements.
Specified Denomination . . . . .	Notes will be in such denominations as may be specified in the applicable Pricing Supplement.
Fixed Rate Notes. . . . .	Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Pricing Supplement.
Floating Rate Notes . . . . .	Floating Rate Notes will bear interest determined separately for each Series by reference to SHIBOR, CNH HIBOR, LIBOR, EURIBOR or HIBOR (or such other benchmark as may be specified in the applicable Pricing Supplement) as adjusted for any applicable margin.  Interest periods will be specified in the applicable Pricing Supplement.
Benchmark Discontinuation . . . . .	See Condition 5(b)(ii)(C) ( <i>Benchmark Replacement</i> ).
Zero Coupon Notes . . . . .	Zero Coupon Notes may be issued at their principal amount or at a discount to it and will not bear interest.
Interest Periods and Interest Rates. . . . .	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the applicable Pricing Supplement.
Redemption and Redemption Amounts . . . . .	The applicable Pricing Supplement will specify the basis for calculating the redemption amounts payable.

Optional Redemption . . . . .	The applicable Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption. Otherwise Notes will not be redeemable at the option of the relevant Issuer prior to maturity. See “Terms and Conditions of the Notes — Redemption, Purchase and Options”.
Status of Notes . . . . .	The Notes and the Coupons (if any) relating to them will constitute direct, unconditional, unsubordinated and (subject to the creation of any security permitted or approved in accordance with Condition 4 of “Terms and Conditions of the Notes”) unsecured obligations of the Bank. The Notes and the Coupons (if any) will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other existing and future unsubordinated and unsecured obligations of the Bank from time to time outstanding (except for any statutory preference or priority applicable in the winding-up of the Bank).
Negative Pledge . . . . .	See “Terms and Conditions of the Notes — Negative Pledge”.
Events of Default . . . . .	See “Terms and Conditions of the Notes — Events of Default”.
Ratings . . . . .	The Programme is rated “A+” by S&P. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.
Taxation. . . . .	<p>Under existing Hong Kong SAR law, payments of principal and interest in respect of our Notes may be made without withholding or deduction for any Hong Kong SAR taxes.</p> <p>If we are required by the law of Mainland China to withhold or deduct taxes, duties or other charges from any payments of principal or interest on our Notes, we will make the withholding or deduction and remit the amount so withheld or deducted to the tax authorities in Mainland China. We will, however, subject to some exceptions, increase the amounts paid so that investors receive the full amount of the scheduled payment.</p> <p>Please refer to the section entitled “Taxation of Notes” and “Terms and Conditions of the Notes — Taxation” for detailed explanations.</p>

Listing . . . . . Application has been made to the SEHK 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. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series.

Unlisted Notes may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

Notes listed on the SEHK will be traded on the SEHK in a board lot size of at least HK\$500,000 (or its equivalent in other currencies).

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, the European Economic Area, the United Kingdom, Hong Kong, Japan, Mainland China and Singapore, see “Subscription and Sale”.

Governing Law . . . . . English law.

Arbitration . . . . . Any dispute, controversy or claim arising out of or relating to the Notes, including any question regarding the breach, termination, existence or invalidity thereof, shall be settled by arbitration administered by the Hong Kong International Arbitration Centre (the “**HKIAC**”) in accordance with the HKIAC Administered Arbitration Rules then in force when the notice of arbitration is submitted in accordance with such Rules. The seat of arbitration shall be in Hong Kong SAR and the language of the arbitration shall be English. The governing law of the arbitration agreement shall be English law.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme. The terms and conditions applicable to any Note in global form held on behalf of Euroclear Bank SA/NV (“Euroclear”), Clearstream Banking S.A. (“Clearstream”) or the Hong Kong Monetary Authority, as operator of the Central Moneymarkets Unit Service (the “CMU Service”) will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described in the relevant Global Note or Global Certificate (see “Summary of Provisions Relating to the Notes while in Global Form”).*

The Notes are issued by the issuer specified in the applicable pricing supplement (the “**Issuer**”) pursuant to an amended and restated agency agreement (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 16 October 2020 between China Development Bank (the “**Bank**”), China Development Bank Hong Kong Branch (the “**Hong Kong Branch**”), Bank of Communications Co., Ltd. Hong Kong Branch as fiscal agent, Bank of Communications Co., Ltd. Hong Kong Branch as CMU lodging agent and the other agents named in it and with the benefit of an amended and restated deed of covenant (as amended or supplemented as at the Issue Date, the “**Deed of Covenant**”) dated 16 October 2020 executed by the Bank and the Hong Kong Branch in relation to the Notes. The fiscal agent, the paying agents, the registrar, the CMU lodging agent, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Fiscal Agent**”, the “**Paying Agents**” (which expression shall include the Fiscal Agent), the “**Registrar**”, the “**CMU Lodging Agent**”, the “**Transfer Agents**” and the “**Calculation Agent(s)**”. For the purposes of these Conditions, all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined herein), be deemed to be a reference to the CMU Lodging Agent (unless the context requires otherwise) and all such references shall be construed accordingly.

The Noteholders (as defined below), the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the “**Conditions**”), “**Tranche**” means Notes which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

### **1 Form, Denomination and Title**

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

*Upon issue, each Series of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”) and together with the temporary Global Notes, the “**Global Notes**”). Notes in registered form will be represented on issue by global certificates in registered form (each a “**Global Certificate**”). Global Notes and Global Certificates may be deposited on the issue date with (and in the case of Global Certificates, registered in the name of a nominee for) a common depository on behalf of Euroclear and Clearstream or with a sub-custodian for the CMU Service.*

*Except in limited circumstances described in the Global Note or the Global Certificate, as the case may be, owners of interests in Notes represented by a Global Note or a Global Certificate will not be entitled to receive definitive Notes or Certificates, as the case may be, in respect of their individual holdings of Notes.*

## **2 No Exchange of Notes and Transfers of Registered Notes**

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Bank), duly completed and executed and any other evidence as the Registrar or Transfer



Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

*Transfers of interests in Notes represented by a Global Note or a Global Certificate will be effected in accordance with the rules of the relevant clearing system.*

- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of the relevant Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(c) and Condition 6(d), (iii) after any such Note has been called for redemption, (iv) after the exercise of the option in Condition 6(e) of that Note, or (v) during the period of seven days ending on (and including) any Record Date.

### 3 Status

The Notes and the Coupons (if any) relating to them constitute direct, unconditional, unsubordinated and, subject to the creation of any security permitted or approved in accordance with Condition 4, unsecured obligations of the Bank. The Notes and the Coupons (if any) will at all times rank *pari passu* among themselves and at least *pari passu* with all other existing and future unsubordinated and unsecured obligations of the Bank from time to time outstanding (except for any statutory preference or priority applicable in the winding-up of the Bank).

### 4 Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement), the Bank shall not create or permit to subsist any Security Interest on any of its present or future assets or revenues to secure the repayment of, or any guarantee or indemnity in respect of, any Public External Indebtedness, unless the Notes and the Coupons are secured by such Security Interest *pari passu* with such other Public External Indebtedness. This provision, however, will not apply to any (i) Security Interest on any property or asset existing at the time of acquisition of such property or asset or to secure the payment of all or any part of the purchase price or construction cost thereof, or to secure any indebtedness incurred prior to, or at the time of, such acquisition or the completion of construction of such property or asset for the purpose of financing all or any part of the purchase price or construction cost thereof, or (ii) lien arising by operation of law.

In these Conditions:

- (i) “**Hong Kong**” and “**Hong Kong SAR**” means the Hong Kong Special Administrative Region of the People’s Republic of China;
- (ii) “**Macau**” means the Macau Special Administrative Region of the People’s Republic of China;
- (iii) “**Mainland China**” means the People’s Republic of China other than Hong Kong SAR, Macau and Taiwan;
- (iv) “**Public External Indebtedness**” means any indebtedness of the Bank for moneys borrowed (including indebtedness represented by bonds, notes, debentures or other similar instruments) or any guarantee by the Bank of indebtedness for moneys borrowed which, in either case, (i) has an original maturity in excess of one year, and (ii) is, or is capable of being, quoted, listed or traded on any stock exchange or over-the-counter or other similar securities market outside Mainland China (without regard, however, to whether or not such instruments are sold through public offerings or private placements); provided that Public External Indebtedness shall not include any such indebtedness for borrowed moneys owed to any financial institution in Mainland China; and
- (v) “**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.

## 5 Interest and Other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f).

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding principal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either Screen Rate Determination or ISDA Determination shall apply.

**(A) Screen Rate Determination for Floating Rate Notes**

(x) If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being SHIBOR:

(aa) the Rate of Interest for each Interest Accrual 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 or appear on <http://www.shibor.org> as at or around 11.30 a.m. (Beijing time) on the Interest Determination Date in question as determined by the Calculation Agent. For the purposes of these Conditions, “SHIBOR” means the Shanghai Interbank Offered Rate as published on <http://www.shibor.org> by China Foreign Exchange Trade System & National Interbank Funding Centre under the authorisation of the People’s Bank of China, at around 11.30 a.m., Beijing time on each business day, including 8 critical terms, i.e. O/N, 1W, 2W, 1M, 3M, 6M, 9M, 1Y, each represents the rate for a corresponding period; and

(bb) if for any reason no such offered quotation is published on <http://www.shibor.org> in respect of a certain Interest Determination Date, the SHIBOR in respect of the Business Day immediately preceding that Interest Determination Date shall be applied in place thereof.

- (y) If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:
- (aa) the Rate of Interest for each Interest Accrual 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 or appear 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;
- (bb) the Relevant Screen Page is not available or, if sub-paragraph (y)(aa)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if subparagraph (y)(aa)(2) 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 Accrual 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;
- (cc) if paragraph (y)(bb) 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 the Specified Currency 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, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for

such purpose) informs the Calculation Agent it is quoting 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 Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period);

(z) Where the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as LIBOR, EURIBOR or HIBOR:

(aa) the Rate of Interest for each Interest Accrual 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 or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, 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;

(bb) if the Relevant Screen Page is not available or, if sub-paragraph (aa)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (aa)(2) 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, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, or, if the Reference Rate is HIBOR, 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 if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 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 Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(cc) if paragraph (bb) 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, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market, as the case may be, 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 Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period);

(xx) 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 SHIBOR, CNH HIBOR, LIBOR, EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

**(B) ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (B), “**ISDA Rate**” for an Interest Accrual Period

means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (B), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

**(C) *Benchmark Replacement***

In addition, notwithstanding the provisions above in Condition 5(b) (Interest on Floating Rate Notes), if the Issuer determines that a Benchmark Event has occurred in relation to the relevant Reference Rate specified in the relevant Pricing Supplement when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate, then the following provisions shall apply:

- (x) the Issuer shall use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in a reasonable manner), no later than five Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the “**IA Determination Cut-off Date**”), a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Reference Rate for the purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Notes;
- (y) if the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;
- (z) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(ii)(C) (Benchmark Replacement)); provided, however, that if sub-paragraph (y) applies and the Issuer (acting in a reasonable manner) is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the initial Rate of Interest) (subject, where applicable, to substituting the Margin, Maximum Rate of Interest or Minimum Rate Interest that applied to such preceding Interest Period for the Margin, Maximum Rate of Interest or Minimum Rate Interest that is to be applied to the relevant Interest Period); for the avoidance of doubt, the proviso in

this sub-paragraph (z) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(ii)(C) (Benchmark Replacement));

(xx) if the Independent Adviser or the Issuer (acting in a reasonable manner) determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (acting in good faith and in a commercially reasonable manner) (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, business days, 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, if such changes are necessary to ensure the proper operation of such Successor Rate, Alternative Reference Rate and/or Adjustment Spread (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable), determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Fiscal Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(b)(ii)(C) (Benchmark Replacement). Noteholder or Couponholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Fiscal Agent (if required); and

(yy) the Issuer shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Fiscal Agent, Noteholders and Couponholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions,

provided that the determination of any Successor Rate or Alternative Reference Rate, and any other related changes to the Notes, shall be made in accordance with applicable law.

- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).



- (d) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused by the Issuer or the Agents, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (e) **Margin, Maximum/Minimum Rates of Interest and Redemption Amounts and Rounding:**
- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph;
  - (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be;
  - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the lowest amount of such currency that is available as legal tender in the country of such currency.
- (f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional

Redemption Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (h) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Adjustment Spread**” means (a) a spread (which may be positive or negative or zero) or (b) a formula or methodology for calculating a spread, in each case required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body;
- (ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable);  
or
- (iii) if the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines that no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances and solely for the purposes of this sub-paragraph (iii) only, of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders and Couponholders;

“**Alternative Reference Rate**” means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Issuer (as applicable)

determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in a reasonable manner) is most comparable to the relevant Reference Rate;

“**Benchmark Event**” means, in respect of a Reference Rate:

- (i) such Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist;
- (ii) a public statement by the administrator of such 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);
- (iii) a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued;
- (iv) a public statement by the supervisor of the administrator of such Reference Rate that means such Reference Rate will be prohibited from being used either generally or in respect of the Notes or that its use will be subject to restrictions or adverse consequences;
- (v) a public statement by the supervisor of the administrator of such Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of an underlying market or the methodology to calculate such Reference Rate has materially changed; or
- (vi) it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder or Couponholder using such Reference Rate,

provided that in the case of sub-paragraphs (ii), (iii) and (iv) of this definition, the Benchmark Event shall occur on the date of the cessation of publication of such Reference Rate, the discontinuation of such Reference Rate, or the prohibition of use of such Reference Rate, as the case may be, and not the date of the relevant public statement;

“**Business Day**” means:

- (i) in the case of a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong SAR are generally open for business and settlement of Renminbi payments in Hong Kong SAR and banks in Beijing are not authorised or obliged by law or executive order to be closed; and/or
- (iv) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual — ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that 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)
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366
- (iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” 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 D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30.

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” 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 **D<sub>2</sub>** will be 30.

- (vii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” 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 **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” 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 **D<sub>2</sub>** will be 30.

(viii) if “**Actual/Actual — ICMA**” is specified hereon,

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
  - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
  - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

“**Independent Adviser**” means an independent financial institution of international repute or other independent financial adviser of recognised standing and with appropriate expertise, in each case appointed by the Issuer at its own expense;

“**Interest Accrual Period**” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date;

“**Interest Amount**” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon;

**“Interest Determination Date”** means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or euro or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is SHIRBOR or CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the Business Day prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is SHIBOR or (v) the day falling two Business Days in Hong Kong SAR prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR;

**“Interest Period”** means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date;

**“Interest Period Date”** means each Interest Payment Date unless otherwise specified hereon; **“ISDA Definitions”** means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

**“Rate of Interest”** means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

**“Reference Banks”** means in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of CNH HIBOR or HIBOR, the principal Hong Kong office of four major banks dealing in Chinese Yuan in the Hong Kong inter-bank market, in each case selected by the Calculation Agent in consultation with the Issuer or as specified hereon;

**“Reference Rate”** means the rate specified as such hereon;

**“Relevant Nominating Body”** means, in respect of a Reference Rate:

- (i) the central bank for the currency to which the Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate; or
- (ii) 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 Reference Rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the Reference Rate, (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof;

**“Relevant Screen Page”** means such page, section, caption, column or other part of a particular information service as may be specified hereon;

“**Specified Currency**” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

“**Successor Rate**” means the rate that the Independent Adviser or the Issuer (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body; and

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (i) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (j) **Business Day Convention:** If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

## 6 REDEMPTION, PURCHASE AND OPTIONS

### (a) Final Redemption:

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its principal amount).



**(b) Early Redemption:**

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

- (c) **Redemption for Taxation Reasons:** Where the Issuer is the Hong Kong Branch, the Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or, at any time, (if this Note is not a Floating Rate Note), 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 (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Hong Kong SAR, Mainland China 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, which change or amendment becomes effective on

or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by an authorised representative 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 an opinion of independent legal 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.

- (d) Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)) together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a principal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the principal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

*So long as the Notes in global form and the certificate representing or evidencing such Notes is held on behalf of Euroclear, Clearstream, the CMU Service and/or an alternative clearing system, the selection of Notes for redemption under Condition 6(d) shall be effected in accordance with the rules of the relevant clearing system.*

- (e) Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)) together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or

any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Purchases:** Subject to applicable laws and regulations, the Bank and the Hong Kong Branch may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (g) **Cancellation:** All Notes purchased by or on behalf of the Bank or the Hong Kong Branch may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). 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.

## 7 PAYMENTS AND TALONS

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and in the case of interest as specified in Condition 7(f)(v)), or Coupons (in the case of interest, save as specified in Condition 7(f)(v)), as the case may be:
  - (i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank; and
  - (ii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

In this Condition 7(a), “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

- (b) **Registered Notes:**
  - (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates representing such Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
  - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be.

- (x) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and
  - (y) in the case of Renminbi, by transfer to the registered account of the Noteholder. In this paragraph, “**registered account**” means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.
- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in US dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments Subject to Laws:** Save as provided in Condition 8, all payments are subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Fiscal Agent, the Paying Agents, the Registrar, the CMU Lodging Agent, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, the CMU Lodging Agent, the Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, the CMU Lodging Agent, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) one or more Paying Agent(s) where the Conditions so require, (vi) a CMU Lodging Agent in relation to the Notes accepted for clearance through the CMU Service, and (vii) such other agents as may be required by another stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in US dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and unexchanged Talons:**

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, those Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
  - (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
  - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
  - (iv) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
  - (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday, Sunday or public holiday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
  - (ii) (in the case of a payment in euro) which is a Business Day; or

- (iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong SAR and banks in Beijing are not authorised or obliged by law or executive order to be closed.

## 8 TAXATION

All payments of principal and/or interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without deduction or withholding for, or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Mainland China or Hong Kong SAR (where the Issuer is the Hong Kong Branch only), or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders 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 for or on account of:

- (a) **Other connection:** a Noteholder who is subject to such taxes in respect of such Note or Coupon by reason of his being connected with Mainland China or Hong Kong SAR (where the Issuer is the Hong Kong Branch only) other than merely by holding such Note or Coupon or receiving principal or interest in respect of such Note; or
- (b) **Claim for exemption:** a Noteholder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so; or
- (c) **Presentation more than 30 days after the Relevant Date:** a Noteholder presenting a Note or Coupon (or in respect of which the Certificate representing it is presented) 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 the same for payment on the last day of such 30 day period.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 7 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition.

The obligation of the Issuer to pay additional amounts in respect of taxes, duties, assessments and other governmental charges shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of or interest on the Notes; provided the Issuer shall pay all stamp or other

taxes, duties, assessments or other governmental charges, if any, which may be imposed by Mainland China or any political subdivision or taxing authority in Mainland China, with respect to the Agency Agreement or as a consequence of the issue of the Notes.

## 9 Prescription

Claims against the Issuer for payment in respect of the Notes and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or six years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 10 Events of Default

If any of the following events (“**Events of Default**”) occurs and is continuing:

- (a) **Non-Payment:** failure by the Bank to pay any amount of principal or interest in respect of any of the Notes on the due date for payment thereof and such default continues for 30 days or more; or
- (b) **Breach of Other Obligations:** default by the Bank in the performance or observance of any one of its other obligations under or in respect of the Notes or the Agency Agreement and such default remains unremedied for 60 days following receipt by the Bank of written notice of such default (with a copy to the Fiscal Agent) from holders of an aggregate principal amount of not less than 10 per cent. of the Notes outstanding, to remedy such failure; or
- (c) **Cross-Default:** failure by the Bank to make any payment when due of principal or interest in excess of US\$50,000,000 (or its equivalent in any other currency or currencies) (whether upon maturity, acceleration or otherwise) on or in connection with Public External Indebtedness (other than that represented by the Notes) or guarantees given by the Bank in respect of Public External Indebtedness of others, and such failure by the Bank to make payment or to validly reschedule the payment (with the consent of the persons to which such Public External Indebtedness is owed) of such Public External Indebtedness continues for 30 days or more after the expiry of any applicable grace period following the date on which such payment became due; or
- (d) **Insolvency:** the Bank is insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Bank; or
- (e) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Bank, or the Bank ceases to carry on all or a material part of its business or operations except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution (as defined below) of the Noteholders; or
- (f) **Illegality:** it is or will become unlawful for the Bank to perform or comply with any one or more of its obligations under any of the Notes or the Agency Agreement,

then each Noteholder may give written notice to the Bank and the Fiscal Agent at the specified office of the Fiscal Agent, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable unless prior to receipt

of such demand by the Fiscal Agent, all such 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, but will not be obliged to furnish any periodic evidence as to the absence of defaults.

## 11 Meeting of Noteholders and Modifications

- (a) **Calling of Meeting, Notice and Quorum:** The Issuer may call a meeting of holders of Notes at any time and from time to time to make, give or take any request, demand, authorisation, direction, notice, consent, waiver or other action provided by the Agency Agreement or the Notes to be made, given or taken by holders of the Notes or to modify, amend or supplement the terms and conditions of the Notes. Any such meeting shall be held at such time and at such place in Hong Kong SAR as the Issuer shall determine and as shall be specified in a notice of such a meeting that shall be furnished to the holders of Notes at least 30 days and not more than 60 days prior to the date fixed for the meeting. In addition, the Fiscal Agent may at any time and from time to time call a meeting of holders of the Notes, for any such purpose, to be held at such time and at such place in Hong Kong SAR as the Fiscal Agent shall determine, after consultation with the Issuer, and as shall be specified in a notice of such meeting that shall be furnished to holders of the Notes, at least 30 days and no more than 60 days prior to the date fixed for the meeting. In case at any time the holders of at least 15 per cent. in aggregate principal amount of the outstanding Notes shall have requested the Fiscal Agent to call a meeting of the Notes, for any such purpose as specified above, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof. Such notice shall be given at least 30 days and not more than 60 days prior to the meeting. Notice of every meeting of holders of Notes shall set forth the time and place of the meeting and in general terms the action proposed to be taken at such meeting. In the case of any meeting to be reconvened after adjournment for lack of a quorum, notice of such meeting shall be given not less than 10 nor more than 15 days prior to the date fixed for such meeting.

To be entitled to vote at any meeting of the Noteholders, a person shall be a holder of outstanding Notes or a person duly appointed by an instrument in writing as proxy for such a holder. The persons entitled to vote a majority of the aggregate principal amount of the outstanding Notes shall, other than in respect of a Reserved Matter (as defined below), constitute a quorum. At the reconvening of any meeting adjourned for a lack of a quorum, the persons entitled to vote 25 per cent. of the aggregate principal amount of the outstanding Notes shall constitute the quorum for the taking of any action set forth in the notice of the original meeting. For the purposes of a meeting of holders of Notes that proposes to discuss a Reserved Matter (as defined below), the persons entitled to vote 75 per cent. of the aggregate principal amount of the outstanding Notes shall constitute a quorum. In the absence of a quorum, a meeting shall be adjourned for a period of at least 20 days. The Fiscal Agent, after consultation with the Bank and the Hong Kong Branch, may make such reasonable and customary regulations consistent herewith as it shall deem advisable for any meeting of holders of the Notes, including attendance at such meeting and voting, the proof of the appointment of proxies in respect of holders of Notes, determining the validity of any voting certificates or block voting instructions, the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.



- (b) **Voting and Consents:** If sanctioned by an Extraordinary Resolution, the Issuer and the Fiscal Agent may modify, amend or supplement the terms of the Notes in any way, and the holders of the Notes may make, take or give any request, demand, authorisation, direction, notice, consent, waiver (including waiver of future compliance or past default) or other action given or taken by holders of the Notes; provided, however, that the following matters (“**Reserved Matters**” and each, a “**Reserved Matter**”) shall require (i) the affirmative vote, in person or by proxy thereunto duly authorised in writing, of the holders of not less than 75 per cent. of the aggregate principal amount of the Notes then outstanding represented at such meeting, or (ii) the written consent of the holders of not less than 75 per cent. of the aggregate principal amount of the Notes then outstanding: (A) change the due dates for the payment of principal of, or any instalment of interest on, or any other amount in respect of, the Notes; (B) reduce or cancel, or change the method of calculating, any amounts payable in respect of the Notes; (C) change the provision of the Notes describing circumstances in which the Notes may be declared due and payable prior to its stated maturity; (D) change the currency or places in which payment of interest or principal in respect of the Notes is payable; (E) change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; (F) amend the definition of “**Reserved Matters**”; (G) permit early redemption of the Notes or, if early redemption is already permitted, set a redemption date earlier than the date previously specified or the redemption price; (H) reduce the above-stated percentage of the principal amount of outstanding Notes the vote or consent of the holders of which is necessary to modify, amend or supplement the terms and conditions of the Notes or to make, take or give any request, demand, authorisation, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given; (I) change the obligation of the Issuer to pay additional amounts as provided in Condition 8 (Taxation); or (J) change the status of the Notes as described in Condition 3 (Status). In these Conditions, “**Extraordinary Resolution**” means (a) in respect of a matter other than a Reserved Matter a resolution passed at a meeting of the Noteholders, duly convened and held in accordance with these Conditions, by a majority of not less than 66.67 per cent. of the aggregate principal amount of Notes then outstanding represented at such meeting; and (b) in respect of a Reserved Matter a resolution passed at a meeting of the Noteholders, duly convened and held in accordance with these Conditions, by a majority of not less than 75 per cent. of the aggregate principal amount of Notes then outstanding represented at such meeting.

In addition, and notwithstanding the foregoing, at any meeting of holders of Notes duly called and held as specified above, upon the affirmative vote, in person or by proxy hereunto duly authorised in writing, of the holders of not less than 66.67 per cent. of aggregate principal amount of the Notes then outstanding represented at such meeting, or by the written consent of the holders of not less than 66.67 per cent. of aggregate principal amount of the Notes then outstanding, holders of Notes may rescind a declaration of the acceleration of the principal amount thereof if the Event or Events of Default giving rise to the declaration have been cured or remedied and provided that no other Event of Default has occurred and is continuing.

The Issuer and the Fiscal Agent may, without the vote or consent of any holder of Notes, amend the Notes for the purpose of (i) adding to the covenants of the Issuer for the benefit of the holders of Notes, or (ii) surrendering any right or power conferred upon the Issuer in respect of the Notes, or (iii) providing security or collateral for the Notes, or (iv) curing any ambiguity in any provision, or curing, correcting or supplementing any defective provision, contained herein or in the Notes in a manner which does not adversely affect the interest of any holder of Notes, or (v) effecting any amendment which the Issuer and the Fiscal Agent

mutually deem necessary or desirable so long as any such amendment is not inconsistent with the Notes and does not, and will not, adversely affect the rights or interests of any holder of Notes.

It shall not be necessary for the vote or consent of the holders of the Notes to approve the particular form of any proposed modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action, but it shall be sufficient if such vote or consent shall approve the substance thereof.

- (c) **Binding Nature of Amendments, Notices, Notations, etc.:** Any instrument given by or on behalf of any holder of a Note in connection with any consent to or vote for any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action shall be irrevocable once given and shall be conclusive and binding on all subsequent holders of such Note or any Note issued directly or indirectly in exchange or substitution therefor or in lieu thereof. Any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action taken, made or given in accordance with Condition 11(b) (Voting and Consents) hereof shall be conclusive and binding on all holders of Notes, whether or not they have given such consent or cast such vote or were present at any meeting, and whether or not notation of such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action is made upon the Notes. Notice of any modification or amendment of, supplement to, or request, demand, authorisation, direction, notice, consent, waiver or other action with respect to the Notes or the Agency Agreement (other than for purposes of curing any ambiguity or of curing, correcting or supplementing any defective provision hereof or thereof) shall be given to such holder of Notes affected thereby, in all cases as provided in the relevant Notes.

Notes authenticated and delivered after the effectiveness of any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action may bear a notation in the form approved by the Fiscal Agent and the Issuer as to any matter provided for in such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action. New Notes modified to conform, in the opinion of the Fiscal Agent and the Issuer, to any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action taken, made or given in accordance with Condition 11(b) (Voting and Consents) hereof may be prepared by the Issuer authenticated by the Fiscal Agent and delivered in exchange for outstanding Notes.

*These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.*

## **12 Replacement of Notes, Certificates, Coupons and Talons**

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there

shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

### 13 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to “Notes” shall be construed accordingly.

### 14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday, Sunday or public holiday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in English in South China Morning Post and in Chinese in Hong Kong Economic Times. If at any time, publication in such newspaper is not practicable, notice shall be validly given if published in another English and/or Chinese language newspaper, as the case may be, with general circulation in Hong Kong. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

*So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global 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 the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in the CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.*

### 15 Governing Law and Jurisdiction

- (a) **Governing Law:** The Notes, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Arbitration:**
  - (i) Any dispute, controversy or claim arising out of or relating to any Notes, Coupons or Talons, including any question regarding the breach, termination, existence or invalidity thereof, shall be settled by arbitration administered by the Hong Kong International Arbitration Centre (the “HKIAC”) in accordance with the HKIAC Administered Arbitration Rules then in force when the Notice of Arbitration is submitted in accordance with such Rules (the “Rules”) and as may be amended by the rest of this Condition.
  - (ii) The seat of arbitration shall be in Hong Kong SAR and the language of the arbitration shall be English. The governing law of this arbitration agreement shall be English law.

- (iii) The arbitral tribunal (the “**Tribunal**”) shall consist of three arbitrators to be appointed in accordance with the Rules.
- (iv) The parties agree that any provisions in the Rules relating to applications for emergency relief, consolidation of arbitrations and/or single arbitrations under multiple contracts shall apply to any arbitral proceedings commenced pursuant to this Condition and under any of the Associated Contracts.
- (v) The award of the Tribunal shall be final and binding among the parties regarding any claims, counterclaims, issues, or accountings presented to the Tribunal. To the fullest extent allowed by applicable Laws, each party hereby waives any right to appeal such award.
- (vi) By agreeing to arbitration, the parties shall not be prevented from seeking from any court of competent jurisdiction conservatory or interim relief including a pre-arbitral injunction, pre-arbitral attachment or other order in aid of arbitration proceedings and to enforce any award.
- (vii) For the avoidance of doubt, the parties agree that Condition 15(b) is, and is to be treated as, an international arbitration agreement, and any dispute, controversy or claim arising out of or relating to the Notes, Coupons or Talons, including any question regarding the breach, termination, existence or invalidity thereof, is to be arbitrated as an international arbitration in accordance with Condition 15(b).

For the purposes of this Condition, “**Associated Contract**” means each of:

- (i) the amended and restated dealer agreement dated 16 October 2020 between the Bank, the Hong Kong Branch and the arrangers and the dealers set out therein (as amended or supplemented as at the Issue Date);
  - (ii) the Agency Agreement; and
  - (iii) the Deed of Covenant.
- (c) **Cost of Arbitration:** The costs of the arbitration shall be allocated between the relevant parties to the arbitration by the Tribunal and shall be set forth in the arbitral award in accordance with the Rules.
  - (d) **Waiver of Immunity:** To the extent that the Bank, or if the Issuer is the Hong Kong Branch, each of the Bank and the Hong Kong Branch may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to the Bank, or if the Issuer is the Hong Kong Branch, each of the Bank and the Hong Kong Branch or its assets such immunity (whether or not claimed), the Bank, or if the Issuer is the Hong Kong Branch, each of the Bank and the Hong Kong Branch hereby irrevocably agrees not to claim and hereby irrevocably waives and will waive such immunity in the face of the courts (if required) to the full extent permitted by the laws of such jurisdiction.

## **16 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## RISK FACTORS

*You should carefully consider the risks and uncertainties described below and other information contained in this Offering Circular before investing in the Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.*

### **Risks Relating to our Business**

#### ***Our business, results of operations and financial condition may be adversely affected by the PRC government's policies***

In March 2015, the State Council approved our reform deepening plan, affirming our position as a development finance institution and the relevant policy support. In accordance with the Articles of Association of China Development Bank approved by the State Council, we are positioned as a development finance institution. We will leverage on our comparative advantages of alignment with national strategies, credit, market-oriented operations and no profit maximisation targets, while actively exert the significant functions of medium and long-term investment and financing in China's efforts to ensure stable growth and restructure the economy, to promote and achieve the government's development goals, improve the efficiency in public resource allocation and stabilise economic cycles. We also increase support for national priorities and weak areas in the economy, and promote a sustainable and healthy economic and social development. In April 2017, as approved by CBIRC and with the completion of the registration of the relevant changes with the competent Administration for Industry and Commerce, we have changed from a joint stock company to a limited liability company and our registered name has changed from "China Development Bank Corporation (國家開發銀行股份有限公司)" to "China Development Bank (國家開發銀行)". According to the CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%. Although currently we enjoy support from the PRC government, we are subject to risk relating to future changes of the PRC government's banking regulatory policies, industrial policies and overseas investment policies.

#### ***Our loan portfolio and our operations are exposed to the credit risks of the borrowers, and the collateral and/or guarantees securing our loans may not fully protect us from such credit risks***

Our loan portfolio consists substantially of project financing and loans for infrastructure, basic and pillar industries and basic finance and international cooperation, including loans to local and international government entities. As of 31 December 2019, loans with a maturity of over one year accounted for 93.72% of our total outstanding RMB-denominated loan balance. Although some of our projects were, and may continue to be, recommended by either PRC central or local governmental agencies and we evaluate each project in accordance with our evaluation standards before we approve a loan, we cannot assure you, however, that the creditworthiness of our borrowers will not change over time or that there will be no default by our borrowers to meet their payment and other obligations. Most of our loans are secured by security interests in the borrowers' assets and/or guarantees from the borrowers' sponsors or affiliates. The value of such collateral, however, may significantly fluctuate or decline during any given period of time and the creditworthiness of the guarantors may also change over time as their risk profiles change due to changes in their operating environment as well as global or national macro-economic situation. As of 31 December 2019, approximately 66.07% and 11.44% of our loans were secured by collateral or by guarantees, respectively, with some of the loans secured by both.

With respect to collateral, any decline in the value of such collateral could reduce the amount we may recover in respect of the underlying loans. In addition, the procedures in Mainland China for liquidating or otherwise realising the value of collateral may be protracted, and it may be difficult to enforce claims in respect of such collateral. With respect to guarantees, our exposure to the guarantors is generally unsecured. Any significant deterioration in the financial condition of the guarantors could significantly reduce our comfort level and the amount we may recover under the guarantees. In addition, our credit evaluation is also subject to periodic reviews. If the quality of our loan portfolio should deteriorate or we fail to realise the full value of the collateral or the guarantees securing our loans on a timely basis, our business, financial condition and results of operations may be adversely affected.

***We are subject to credit risks with respect to certain off-balance sheet commitments***

In the normal course of our business, we make commitments and provide guarantees which are not reflected as liabilities on our balance sheet, including commitments, guarantees and letters of credit relating to the performance of our customers. We are subject to the credit risks of our customers as a result of these off-balance sheet financial instruments. Over time, the creditworthiness of our customers may deteriorate and we may be called upon to fulfil our commitments and guarantees in case of any non-performance by our customers of their obligations owed to third parties. If we are not able to obtain payments or other indemnification from our customers in respect of these commitments and guarantees, our results of operations and financial condition may be adversely affected.

***Our business is highly dependent on the proper functioning and improvement of our information technology systems***

We depend on our information technology systems to process substantially all of our transactions across numerous and diverse markets and products on an accurate and timely basis. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between our branches and our main data processing centers, is critical to our business and our ability to compete effectively in the marketplace. In light of emergencies in the event of catastrophe or failure of our primary systems, we have set up two disaster recovery centers in Beijing and Shenzhen, respectively, and back-up communication networks among our disaster recovery centers, our branches and major third-party financial institutions. We cannot assure you, however, that our business activities would not be materially disrupted if there is a partial or complete failure of any of these primary or back-up information technology systems or communications networks. Such failures could be caused by a variety of reasons, including natural disasters, extended power outages, computer viruses and data input errors. In addition, any security breach caused by unauthorised access to our information systems, or any significant malfunctions or loss or corruption of data, software, hardware or other computer equipment could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, our ability to remain competitive depends in part on our ability to upgrade our information technology systems on a timely and cost-effective basis. Information available to us or received by us through our existing information technology systems may not be timely or sufficient for us to manage risks and accordingly plan for, and respond to, market changes and other developments in our operating environment. Although we have been making, and intend to continue to make, investments to improve and upgrade our information technology systems, we cannot assure that we will be able to effectively improve or upgrade our information technology systems. Any such failure to improve or upgrade our information technology systems could adversely affect our competitiveness, results of operations and financial condition.

***Uncertainties and instability in global market conditions could adversely affect our business, financial condition and results of operations***

Our overseas business grows steadily as our cooperation with foreign governments, enterprises and financial institutions continuously deepens and the scope of services provided by us in assisting Chinese enterprises to “Go Global” continuously expands. At present, the COVID-19 pandemic has expanded globally hitting many major economies, the friction in China-U.S. relationship has emerged again with an expanding scope of the spread and the global economy recovery is disrupted. Such uncertainties and instability in the global economy may adversely affect our business, financial condition and results of operations.

***Our business and results of operations are subject to changes in, and risks involving, interest rate, exchange rate and other market factors***

Net interest income is the main source of our income. We operate our business predominantly in Mainland China under the interest rate regime regulated by the PBOC. Historically, interest rates in Mainland China were highly regulated, which over the years have gradually become much more liberalised. Interest rates of Renminbi-denominated loans could be set by adding or subtracting basis points from the loan prime rate (LPR).

Although it has been the practice in Mainland China for the interest rates of both interest-earning assets and interest-bearing liabilities to move in the same directions, there is no guarantee that PBOC will continue this practice in the future or that the move for both interest-earning assets and interest-bearing liabilities will be of the same magnitude or in different magnitude in favour of the commercial banks.

As of 31 December 2019, approximately 88% of our total loans and 93% of our total financial liabilities (including but not limited to debt securities issued, deposits from banks and other financial institutions and due to customers) were denominated in Renminbi and the remaining were denominated in foreign currencies. Changes in currency exchange rates, interest rates or other market factors could have a material adverse effect on our financial condition and results of operations. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

In addition, increasing competition in the banking industry and further liberalisation of the interest rate regime and the exchange rate regime may add more volatility to interest rates and exchange rates. We cannot assure you that we will be able to adjust the composition of our assets and liabilities portfolios and/or our product pricing to enable us to effectively respond to any further liberalisation of interest rates and/or exchange rates.

***We may not be able to detect and prevent fraud or other misconduct committed by our officers, employees, representatives, agents, customers or other third parties in a timely manner.***

We may encounter fraud or other misconduct committed by our officers, employees, agents, intermediaries customers or other third parties, which could result in violations of laws and regulations by us and expose us to regulatory sanctions. Even if such instances of misconduct do not result in any legal liabilities on our part, they could cause serious reputational or financial harm to us.

Our internal control procedures are designed to monitor our operations and ensure overall compliance. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner, or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions we take to detect and prevent such activities may not be fully effective. There had been incidents involving the former

Chairman of the Bank Hu Huaibang who is under trial in Mainland China for his personal violations of disciplines and laws. He has ceased to perform duties for us. We cannot assure you that a fraud or other misconduct will not occur in the future. Our failure to detect and prevent a fraud and other misconduct in a timely manner may have a material and adverse effect on our business reputation, financial condition and results of operations.

### **Risks Relating to China's Economic and Social Developments**

#### ***Our business is affected by PRC economic and social developments and macro-control policies***

At present, through the effective prevention and control measures of COVID-19, the PRC's economic and social operations are returning back to normal. However, the PRC's economic development is facing unprecedented challenges. Macroeconomic policies will respond to the challenges with greater efforts to mitigate the impact of the COVID-19 epidemic. China will use stronger macro policy tools to cushion the epidemic fallout. It will adopt more proactive fiscal measures such as increasing the deficit rate through issuing special government bonds with the proceeds for COVID-19 control, increasing the amount of local government special bonds to be issued as well as improving the efficiency of capital utilisation.

The government's prudent monetary policies will be more flexible and balanced, and it will use measures such as lowering reserve ratios and loan interest rates, and re-lending to maintain reasonable and sufficient liquidity and lower interest rates in the loan market, stressing the need to channel capital into the real economy, especially micro-, small- and medium-sized enterprises. If the macro-economic conditions change and macro-control policies, industrial policies and regulatory policies experience significant adjustments, our business, financial condition and results of operations could be affected.

### **Risks Relating to the Notes**

#### ***There is less publicly available information about us than is available for other issuers in certain other jurisdictions***

We are not a public company, are not listed on any stock exchange and are not required under laws and regulations of Hong Kong SAR and Mainland China to publish our financial statements or make periodical public announcements. Therefore there is limited publicly available information about us. In addition, we produce financial statements in accordance with IFRS once a year and do not produce or make public any interim financial information.

#### ***Your claims as an investor of our Notes are effectively subordinated to all our secured debt***

The Notes offered under this Offering Circular are unsecured and will rank equally with all of the relevant Issuer's other present or future unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by laws to rank ahead of the holders of the Notes). Payments under the Notes are effectively subordinated to all of the Issuer's secured debt to the extent of the value of the assets securing such debt. As a result of such security interests given to the Issuer's secured lenders, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving us, the affected assets of ours may not be used to pay you until all secured claims against the affected assets and claims of other creditors preferred by laws to rank ahead of the holders of the Notes have been fully paid.

#### ***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 Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the 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 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 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.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities.

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

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong SAR (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 SAR that may be designated by the relevant resolution authorities (which may include the Bank to the extent it conducts licensed activities in Hong Kong). 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 SAR. In particular, 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 may become subject to and bound by the FIRO. As the implementation of FIRO remains untested and certain detail relating to FIRO may be set out through secondary legislation and supporting rules, the full impact of FIRO on the Bank, and in particular, the Hong Kong Branch, as well as holders of the Notes, cannot be fully assessed as at the date of this Offering Circular.

***The trading market for the Notes is expected to be limited***

We are not responsible for the establishment or maintenance of a secondary trading market in the Notes and cannot guarantee that a liquid trading market will develop or continue. The value of the Notes will fluctuate depending on factors such as market interest movements, our financial condition and results of operations, the market's view of our credit quality and the market price for similar securities. In addition, the price of our Notes could be affected if there are only very few potential buyers in the market for our Notes. If you try to sell the Notes before maturity, the sale price may be lower than the amount you invested, or you may not be able to sell the Notes at all.

***The PRC government does not guarantee the Notes***

We are currently wholly owned by the PRC government. According to CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%. However, our borrowings and other obligations, including the Notes, are not guaranteed by the PRC government. You, therefore, may not enforce the obligations under the Notes against the PRC government. If you purchase our Notes, you are relying solely on our creditworthiness.

***Credit ratings may not reflect all risks and any credit rating of the Notes may be downgraded or Withdrawn***

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and 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.

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 Issuers 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 relevant Issuer is not obligated 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.

***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 and holders of a beneficial interest in a Global Note or 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 Certificates. Such Global Notes or Certificates will be deposited with a common depository for Euroclear and Clearstream or lodged with the CMU Service (each of Euroclear, Clearstream and the CMU Service, a “**Clearing System**”). Except in the circumstances described in the relevant Global Note or 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 or Certificates. While the Notes are represented by one or more Global Notes or 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 Certificates, the relevant Issuer will discharge its payment obligations under the Notes by making payments to the common depository for Euroclear and Clearstream or, as the case may be, to the relevant paying agent, in the case of the CMU Service, for distribution to their account holders. A holder of a beneficial interest in a Global Note or Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The relevant Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Certificates. Holders of beneficial interests in the Global Notes or 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***

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denominations (as defined in the Conditions). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **Risks Relating to the Structure of 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:

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

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the relevant Issuer would be obligated to increase the amounts payable in respect of any Notes due to any 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 Hong Kong, or any political subdivision thereof or any authority therein or thereof having power to tax, such Issuer may redeem all outstanding Notes in accordance with the Conditions.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the relevant Issuer may elect to redeem such 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 relevant Issuer may be expected to redeem the 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.

***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 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.

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 London interbank offered rate (“**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 and on 12 July 2018, announced that the LIBOR benchmark may cease to be a regulated benchmark under Regulation (EU) No. 2016/1011 (the “**FCA Announcement**”). The FCA Announcement indicated that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021. In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its working group on Sterling risk free rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (“**SONIA**”) over the next four years across sterling bond, loan and derivative markets so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a “risk free overnight rate” which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate (“**€STR**”) as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark. 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 (as further described in Condition 5(b)(ii)(C) (*Benchmark Replacement*)), or result in other consequences, in respect of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR or any other such benchmark that is subject to reform). 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”. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark. Any of the above changes or any other consequential changes as a result of international or national 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.

The Conditions provide for certain fallback arrangements in the event that a Benchmark Event (as defined in the Conditions) occurs, including, without limitation, if an inter-bank offered rate (such as LIBOR or EURIBOR) or other relevant reference rate (which could include, without limitation, any mid-swap rate), and/or any page on which such benchmark may be published (or any successor service) becomes unavailable, or if any Paying Agent, Calculation Agent, the relevant Issuer or other party is no longer permitted lawfully to calculate interest on any Notes by reference to such benchmark. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a Successor Rate (as defined in the Conditions) or an Alternative Reference Rate (as defined in the Conditions), with or without the application of an Adjustment Spread (as defined in the Conditions) which, if applied, could be positive or negative or zero, and may include amendments to the Conditions to ensure the proper operation of the successor or replacement benchmark.

Under these fallback arrangements, the relevant Issuer will use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser (as defined in the Conditions) to determine (acting in a reasonable manner) the Successor Rate or Alternative Reference Rate (as applicable) no later than five Business Days (as defined in the Conditions) prior to the relevant Interest Determination Date (as defined in the Conditions), but in the event that the relevant Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or such Independent Adviser fails to determine the Successor Rate or Alternative Reference Rate (as applicable), the relevant Issuer (acting in a reasonable manner) may, amongst other things, determine the relevant Successor Rate or Alternative Reference Rate (as applicable). There can be no assurance that such Successor Rate or Alternative Reference Rate (as applicable) determined by the relevant Issuer will be set at a level which is on terms commercially acceptable to all Noteholders.

In certain circumstances, the ultimate fallback for the purposes of calculation of Rate of Interest for a particular Interest Period may 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 Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page (as defined in the Conditions). Due to the uncertainty concerning the availability of Successor Rates and Alternative Reference Rates, any determinations that may need to be made by the relevant Issuer and the involvement of an Independent Adviser, there is 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 relevant Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

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

***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 LIBOR. 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.

***The market values 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 Notes issued at a substantial discount or premium to their principal 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 Notes, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### *Changes in market interest rates may adversely affect the value of fixed rate Notes*

Investment in fixed rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate Notes.

### **Risks Relating to Renminbi-Denominated Notes (“RMB Notes”)**

#### *Your investment in RMB Notes is subject to exchange rate risks*

We will make all payments of interest and principal in RMB with respect to our RMB Notes. This represents certain risks relating to currency conversions if your financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than RMB. The value of Renminbi against the Investor’s Currency may fluctuate and is affected by changes in China, international political and economic conditions and many other factors. As a result, the value of these Renminbi payments in the Investor’s Currency may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the Investor’s Currency between then and when we pay back the principal of the RMB Notes at maturity, the value of your investment in the Investor’s Currency terms will have declined.

#### *Renminbi is not freely convertible and there are significant restrictions on the remittance into and outside Mainland China which may adversely affect the liquidity of RMB Notes*

Renminbi is not freely convertible at present. The government of the PRC continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years 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.

However, remittance of Renminbi by foreign investors into Mainland China for the purposes of capital account items, such as capital contributions, 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 Mainland China on the remittance of Renminbi into Mainland China for settlement of capital account items are developing gradually.

In respect of Renminbi foreign direct investments (“**FDI**”), PBOC promulgated the Administrative Measures on Renminbi Settlement of Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the “**PBOC FDI Measures**”) on 13 October 2011 as part of PBOC’s detailed Renminbi FDI accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of domestic enterprises in Mainland China, repatriation of dividends and other distributions, as well as Renminbi-denominated cross border loans. On 14 June 2012, the PBOC issued a circular setting out the operational guidelines for FDI. Under the PBOC FDI Measures, special approval for FDI and shareholder loans from PBOC, which was previously required, is no longer necessary. In some cases, however, post-event filing with PBOC is still necessary. On 5 July 2013, PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the “**2013 PBOC Circular**”), which sought to improve the efficiency of the cross-border Renminbi settlement process. PBOC further issued the Circular on the Relevant Issues on Renminbi Settlement of Investment in Onshore Financial Institutions by Foreign Investors (關於境外投資者投資境內金融機構人民幣結算有關事項的通知) on 23 September 2013, which provides further details for using Renminbi to invest in a financial institution domiciled in Mainland China.

On 3 December 2013, the Ministry of Commerce of the PRC (“**MOFCOM**”) promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的公告) (the “**MOFCOM Circular**”), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify “Renminbi Foreign Direct Investment” and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the listed companies in Mainland China as strategic investors) or for entrustment loans in Mainland China.

On 13 February 2015, the SAFE promulgated the Notice on Further Simplifying and Improving Foreign Exchange Administration Policies for Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (“**Circular 13**”), which was amended on 30 December 2019, to simplify foreign exchange rules for cross-border investments. According to Circular 13, foreign exchange registration for foreign direct investment and outbound direct investment will be exempted from the approval by the SAFE and the registration rights will be delegated from the SAFE to the qualified banks from 1 June 2015. Under Circular 13, foreign investors could open foreign exchange accounts in qualified banks directly after providing the banks with registration documents, with no need to obtain separate government approval. By Circular 13, such qualified banks will administer foreign exchange transactions according to the registration information provided by the parties and the SAFE will indirectly supervise foreign exchange registration by verifying and inspecting the qualified banks.

On 30 March 2015, the SAFE promulgated the Circular of the SAFE on Relevant Issues Concerning the Reform of the Administrative Method of the Conversion of Foreign Exchange Funds by Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資金結算管理方式的通知) (“**Circular 19**”), which was amended on 9 June 2016 and 30 December 2019 and relaxed the capital account settlement for all foreign invested enterprises across the nation from 1 June 2015.

On 9 June 2016, the SAFE further promulgated the Circular of the SAFE on Relevant Issues Concerning the Reform and Regulation of the Administrative Policies of the Conversion under Capital Items (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (“**Circular 16**”). According to Circular 16, in case of any discrepancy between Circular 19 and Circular 16, Circular 16 shall prevail. Circular 16 allows all foreign invested enterprises across Mainland China to convert 100 per cent. (subject to future adjustment at discretion of SAFE) of the foreign currency capital (which has been processed through the SAFE’s equity interest confirmation procedure for capital contribution in cash or registered by a bank on the SAFE’s system for account crediting for such capital contribution) into Renminbi at their own discretion without providing various supporting documents. However, to use the converted Renminbi, a foreign invested enterprise still needs to provide supporting documents and go through the review process with the banks for each withdrawal. A negative list with respect to the usage of the capital and the Renminbi proceeds through the aforementioned settlement procedure is set forth under the Circular 16.

In addition, pursuant to the Notice of SA FE on Improving the Check of Authenticity and Compliance to Further Promote Foreign Exchange Control (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) (“**Circular No. 3 [2017]**”) promulgated on 26 January 2017, when conducting outward remittance of a sum equivalent to more than U.S.\$50,000 for a domestic institution, the bank shall, under the principle of genuine transaction, check the profit distribution resolution made by the board of directors (or profit distribution resolution made by partners), original of tax filing form and audited financial statements, and stamp with the outward remittance sum and date on the original of

tax filing form. In addition, the domestic institution shall make up its losses of previous years under the applicable laws. On 24 March 2017 and 27 April 2017, the SAFE respectively posted two series of questions and answers on its official website, in order to further explain the Circular No. 3 [2017].

On 5 January 2018, the PBOC promulgated the Notice on Further Improving Policies of Cross-Border Renminbi Business to Promote Trade and Investment Facilitation (關於進一步完善人民幣跨境業務政策促進貿易投資便利化的通知), which supports enterprises to use Renminbi in cross-border settlement and for the investment income such as profits and dividends legally obtained by overseas investors in Mainland China, banks shall review relevant materials as required before processing cross-border Renminbi settlement and ensure free remittance of profits of foreign investors in accordance with the law.

As the above measures and circulars are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in Mainland China.

There is no assurance that the PRC government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the pilot scheme for Renminbi cross-border utilisation will not be discontinued or that new regulations in Mainland China will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of Mainland China. In the event that funds cannot be repatriated outside Mainland China in Renminbi, this may affect the overall availability of Renminbi outside Mainland China and the ability of the Bank to source Renminbi to finance its obligations under Notes.

***There is only limited availability of Renminbi outside Mainland China, which may affect the liquidity of RMB Notes and our ability to source Renminbi outside Mainland China to service RMB Notes***

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside Mainland China is limited. The PBOC has established Renminbi clearing and settlement mechanisms by entering into agreements on the clearing of Renminbi business with various banks to act as Renminbi clearing banks in various financial centres outside Mainland China (each a “**Renminbi Clearing Bank**”).

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 enterprises in Mainland China. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC. The Renminbi Clearing Banks only have 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 obligated to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside Mainland China 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 laws and regulations in Mainland China on foreign exchange. There is no assurance that new regulations in Mainland China will not be promulgated or the establishment of Renminbi clearing and settlement mechanisms outside Mainland China will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside Mainland China. The limited availability of Renminbi outside Mainland China may affect the liquidity of the Notes. To the extent the Bank is required to source Renminbi in the offshore market to service its Notes, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.



***Payments in respect of RMB Notes will only be made to investors in the manner specified in the RMB Notes***

All payments to investors in respect of RMB Notes will be made solely by (i) when the RMB Notes are represented by a global certificate held with a common depository for Euroclear and Clearstream or a sub-custodian for the CMU Service or any alternative clearing system, transfer to a Renminbi bank account maintained in Hong Kong SAR in accordance with prevailing rules and procedures of Euroclear and Clearstream, CMU Service, or as the case may be, the alternative clearing system, or (ii) when the RMB Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong SAR in accordance with prevailing rules and regulations. We cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in Mainland China).

## CAPITALISATION

The following table sets forth our capitalisation as of 31 December 2019 and should be read in conjunction with our audited consolidated financial statements prepared in accordance with IFRS and related notes included in this Offering Circular:

	<b>As of</b> <b><u>31 December 2019</u></b> <b>(in millions of RMB)</b>
<b>Long-term Debt<sup>(1)</sup>:</b>	
Bonds issued <sup>(2)</sup> . . . . .	8,133,211
Other debts <sup>(3)</sup> . . . . .	<u>294,091</u>
<b>Total long-term debt</b> . . . . .	<b><u>8,427,302</u></b>
 <b>Capital Accounts:</b>	
Share capital . . . . .	421,248
Capital reserve . . . . .	182,993
Investment revaluation reserve . . . . .	(13,716)
Surplus reserve . . . . .	165,399
General reserve . . . . .	238,344
Currency translation reserve . . . . .	874
Retained earnings . . . . .	376,035
Non-controlling interests . . . . .	<u>23,558</u>
<b>Total equity</b> . . . . .	<b><u>1,393,735</u></b>
<b>Total capitalisation<sup>(4)</sup></b> . . . . .	<b><u><u>9,821,037</u></u></b>

*Notes:*

- (1) Long-term debt includes all debt (including unamortised fees, discounts or premiums) with a maturity of one year or longer, excluding its current portion.
- (2) Bonds issued includes debt securities issued by financial institutions, subordinated bonds issued, tier-two capital bonds issued and asset-backed securities issued.
- (3) Other debts include deposits from banks and other financial institutions, due to customers, placements from banks, financial assets sold under repurchase agreements and borrowings from governments and financial institutions.
- (4) Total capitalisation equals the sum of total long-term debt and total equity.

There has been no material adverse change in our capitalisation since 31 December 2019.

## USE OF PROCEEDS

The net proceeds of any Notes issued under the Programme shall be used for the following purposes:

- (i) where the Issuer is the Bank, for the Bank's working capital and general corporate purposes; and
- (ii) where the Issuer is the Hong Kong Branch, for the Hong Kong Branch's working capital and general corporate purposes.

## DESCRIPTION OF THE BANK

### Overview

We are a state-owned development finance institution. We report directly to the State Council on important matters relating to our business and operations, and are subject to the supervision and direction of the CBIRC with respect to our banking operations. Our operations are subject to the direct leadership of the State Council, in support of the development of key sectors and weak areas in the PRC economy. To anchor our mission of supporting national development and delivering a better life for the people, we align our business focus with China's major medium- and long-term economic development strategies.

We are currently wholly owned, directly or indirectly, by the PRC government, with the MOF, Huijin, Buttonwood and the National Council for Social Security Fund each holding an equity interest of approximately 36.54%, 34.68%, 27.19% and 1.59%, respectively.

We were established on 17 March 1994 pursuant to a special decree issued by the State Council (the “**Special Decree**”). On 11 December 2008, in accordance with the deployment of the State Council, we were converted into a joint stock company with limited liability pursuant to the Company Law of the People's Republic of China and other applicable laws and regulations. In March 2015, the State Council approved our reform deepening plan, affirming our position as a development finance institution and the relevant policy support, and stressing the need to strengthen our role and function as a development finance institution to provide financing to national priorities, weak areas in the economy and during critical periods. In April 2017, as approved by CBIRC and with the completion of the registration of the relevant changes with the competent Administration for Industry and Commerce, we have changed from a joint stock company to a limited liability company and our registered name has changed from “China Development Bank Corporation (國家開發銀行股份有限公司)” to “China Development Bank (國家開發銀行)”.

According to CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%.

We are headquartered in Beijing, China and currently have 37 tier-one branches and four tier-two branches in Mainland China, and one branch and 10 representative offices outside Mainland China. Our major subsidiaries include CDB Capital, CDB Securities, CDB Leasing, China-Africa Development Fund and CDB Development Fund. Our place of business in Mainland China is No. 18 Fuxingmennei Street, Xicheng District, Beijing, the People's Republic of China and our place of business in Hong Kong SAR is located at 33/F, One International Finance Center, No. 1 Harbour View Street, Central, Hong Kong SAR, China.

As set forth in our articles of association approved by CBIRC, the scope of our principal business activities includes:

- deposit taking from corporate customers;
- making short-, medium- and long-term loans;
- entrusted loans;
- making sub-loans with the support from small-and medium-size financial institutions;
- domestic and international settlement;

- acceptance and discount of negotiable instruments;
- issuance of financial bonds and other marketable securities;
- acting as agent for the issuance, repayment and underwriting of government bonds, financial bonds and credit bonds;
- trading in government bonds, financial bonds and credit bonds;
- interbank borrowing and lending;
- sale and purchase of foreign exchange on our own account or for customers;
- settlement and sales of foreign exchange;
- trading derivatives on our own account or on behalf of customers;
- letter of credit-related business and issuance of guarantees;
- collection and payment agent and bancassurance business;
- safety deposit box services;
- asset management business;
- asset securitization business;
- consultancy;
- banking business of our overseas branches authorised by us and permitted under local law;
- business such as investment and investment management, securities, financial leasing, banking and asset management legally carried out by our subsidiaries; and
- other businesses permitted by the banking regulatory body under the State Council.

As of 31 December 2019, our total assets amounted to RMB16,504.6 billion, representing an increase of RMB324.8 billion and 2.01% from 31 December 2018, and our loans and advances to customers as of 31 December 2019 amounted to RMB11,713.3 billion, representing an increase of RMB515.0 billion and 4.60% from 31 December 2018. Net interest income is the main source of our income. For each of the two years ended 31 December 2018 and 2019, our net interest income was RMB182.9 billion and RMB173.9 billion, respectively.

We calculate our capital adequacy ratio in accordance with the Capital Management Rules for Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) promulgated by CBIRC. As of 31 December 2019, our capital adequacy ratio was 11.71%.

### **Recent Development**

Since the outbreak of COVID-19 in January 2020, the prevention and control of COVID-19 has been going on and throughout the world. We will earnestly implement the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by PBOC, the MOF, CBIRC, CSRC and SAFE, and strengthen financial support for the epidemic prevention and control.

We have been closely monitoring the impact of developments on our business and have adopted emergency measures. COVID-19 has certain impact on the business operation in some areas and industries. This may affect the quality or the yields of our credit assets and investment assets in a degree, and the degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies.

We will keep continuous attention on the situation of COVID-19, assess and react actively to its impacts on our financial position and operating results.

## **Strategies**

### ***Supporting supply-side structural reform and playing an active, counter-cyclical role to bring about high quality growth of the real economy.***

We focus our resources in supporting areas of national priorities, such as urban rail transport, utility tunnels, sponge cities, and distinct and unique small towns; facilitating the construction of railways, roadways and other infrastructures; promoting the harmonious development among China's main function areas, urban agglomeration, large, medium and small cities as well as towns and villages; promoting the coordinated development of Beijing, Tianjin and Hebei and further development of the Yangtze River Economic Belt; supporting the strategic restructuring of China's economy; promoting the integration of industrial parks and cities, the construction of industrial parks and the development of logistics, information service, emerging strategic and energy saving and environmental friendly sectors, in order to lay a solid foundation for and contribute to a long-term, steady and rapid economic growth.

### ***Improving areas relating to basic people's livelihood.***

We endeavour to provide financial services to benefit all people. We offer solutions such as using wholesale loans to resolve ordinary families' financing difficulties, and facilitate the development of areas such as urban renewal, poverty alleviation, education, new rural construction and small-and micro-enterprises.

### ***Assisting Chinese enterprises to "Go Global".***

On the basis of mutual benefit, we explore various market-oriented approaches to further international cooperative business and actively participate in the Belt and Road Initiative. We have been successfully involved in a number of high-profile projects which supported overseas expansion activities of Chinese enterprises and deepened multilateral financial cooperation.

## **Competitive Strengths**

### ***A development finance institution wholly owned by the PRC central government and relying on state credit to raise medium-and long-term funds***

We are a state-funded and state-owned development finance institution. As an independent legal entity directly overseen by the State Council, we are dedicated to supporting China's economic development in key industries and under-developed sectors. As a wholesale bank with expertise in medium-and long-term bond offerings, we play a significant role in medium-and long-term financing for infrastructure development, basic industries and pillar industries in China. In March 2015, the State Council approved our reform deepening plan, affirming our position as a development finance institution and the relevant policy support and stressing the need to strengthen our role and function as a development finance institution to provide financing to national priorities, weak areas in the economy and during critical periods. According to the CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as

policy-oriented bonds, the risk weighting of which shall be at 0%. Our debt credit policy has been continuously stable with no maturity date set for our debt credit. Such debt credit policy applies to our RMB bonds and foreign currency bonds. International rating agencies such as Moody's and S&P put us at the same level as China's sovereign rating for successive years. In April 2017, as approved by CBIRC and with the completion of the registration of the Bank's name change with the competent Administration for Industry and Commerce, our registered name has been changed from China Development Bank Corporation (國家開發銀行股份有限公司) to China Development Bank (國家開發銀行).

***Strategically positioned in the PRC national economy with quality customer base, well-regarded brand name and solid financial partners***

We are one of the key banks in medium- and long-term investment and financing in China and support the implementation of the medium- and long-term development strategies of national economy through our financial services including medium- and long-term investment, loans, bonds, lease and securities. We supported a large number of national key projects, including the three gorges project, projects for diverting water from the country's south to the north, projects for transmission of natural gas from the country's west to the east, railway links between Beijing and Kowloon, high-speed railway links between Beijing and Shanghai, Shougang Corporation's relocation, Beijing Olympic stadiums, infrastructure for Shanghai World Expo, national oil reserves and coal base facilities. Our businesses mainly involve areas such as poverty alleviation, affordable housing, public infrastructure, strategic emerging industries and the Belt and Road Initiative cooperation.

In 2019, adhering to the guiding principle of pursuing progress while ensuring stability, we gave robust support to the supply-side structural reforms, played an active counter-cyclical role and increased the support of development finance to the real economy. We granted Renminbi and foreign currency loans in an aggregate of RMB2.6 trillion during the year ended 31 December 2019. We vigorously improved weak areas in infrastructure, actively cultivated new momentum for economic growth, promoted regional coordinated development, continued to increase efforts for poverty alleviation, took measures to support the growth of private enterprises and small and micro-sized enterprise, provided high-quality services for and participated in the Belt and Road Initiative.

Over the years, we have established good long-term relationships with governments at all levels in and outside Mainland China, as well as a number of large state-owned enterprises and competitive private enterprises, which enable us to have abundant customer resources.

We are now the largest development finance institution in the world and the largest medium- and long-term credit bank and bond house in Mainland China with significant influence in the international market. Our contribution in serving economic and social development has been well recognised by various sectors of the community. By the end of 2019, we have been awarded the "People's Social Responsibility Award" from People.cn for the 14th consecutive year. In 2019, we received a number of honours and awards including the "China Corporate Social Responsibility Summit Award for Targeted Poverty Alleviation" issued by Xinhuanet.com for the 3rd consecutive year and the "2019 Best Bank of the Year for Promoting High Quality Development" issued by Financial News.

Over the year, we have been keenly aware that risks do not discriminate between persons and all are responsible for risk management, and put in enormous efforts to ensure risk prevention is built in our consciousness, rules and methods, and established and perfected a medium- and long-term risk control scheme which is adapted to the characteristics of development finance, so as to ensure our healthy and sustainable development. As at 31 December 2019, our non-performing loan ("NPL") ratio was 0.95%.

***The largest bond house amongst Chinese banks, a major player in the debt capital market in Mainland China and a leader in financial innovation***

We are currently the largest bond house (excluding central bank bills) amongst Chinese banks with the most comprehensive bond offerings, and the terms of the bonds issued by us range from three months to 50 years. According to the CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%. In 2019, we issued RMB denominated bonds in Mainland China with an aggregate principal amount of RMB1,881.13 billion and our outstanding bonds as at 31 December 2019 exceeded RMB9,323.5 billion which accounted for approximately 10% of the total outstanding bonds in the market in Mainland China. In December 2018, we further issued US\$1.5 billion bonds and EUR800 million bonds outside Mainland China which were listed on the SEHK. As of 31 December 2019, we have issued a total amount of RMB35 billion green bonds. In May 2019, we issued GBP350 million bonds outside Mainland China by way of private placement which were listed on the SEHK. In January 2020, we issued GBP1 billion bonds outside Mainland China which were listed on the London Stock Exchange and the SEHK.

We have combined the functions of bond offering, underwriting, investment and trading, and are one of the most influential bond houses with the most comprehensive functions. We were the first Chinese bank that tapped into the international capital markets, and remain one of the most active and frequent Chinese issuers. As a major player in the bond market in Mainland China and a leader in financial innovation, we were the first to issue financial bonds with a term up to 50 years, the first to engage in Renminbi interest rate swaps, the first to issue Renminbi asset-backed securities, the first to issue OTC financial bonds through commercial banks, the first to publicly offer U.S. dollar-denominated bonds in Mainland China, the first to issue Renminbi-denominated bonds in Hong Kong SAR, the first to issue SHIBOR based floating rate bonds in Hong Kong SAR, the first to issue CHN HIBOR interbank rate based floating rate bonds, the first Chinese quasi-sovereign issuer to issue bonds which are listed on the London Stock Exchange. We were also the first to concurrently adopt the book-building and the CMU Service bidding approaches in Renminbi-denominated bonds in Hong Kong SAR.

***Sound risk management and quality assets***

In 2004, we established a risk management board of governors as our highest risk management authority in charge of the overall planning and decision making, and comprehensive management of all types of risks throughout our bank. Since 2007, we have expanded our focus on risk management from credit risk management to overall risk management, and have achieved substantial improvement in identifying, measuring, monitoring and reporting risks relating to loans, fund transactions and other investing activities. In 2009, we further improved our overall risk management organization structure covering all the business sectors and risks types of our head office and branches. We established a sound corporate governance structure. We achieved the integration of credit risk management, market risk management, operational risk management, compliance risk management and other types of risk management. At the same time, we perfected our comprehensive risk management reporting system, to timely, accurately and comprehensively identify and assess all types of our risks, and report such risks to the board of directors and senior management.

We streamline the organization structure and responsibilities in relation to risk management according to the CBIRC's Guidelines for Comprehensive Risk Management of Banking Financial Institutions. Integrating the regulatory requirements and our practical situation, we followed the basic principles of matching, comprehensiveness, independence, and effectiveness to build a standardised and clear risk preference management system to achieve effective transmission of risk management objectives. We formulated a comprehensive risk management framework that further improves our risk



management and control system, cultivates a compliance culture and increases the awareness of our employee so that they are aware that risks do not discriminate between persons and all are responsible for risk management. This is to improve the effectiveness of the quality control of our risk management.

Owing to our sound risk management system, our NPL ratio remained relatively low in the banking industry in Mainland China in 2019, and has been kept at a level below 1% for 15 consecutive years as of 31 December 2019. We also made provisions for NPLs strictly in accordance with applicable accounting standards, which reflected our prudent risk management.

#### ***Reasonable and steady profitability and efficient operation management***

We maintained steady profitability in recent years, and have engaged international accounting firms to conduct external auditing since 2000. Our loan volume has maintained a good momentum for growth and our return on assets and return on equity remained steady. In 2019, adhering to the guiding principle of progression with stability, we played an active role in counter-cyclical adjustments, increased the support of shored up the real economy and maintained stable results of operation. For the year ended 31 December 2019, our profit for the year was RMB118.5 billion, increased by RMB6.5 billion and 5.76% compared to 2018 while our return on average assets (ROA) was 0.73% and our return on average equity (ROE) was 8.80% (including minority interests). Owing to our streamlined corporate structure and competent staff as well as our efficient operations management, our cost to income ratio has remained at a low level.

#### ***Experienced management team and well-trained workforce***

Our executive management team has extensive experience in the banking and financial service industry, with an average of over 25 years of industry experience. Our directors include the persons-in-charge of relevant departments of the State Council and senior professionals in the banking industry. We also have an international advisory council consisting of 13 members who are distinguished members from political, financial and academic circles around the world. As of the end of 2019, approximately 72.11% of our staff have received master's or higher degrees.

#### **Loan Operations**

Our principal financing activity is the provision of long-and medium-term loans for large-and medium-size projects involving infrastructure, basic industries and pillar industries, including railway and road transportation, power generation, coal, telecommunication, petrochemical and chemical industries and urban public facilities. We also provide financings for projects involving urbanisation, and development of small-and medium-size enterprises, as well as projects in the agriculture, education, health care and environmental protection sectors. In 2014 we established CDB Housing Program Finance as a business unit to increase loans for urban renewal projects, which is in line with our initiative to support the state's macro-economic policies. We seek to expand our customer base and continue to build on our relationships with many industry leaders and the public sector.

We evaluate each loan application in accordance with our lending policies before a loan is approved. As part of the selection process, we are also able to negotiate with relevant industry regulators and appropriate local governments with respect to credit enhancement packages and support for projects and borrowers and establish relevant cooperation systems.

The major factors that we take into consideration when evaluating and approving a loan for a project include:

- repayment capacity of the borrower;
- level of capitalisation of the borrower;
- significance of the project to the PRC national or regional economy;
- overall technical and financial feasibility of the project;
- reliability and stability of the project's other sources of funding;
- quality of security and guarantees;
- availability of other credit enhancement measures;
- compliance by the borrower with national industrial policies; and
- compliance by the borrower with environmental laws and regulations.

Environmental compliance has become an aspect of our loan evaluation process. A loan applicant will need to have obtained approval from the relevant environmental agencies in relation to the project to be funded by the loan. Under the Law on Environmental Impact Assessment, effective on 1 September 2003, project companies must submit environmental impact assessment reports to the State Environmental Protection Administration at the relevant national, provincial or local levels with respect to environmentally sensitive projects. In accordance with this law, the State Environmental Protection Administration has published a catalogue, which lists environmentally sensitive projects and specifies the requirements and coverage of their environmental impact assessment reports. The catalogue currently lists a number of industries subject to this reporting requirements, including coal mining, oil and gas exploration and development, pulp mill, petroleum refinery, chemical and petrochemical production, machinery and equipment manufacturing, power generation and transmission, hydropower facilities, urban transportation infrastructure, waste disposal facilities, railways, highways, ports and nuclear facilities.

Most of our loans are secured by a guarantee, pledge, mortgage or other forms of security arrangements.

We have also established loan appraisal procedures to monitor the performance of each loan. In order to ensure that loan proceeds are used for their intended purpose, we generally do not disburse the full amount of the loan immediately following commitment. Instead, we disburse loans according to a schedule to coincide with actual project expenditures as they are incurred.

In order to closely monitor the risks associated with any loan project, we have established a risk evaluation and management system, under which we periodically conduct review of credit risk ratings of the borrowers and their risk management measures, the related industries and regions, and implement corresponding measures. See the section entitled “— Risk Management”.

We grant loans in Renminbi or in foreign currencies. We determine the interest rates on loans denominated in Renminbi mainly by reference to the Renminbi benchmark lending rates set by PBOC from time to time with respect to different types of loans of varying maturities. We may lend at rates higher or lower than these benchmark rates. Changes in the PRC government monetary policy or in the Renminbi benchmark lending rates would affect our lending operations. For loans denominated in foreign currencies, we use fixed interest rates or determine the interest rates in accordance with

prevailing rates in the international capital markets plus a premium. In order to minimise our exposure to foreign exchange and interest rate risks, we seek to match our loans and guarantees to liabilities denominated in the same currencies and to engage in such economic hedging transactions through interest rate and cross currency swaps.

The following table sets forth our total outstanding net loans and advances to customers in Renminbi and foreign currencies that we had extended to our customers as of the dates indicated:

***Outstanding Loans and Advances to Customers by Currencies<sup>(1)</sup>***

	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>(in millions of RMB)</b>	
Renminbi . . . . .	10,289,425	9,655,164
Foreign Currencies . . . . .	<u>1,423,908</u>	<u>1,543,211</u>
Total . . . . .	<u><u>11,713,333</u></u>	<u><u>11,198,375</u></u>

*Note:*

(1) After deduction for allowance for impaired loans.

As of 31 December 2019, our total outstanding loans and advances to customers in foreign currencies were equivalent to RMB1,423.9 billion, which consisted of outstanding loans and advances to customers in U.S. dollar equivalent to approximately RMB1,247.7 billion and outstanding loans and advances to customers in other foreign currencies equivalent to approximately RMB176.2 billion.

We also provide to our borrowers short-term construction project loans, working capital loans and off-balance sheet financing. The maturity of the short-term construction project loans does not generally exceed one year. These short-term loans are mainly granted to infrastructure development projects, basic industry projects and pillar industry construction projects. Generally, these short-term loans are part of our overall financing commitments to these projects for the purpose of bridging the gap between the actual project commencement date and the availability date of long-term financing that we have committed.

The following table sets forth the aggregate outstanding amount of our loans in Renminbi and foreign currencies as of the dates indicated, categorised by industrial sector:

*Loans and Advances to Customers by Industry of Counterparties*

	<b>31 December</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Amounts</b>	<b>% of Total</b>	<b>Amounts</b>	<b>% of Total</b>
	(in millions of RMB, except for percentages)			
Road transportation . . . . .	2,006,160	16	1,812,274	15
Urban renewal . . . . .	3,112,777	26	3,041,138	26
Water conservation, environmental protection and public utilities . . . . .	900,250	7	878,469	8
Electric power, heating and water production and supply . . . . .	1,097,145	9	1,068,583	9
Railway transportation . . . . .	1,017,961	8	972,949	8
Petroleum, petrochemical and chemical industry. . . . .	745,918	6	764,554	7
Manufacturing industry . . . . .	643,131	5	540,960	5
Mining industry . . . . .	263,893	2	284,421	2
Urban public transportation. . . . .	742,430	6	657,229	6
Other transportation. . . . .	359,156	3	264,543	2
Financial Industry . . . . .	345,691	3	227,165	2
Education. . . . .	154,947	1	137,665	1
Telecommunication and other information transmission services . . . . .	96,875	1	109,690	1
Others . . . . .	714,174	7	919,289	8
Total . . . . .	<u>12,200,508</u>	<u>100</u>	<u>11,678,929</u>	<u>100</u>

For the year ended 31 December 2019, we issued foreign currency loans in the aggregate principal amount of US\$64.8 billion. Our foreign currency loans had an aggregate principal amount (before deduction of allowance for impaired loans) of US\$230.9 billion outstanding as of 31 December 2019.

Our loans to finance overseas investments are focused on servicing the Belt and Road Initiative, overseas infrastructure construction and interconnection, international industrial capacity cooperation and energy and resource exploration.

We also provide short-term loans in foreign currencies to enterprises in Mainland China that undertake projects of national or regional importance. The original maturities of such short-term loans usually do not exceed one year.

## Fund Management

As the earliest and largest institution in private equity fund investment and management in Mainland China in terms of the number and the total size of the funds which it manages, CDB Capital has supported the healthy and rapid development of the equity investment sector in Mainland China. CDB Capital has directly invested in and managed more than 44 equity investment funds totalling a size of approximately RMB1,100 billion as of 31 December 2019 and is one of the most influential and best reputed fund investment management brands in Mainland China. With many years' practice experience in the investment management of various kinds of funds, CDB Capital has cultivated a professional fund management team in Mainland China and established sound and industry-leading investment evaluation, post-investment management and risk control systems. The fund management businesses of CDB Capital mainly include bilateral, multilateral cooperation funds and domestic development funds.

Starting from 1998, we have been establishing, investing in and managing bilateral and multilateral cooperation funds and we are now the top brand in terms of bilateral and multilateral cooperation fund investment and management in Mainland China. As of 31 December 2019, we have invested in and managed 20 bilateral and multilateral cooperation funds with external investment commitments totalling more than RMB100 billion.

We participated in the investment and management of the China National Integrated Circuit Industry Investment Funds I and II, which were set up to invest in accordance with the National Integrated Circuit Industry Development Guidelines and build a full integrated circuit industrial chain covering design, manufacture, equipment, material and others. Driven by the funds, the investment, financing and mergers and acquisitions in the domestic integrated circuit industry has become very active and the investment and financing environment in such industry has improved significantly. We played an important role in using development finance and investment to support the state's key areas and weak links and increase competitiveness of those key enterprises.

We also participated and invested in the National Manufacturing Transformation and Upgrade Fund, and were entrusted with the management of the sub-funds investing in new generation information technology and electrical equipment.

We are one of the earliest institutions to carry out fund of funds business. In December 2010, with the approval from State Council, we established Guochuang Kaiyuan Fund of Funds (“**Guochuang FoF**”), which is currently the largest and most prominent fund of funds in Mainland China. Guochuang FoF is the first of its kind in the equity investment fund industry in Mainland China and has significant influence and brand appeal. From 2018 to 2019, we were awarded as “Top 20 China's GP-Focused Fund of Funds” and “China's Best Private Equity Investment Limited Partner TOP20” for two consecutive years, and were awarded as “China's Best Fund of Funds” in 2019 by CVAwards on [www.chinaventure.com.cn](http://www.chinaventure.com.cn).

At the end of 2012, we established CDB Development Series Funds using a parallel fund structure. CDB Development Series Funds comprised four funds (including CDB Houde Fund, CDB Jingcheng Fund, CDB Ruiming Fund and CDB Siyuan Fund) and we raised a total capital of approximately RMB18.3 billion through such funds. These funds invest in a wide range of industries, including new urbanization, comprehensive finance, transportation and water conservation. Our management team utilized our competitive strengths and adopted multiple investment strategies, such as fixed income and private equity investment. These strategies are distinct from the direct equity investment strategy that is common in the market, and may better serve market need, reduce investment risk and bring higher returns to shareholders.

## **Underwriting Debt Securities**

We underwrite debt securities, including short-term financing bonds, medium-term notes and commercial bank bonds and other bonds in Mainland China. In 2019, our bond underwriting maintained steady growth. By acting as a leading underwriter for 234 bonds for a total volume of RMB283.01 billion in 2019, we played a major role in channeling market resources to support the state's key areas and major projects. We had 99% of the new projects with an AA or above rating, so our project quality is clearly higher than the market average. By drawing on our strength with respect to medium- and long-term bonds, as of 31 December 2019, we led the underwriting of RMB153.25 billion medium- and long-term bonds with a maturity of one year and above, enabling the Bank to complement with other commercial banks in orderly competitions. We also actively supported the construction of Xiong'an New Area through acting as the independent lead underwriter of Xiong'an group's first debt financing instrument on the inter-bank market, exploring new products, services and financing models that are beneficial to the construction and development of Xiong'an New Area, and expanding its financing channels to secure medium- and long-term, large-scale funding.

## **Treasury Businesses**

We steadily developed our treasury businesses and obtained the qualifications of inter-bank bond and foreign currency market maker and primary dealer for open market operations in Mainland China. We also acted as primary market maker for spot, forward and swap transactions within Mainland China, providing daily uninterrupted quotes for major transaction products. We maintained a leading position in the repurchase, lending, bond, foreign exchange and derivatives trading volumes for several consecutive years.

## **Derivatives Transactions**

We engage in derivative transactions, including Renminbi interest rate swap market making, Renminbi FX forward and swap market making, and Renminbi and foreign currency hedging on behalf of customers. In addition, we also use currency swaps for hedging purposes.

## **International Cooperation and other Activities**

*International cooperation.* In 2019, in light of the new conditions of China's opening-up, we expanded our collaborations with foreign governments, enterprises and financial institutions, in the key areas such as infrastructure, manufacturing, finance, agriculture, consumer products and energy. We proactively served the Belt and Road Initiative and international industrial capacity cooperation and have made progress in a number of key projects. We also expanded our multilateral financial cooperation under the Interbank Consortium of the Shanghai Cooperation Organisation, China-ASEAN Inter-Bank Association, and the BRICS Inter-bank Cooperation Mechanism. We continued supporting the internationalization of Renminbi. We improved our risk control system and our assets quality was maintained at a stable level. At the end of 2019, we had total outstanding foreign currency loans in aggregate principle amount (before deduction of allowance for impaired loans) of US\$230.9 billion, and an offshore Renminbi-denominated loan balance of RMB102.7 billion.

*Interbank cooperation and correspondent banking.* In order to strengthen China's ties with international banks and develop foreign business relationships, we have established cooperative or agency relationships with a large number of foreign banks, securities companies and other financial institutions. These relationships provide an opportunity for us to share information and enter into foreign exchange transactions with these institutions.

*Financial services.* In response to our customers' growing need for financial services, we provide spot and forward foreign exchange trading, settlement and sales business. We also provide products such as interest rate swaps and currency swaps to meet customers' hedging needs.

*Asset-backed securities.* We are the first domestic financial institution to successfully issue asset-backed securities. As at 31 December 2019, we have issued 36 credit securitization products with an aggregate size of RMB320.9 billion.

## **Risk Management**

We are a financial institution which introduced a comprehensive risk management system relatively early in Mainland China. In 2004, we established a risk management board of governors as our highest risk management authority in charge of the overall planning and decision making, and comprehensive management of all the types of risks throughout our bank. Since 2007, we have expanded our focus on the risk management from credit risk management to overall risk management, undertaking overall identification, measurement, monitoring and reporting of the credit risk, market risk and operational risk we would be exposed to when granting loans and conducting fund transactions and other investment activities. In 2009, we further perfected the "four-tier, three-prevention" comprehensive risk management organizational structure: "four-tier" includes our board of directors and board of supervisors, senior management, headquarter's departments and branches and affiliates, while "three-prevention" contains business lines, risk management lines, and internal audit lines.

In recent years, we effectively improved the operational structure led by our governance structure, supported by our data system, guaranteed by our measurement skills and monitored by checking key indicators. We further promoted the development of our risk data and Information Technology ("IT") system to form a cluster of risk management systems covering various risks such as the credit risk, market risk, operational risk and compliance risk and combining risk identification, measurement, monitoring, early warning and reporting, which facilitated the overall rapid integration of systems and centralisation of data and in turn provided strong support to our risk management commitments.

At present, the major risks to which we are exposed include:

- credit risk;
- market risk;
- liquidity risk;
- operational risk; and
- compliance risk.

We have established and continue to improve the overall risk management reporting system covering all the business sectors and risk types throughout the whole business procedure and reported to the board of directors, the senior management, the regulatory authorities and other related parties, realising the good interaction between the business development and the risk management. At the same time, we have paid high attention to the management of compliance and internal control. Pursuant to the requirement under the Guidelines for the Internal Control of Commercial Banks and the Guidelines for Risk Management Compliance of Commercial Banks issued by CBIRC, we carried out relevant work on internal control, compliance risk management frameworks, and carried out verifications tasks in relation to the compliance of internal regulations. We successfully established a regulatory interview mechanism between CBIRC and us, and have actively conducted related-party transaction management.

Our NPL ratio continued to be relatively low in the banking industry in Mainland China in 2019. As of 31 December 2019, our total NPLs were RMB115.7 billion, and our NPL ratio was 0.95%.

### ***Credit Risk***

We have set up an internal credit rating system focused in five areas:

- country and sovereign credit rating;
- region credit rating;
- industry credit rating;
- borrower's and group clients' credit rating; and
- project credit rating.

The credit risk in connection with each individual loan is managed through a dual-rating system, borrower rating and project rating. We update each type of credit rating results annually.

With regard to a borrower's credit rating, we closely examine a borrower's credit history, corporate governance, business operations, financial condition, business prospects and other relevant factors, and have established borrower rating models to enhance the precision of such rating. We monitor, analyse and report on concentration risk status of borrowers on a quarterly basis.

With regard to facility rating, we evaluate the post-default recoverability of debt based on the characteristics of a borrower's industry and the risk prevention mechanism of the project.

With respect to our loan portfolios, we set risk limits, and manage and control concentration risks for, countries and industries. We monitor, analyse and report on our portfolio credit risk positions on a quarterly basis.

We continued to optimise and adjust credit structure by carrying out works in various aspects, including model development and management, internal credit rating system construction, risk evaluation and monitoring, and IT system construction. We improved our credit rating standards and achieved better management of credit risk. We continued to refine the credit rating system and further improve the quality of credit risk reviews at the margins. We also enhanced asset quality classification management, strengthened the risk management of clients with large exposures or high risks and continued to improve and optimize our customer management mechanism. We have established a sound risk monitoring, evaluation and report framework, to strictly control credit risk in all respects.

### ***Market Risk***

Market risk refers to the risk of loss of our on-and off-balance sheet businesses caused by adverse changes in market prices (such as interest rates, foreign exchange rates and security or commodity prices). The market risks we face mainly include risks relating to interest rate risks and foreign exchange risks within our banking and trading books. For trading books, we measure and monitor our trading limits and sensitivity indicators, stop-loss and other risk limits on a daily basis to track and control various risk conditions. For banking books, we conduct sensitivity analysis of foreign exchange rates risk and interest rates risk on a regular basis, to monitor the market risk conditions comprehensively. We continued to improve the market risk management system and continuously to optimize the technical methods for market risk identification, measurement, monitoring and control, closely track changes in the international and domestic financial markets, and steadily enhance our capability of market risk management.



In recent years, we refined our methods for market risk identification, measurement, monitoring and control, and steadily enhanced our capability to manage our treasury trading risks. We set a host of market risk limits for our trading accounts, including indicators such as sensitivity, size, stop-loss and maturity. We also measured, monitored and reported our market risk exposures and position on a daily basis. We set risk monitoring indicators for our banking accounts, including market value revaluation and duration analysis, closely tracked changes in international and domestic financial markets, and carried out monthly analysis of the changes to risk exposures.

### ***Liquidity Risk***

Liquidity risk is the risk that we are unable to fund our current obligations and operations by increasing liabilities at a reasonable price or realising assets in a cost-efficient manner regardless of our solvency. In order to minimise liquidity risk, we have established a full set of liquidity management policies and models, including periodic cash flow projection and 12-month advance monitoring, interest rate sensitivity analysis and contingent funding mechanisms. Our primary funding source is the issuance of bonds in the domestic bond markets and international capital market. In addition, we may also borrow from the interbank market, and from the overseas capital market. Changes in the monetary policies of the PRC government and market expectations of surging interest rates are important factors that could adversely affect our funding. We periodically perform a maturity analysis of our assets, liabilities and commitments to assess our need for additional funding and to determine the best available sources and lowest cost of funds. At the same time, we calculate the liquidity gap based on the terms remaining on our contracts.

### ***Operational Risk***

Operational risk is the risk of loss arising from failed internal control process on systems, people and IT system and/or external events. In 2019, we improved the system, mechanism and structure for operational risk management, and refined the management on all operational risk factors, including internal procedures, human resources, IT system, and external risks, keeping bank-wide operational risks at a minimal level. We strengthened the mechanism and capacity for NPL resolution through legal procedures, and sought expert opinions and adopted targeted measures for key branches, clients and projects, aiming to leverage legal means more in NPL resolution.

### ***Compliance Risk***

Compliance risk is the risk of significant financial loss and reputational loss arising from legal or regulatory penalties due to our failure to comply with laws, regulations and rules. In 2019, we continued to enhance the professional management for internal control and compliance. To better manage this area across us, we were committed to building a good foundation and taking proactive steps. We worked closely with the CBIRC in off-site oversight, on-site inspections, and regulatory interviews and researches, uncovering and rectifying problems. We improved the internal control and compliance system that comprises compliance management, internal control management, authorisation, operational risk management, case handling, and related party transaction. We developed a culture of compliance and the rule of law in our key business areas and carried out compliance education and training for all staff members at different levels step by step to raise awareness. We reinforced the management system and mechanism for anti-money laundering and tailored it to the specificities of development banking.

In 2019, we continued to improve our compliance risk management, making the management structure more comprehensive and procedures streamlined. We created a permanent management review mechanism, clearly defining responsibilities, keeping full records, developing clear standards, introducing truly effective measures, and addressing both the causes and symptoms. We exercised cross-section monitoring and reporting to appreciate the full picture and dynamics of group-wide compliance. We communicated and worked closely with regulatory authorities, put into action the

“Implementation Methods of Supervision of CDB”, and carried out several campaigns aimed at consolidating management progress and enhancing compliance. We strengthened anti-money laundering compliance management, put in place a compliance procedure for identifying, monitoring, evaluating and preventing money-laundering. We fostered a strong compliance culture whereby all staff members have a keen awareness of compliance and risk prevention. We firmly established the idea of “compliance means value” among all employees.

### **Loan Evaluation and Monitoring**

Credit risk is one of the most significant risks faced by any bank. We have set up a credit management system that separates the function of evaluation from that of approval with respect to our lending activity, with a “firewall” erected in between and different scopes of authorisation. The loan committees at the head office level and at the branch level each constitute the highest credit evaluation organization within the authority of their respective levels. Our credit and investment business has adopted an approver system consisting of one lead approver and multiple full-time and part-time approvers. It is a three-level approval process led by the lead approver, including two at the head office and one at the relevant local branch. The approval meeting led by the responsible vice president of the head office consists of one lead approver and seven other approvers. The approval meeting led by the chief risk officer of the head office consists of one lead approver and four other approvers. The approval meeting led by the responsible vice president of the local branch consists of one lead approver and seven other approvers.

At present, our head office credit appraisal departments organised along industry lines, and our domestic and overseas branches are each responsible for appraising cases within their respective scope of authority. The credit appraisal activities of the head office are led by the appraisal administration department for further review for compliance, which consolidates review opinions on roadshows and from head office departments for determining risk limits (business development department, risk management department and legal compliance department) and independent risk assessment departments (planning department, project appraisal department I, project appraisal department II, loan management department, market development & equity investment department, operations department, finance & accounting department, CDB development fund department, poverty relief program finance department, international finance department, etc.), summarises the views of the above, and reports and makes recommendations to the approval meeting of the head office consisting of one lead approver and multiple approvers, which will make the final decision.

Our credit administration department, international credit bureau of international finance department and housing credit bureau of housing finance department are in charge of bank-wide post-lending risk management of Renminbi, foreign currency and RMB urban renewal loans, respectively, and report to the credit risk management committee with respect to the initial review of the asset quality of each credit and the relevant project. Day-to-day administration of our lending activities and the monitoring of our loan portfolios are performed by our 37 tier-one branches and four tier-two branches in Mainland China, and one branch and 10 representative offices outside Mainland China. Our branches and representative offices continuously monitor and periodically review the quality of credit assets and the credit of all our borrowers and promptly and independently report their findings to our credit administration department, international credit bureau of international finance department and housing credit bureau of housing finance department. Our branches and representative offices are subject to audit review by our audit department.

We adopted a five-category loan classification method in 1997 and we were the first bank in Mainland China to adopt such method. Currently, all commercial banks and financial institutions in Mainland China are required by the CBIRC to adopt this five-category loan classification method. We have also voluntarily adopted this classification standard in our asset quality control process.

The five-category loan classification applies to all our risk-based loans. Our principal assets are our loan portfolio and they are classified as follows:

- Normal: A borrower can perform a contract, and there lack sufficient reasons to suspect that the principal and interest of a loan cannot be fully repaid on time.
- Watch/special mention: A borrower has the ability to repay the principal and interest of a loan for the time being, but there are some factors that are likely to have an adverse effect on the repayment.
- Substandard: An obvious problem has appeared in a borrower’s ability to repay, the principal and interest of a loan cannot be fully repaid by completely depending on the normal business revenue of the borrower, and, even if a security is executed, there might be some losses incurred.
- Doubtful: A borrower cannot fully repay the principal and interest of a loan, and, even if a security is executed, large losses are surely to be incurred.
- Bad/loss: After the adoption of all possible measures or all necessary legal proceedings, the principal and interest of a loan cannot be recovered, or only a very small part of it can be recovered.

On the basis of this five-category classification standard, we have further designed and implemented a more detailed classification system with respect to our loan assets. Under the new classification system, we have further subdivided the five categories into 12 sub-categories to provide a more detailed assessment of the quality of our loan assets. Specifically, we have subdivided “normal loans” into four sub-categories, “watch/special mention loans” into four sub-categories, and “substandard loans” into two sub-categories. We conduct our bank-wide credit asset classification on a quarterly basis. The audit department is responsible for audit reviews of each branch and representative office with regard to their loan assets. We regard “substandard”, “doubtful” and “bad/loss” loans as NPLs.

### Loan Quality

The following table sets forth our total outstanding NPLs as of the dates indicated as well as their percentages of our total outstanding loans to our customers as of the dates indicated.

	<b>31 December</b>	
	<b>2019</b>	<b>2018</b>
	<b>(in billions of RMB, except for percentages)</b>	
NPL Amount . . . . .	115.69	107.22
NPL Ratio . . . . .	0.95%	0.92%

The amounts of our loans to customers in the five regulatory categories as well as our treatment of NPLs and NPLs ratios are calculated in compliance with applicable banking laws and regulations in Mainland China. We prepare these amounts and ratios for regulatory and reporting purposes in Mainland China. They may not be comparable to loan classification and NPL treatment methods of financial institutions in other jurisdictions, which are formulated pursuant to different banking laws and regulations of these other jurisdictions. Our financial statements prepared under the IFRS may not rely

solely on this asset classification and NPL treatment. For more information on our accounting treatment of impaired loans in accordance with IFRS, see the below section of this Offering Circular titled “— Impaired Loans and Loan Loss Provision — Treatment Under IFRS”.

### **Impaired Loans and Loan Loss Provision**

*Investment.* We treat our NPLs in accordance with the relevant laws and regulations in Mainland China for regulatory reporting purposes in Mainland China. We treat our impaired loans in accordance with the IFRS for the purpose of our annual reports to the public.

*Regulatory Treatment.* We classify our loans in accordance with the Loan Risk Classification Guidelines issued by CBIRC. Such guideline classifies loans into five categories: normal, watch/special mention, substandard, doubtful and bad/loss. We classify loans which are in the substandard, doubtful and bad/loss categories as NPLs.

*Treatment Under IFRS.* In accordance with International Financial Reporting Standard No. 9, we applied expected credit losses (the “ECL”) model to calculate the credit loss allowance for our debt financial instruments carried at amortised cost, as well as loan commitments and financial guarantee contracts. For the financial instruments incorporated into the measurement of expected credit losses, we used a “3-Stage” model to ensure the credit loss allowance and ECL. A Stage 1 financial instrument credit loss allowance is measured at an amount equivalent to the expected credit loss of the financial instrument in the next 12 months. Stage 2 and Stage 3 financial instruments shall have their credit loss allowances measured at an amount equivalent to the expected credit loss of the financial instrument expected to arise over its remaining duration. For more information on our international financial reporting treatment and provision with respect to our impaired loans, see our consolidated financial statements beginning on page F-2 in this Offering Circular.

As of 31 December 2019, our balance of allowance for impairment losses of loans and advances to customers was RMB517.1 billion.

### **Sources of Funds**

According to CBIRC, all the bonds issued by us in relation to our development business are treated as low-risk bonds, and the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%. We may be entitled to financial, policy, liquidity and/or other support, if any, made generally available by the PRC government to wholly state-owned banks or state-controlled commercial banks.

In addition to our capital and capital reserves, we may obtain funds from a variety of sources, such as the issuance of bonds in the domestic and international capital markets, the receipt of on-lent business, and borrowings from foreign governments, international financial institutions, foreign commercial banks and foreign export credit agencies. Funds for our Renminbi loans and foreign currency loans are obtained from different sources.

*Funding for Loans Denominated in Renminbi.* Principal sources of funding for our Renminbi loans include:

- our capital contributed by our shareholders;
- bonds and notes that we issue in the domestic and international capital markets, such as the bonds issued under this Programme;
- deposits from our corporate customers and financial institutions; and
- short-term borrowings from other institutions.

The following table sets forth the amounts of Renminbi funds obtained by us from each of our principal sources of funding during the periods indicated:

*Sources of Funds for Renminbi Loans and Advances to Customers*

	<b>Year Ended</b>
	<b>31 December</b>
	<b>2019</b>
	<b>(in millions of RMB)</b>
Renminbi-denominated bonds issued . . . . .	1,904,411
Capital contributions by equity holders . . . . .	—
Net increase in borrowings and deposits . . . . .	(298,146)
Total . . . . .	1,606,265

*Funding for Foreign Currency Loans.* Principal sources of funding for our loans denominated in foreign currencies include:

- foreign currency capital contributed by our shareholders;
- foreign currency loans and foreign exchange loans obtained from foreign governments, domestic and international financial institutions, foreign export credit agencies and foreign commercial banks, including short-term loans on the international interbank market;
- the issuance of bonds denominated in foreign currencies in both domestic and international markets; and
- short-term borrowings from other institutions and deposits from financial institutions and customers.

The following table sets forth the amounts of foreign currency funds that we obtained from each of our principal sources of funding during the periods indicated:

*Sources of Funds for Foreign Currency Loans and Advances to Customers*

	<b>Year Ended</b>
	<b>31 December</b>
	<b>2019</b>
	<b>(in millions of US\$)</b>
Issuance of foreign currency bonds and borrowings . . . . .	8,355
Capital contribution by equity holders . . . . .	—
Net increase in deposits . . . . .	(3,783)
Total.. . . . .	<u>4,572</u>

**Debt Repayment Record**

We have never defaulted in the repayment of principal of or interest on any of our obligations.

**Subsidiaries, Branches and Representative Offices**

Our major subsidiaries are CDB Capital, CDB Securities, CDB Leasing, China-Africa Development Fund and CDB Development Fund.

*CDB Capital.* It engages in investment and investment management business, and its main business areas include fund business, direct investment in various industries, social livelihood and international cooperation.

*CDB Securities.* It engages in securities brokerage, security investment consulting, financial advisory related to securities trading and securities investment, securities underwriting and sponsorship, proprietary securities dealing, securities asset management, margin trading and short selling, securities investment fund sales, proxy sale of financial products and other businesses approved by CSRC.

*CDB Leasing.* It provides comprehensive leasing services to customers in the fields of aviation, infrastructure, shipping, inclusive finance, new energy and high-end equipment manufacturing.

*China-Africa Development Fund.* It provides support for economic and trade cooperation between China and African countries, the investments of which cover some important areas including capacity cooperation, infrastructure, energy and mineral resources, agricultural and people’s livelihood.

*CDB Development Fund.* It mainly provides financial support to construction projects in key sectors through project capital investment, equity investment, shareholder loans and investments in local investment and financing company funds.

At present, we have 38 primary branches in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Dalian, Jilin, Heilongjiang, Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Xiamen, Jiangxi, Shandong, Qingdao, Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Xinjiang, Qinghai, Ningxia, Tibet and Hong Kong SAR. We also have 10 representative offices in various countries. These local branches and representative offices, located near various project sites, enhance our ability to implement our credit management policies nationwide and monitor the projects. We staff our branch offices and representative offices with experts to support their operations.

**Employees**

As of 31 December 2019, we had 9,797 full-time employees.

**Properties**

Our head office is located at 18 Fuxingmennei Street, Xicheng District, Beijing 100031, the People's Republic of China. In addition to our head office, we, our subsidiaries, branch offices and representative offices maintain offices located in premises owned or leased by us.

## DESCRIPTION OF THE HONG KONG BRANCH

### BACKGROUND

The Bank established the Hong Kong Branch in July 2009 to develop cross-border banking businesses. The Hong Kong Branch is the first overseas branch of the Bank.

### BUSINESS ACTIVITIES

The Bank is a licensed bank (Licence No. B296) in Hong Kong SAR and is regulated by the HKMA. The Bank operates its principal business in Hong Kong SAR through its Hong Kong Branch, whose registered office is at 33/F, One International Finance Centre, No.1 Harbour View Street, Central, Hong Kong SAR, China. The core business strategy of the Hong Kong Branch is to develop and expand corporate banking services for the Bank's China-based clients and their overseas subsidiaries. As of 31 December 2019, the Hong Kong Branch had 179 employees.

The products and services offered by the Hong Kong Branch to its clients include the following:

- multi-currency denominated lending services, including term loans, syndicated loans, commercial lending and mortgage lending;
- issuance of guarantees, standby guarantees and counter-indemnities;
- trade finance, including issuing letters of credit, shipping guarantees, trust receipts and inward collections, advising and confirming letters of credit, negotiation of letters of credit, outward collections, bill discounts and packing loans;
- deposit and remittance services; and
- issuance of certificates of deposit.

For the fiscal year ended 31 December 2019, the Hong Kong Branch extended an aggregate principal amount of U.S.\$17.9 billion of loans.

As of 31 December 2019, the Hong Kong Branch's total outstanding amount of loans was equivalent to U.S.\$38.6 billion, which consisted of U.S.\$27.4 billion of outstanding loans in U.S. dollars and equivalent to U.S.\$11.2 billion of outstanding loans in other currencies.

### HONG KONG REGULATORY GUIDELINES

The banking industry in Hong Kong SAR is regulated by and subject to the provisions of the Banking Ordinance (Chapter 155 of the Laws 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 ("**license**") by the HKMA may carry on banking business (as defined in the Banking Ordinance) in Hong Kong SAR and contains controls and restrictions on such banks ("**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 effective working 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 SAR and all local branches, and a further comprehensive quarterly return relating to its principal place of business in Hong Kong SAR 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 interests of the 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% 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), and common features in their names or a concert party arrangement to promote the licensed bank's business;
- licensed banks are obligated to report to the HKMA immediately of their 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 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.

## CORPORATE GOVERNANCE AND MANAGEMENT

We are a development finance institution which is wholly owned by the PRC government and directly report to the State Council. We were established on 17 March 1994 pursuant to the Special Decree. On 11 December 2008, in accordance with the deployment of the State Council, we were converted into a joint stock company with limited liability pursuant to the Company Law of the People's Republic of China and other applicable laws and regulations. In March 2015, the State Council approved our reform deepening plan, affirming our position as a development finance institution and the relevant policy support. Under the plan, the State Council has directed us to build the Bank into a development finance institution with adequate capital, proper corporate governance, strict internal control, safe operation, high-quality service, and a healthy asset base. Pursuant to the plan, we will leverage on our comparative advantages of alignment with national strategies, credit, market-oriented operations and no profit maximisation targets while we preserve our capital, to strengthen our role and function as a development finance institution to provide financing to national priorities, to weak areas in the economy and during critical periods and to promote a sustainable and healthy development of the national economy.

As at the date of this Offering Circular, our registered capital is approximately RMB421,248 million. MOF, Huijin, Buttonwood and National Council for Social Security Fund each holds approximately 36.54%, 34.68%, 27.19% and 1.59% of our equity interest.

In November 2016, our articles of association was approved by the State Council. Our articles of association constitute a legally binding document regulating our organization and activities, and ensuring the effective performance of our duties. In April 2017, as approved by CBIRC and with the completion of the registration of the relevant changes with the competent Administration for Industry and Commerce, we have changed from a joint stock company to a limited liability company and our registered name has changed from “China Development Bank Corporation (國家開發銀行股份有限公司)” to “China Development Bank (國家開發銀行)”. The registration of such changes does not affect our rights or liabilities or those of our customers.

The following is a summary of provisions of our articles of association relating to our corporate governance, and it does not contain all information that may be important to you.

### 1 SHAREHOLDERS

Our shareholders enjoy their rights and assume their obligations in proportion to their respective capital contributions.

Our shareholders enjoy the following rights:

- receiving profit distribution in proportion to their capital contribution;
- supervising, managing and making proposals and inquiries in relation to our business operations;
- inspecting resolutions including those of our board of directors and our board of supervisors;
- obtaining information necessary to perform their obligations in accordance with the articles of association; and
- enjoying any other rights stipulated by laws or regulations or granted by the State Council.

Our shareholders have the following obligations:

- complying with laws and regulations and our articles of association;

- having a fiduciary duty to us and our other shareholders, not abusing the shareholder's rights in order to gain improper benefits or not harming our legitimate rights or interests or those of any other shareholders;
- supporting any measure proposed by our board of directors to reasonably increase our capital adequacy ratios in the circumstance where our capital adequacy ratios fall below the regulatory standards; and
- assuming any other obligations in accordance with laws and regulations or as stipulated by the State Council.

## **2 DIRECTORS AND BOARD OF DIRECTORS**

Our articles of association sets out that our directors comprise of executive directors and non-executive directors. Our non-executive directors include government agency directors and equity directors. "Government agency directors" are the persons appointed by the NDRC, MOF, the Ministry of Commerce and the PBOC as directors, and who also act as the responsible officers of PRC ministries or commissions. "Equity directors" are those appointed by our shareholders. Our directors serve a term of three years commencing on the date that their respective eligibility for directorship is approved by the banking regulatory authority of the State Council, subject to successive re-election for an additional term.

Our articles of association currently requires our board of directors to be composed of 13 directors, with three executive directors (including the chairman) and ten non-executive directors (including four government agency directors and six equity directors).

Pursuant to our articles of association, our board of directors shall have the following powers and duties:

- considering and approving our medium-and long-term development strategies, annual business plans and investment plans;
- preparing plans for any adjustments to our business scope and business division, and submitting such plans to the State Council for approval according to relevant procedures;
- formulating our annual financial budget and final accounts;
- considering and approving our annual bond issuance plans;
- considering and approving plans for our capital management and issuances of capital instruments;
- formulating our profit distribution plans and loss make-up plans;
- preparing our registered capital increase or reduction plans, and submitting such plans to the State Council for approval according to relevant procedures;
- preparing amendment plans to our articles of association, and submitting such plans to the State Council for approval pursuant to relevant procedures;
- formulating rules of the procedures of the board of directors, and revision plans;

- considering and approving our material projects, including but not limited to material mergers and acquisitions, material investments, material asset acquisitions and disposals and material external guarantees (except for bank guarantee business);
- resolving on matters including the establishment, separation, merger/consolidation and change to the capital of our tier-one subsidiaries;
- preparing plans for our merger/consolidation, separation, dissolution or change to our organisational form, and submitting such plans to the State Council for approval according to relevant procedures;
- appointing or removing the president, the secretary of the board of directors and the chief auditing officer;
- appointing (according to the nomination of the president) or removing the vice presidents, and other executive management officers who shall be appointed or removed by the board of directors according to laws and regulations (except for the secretary of the board of directors and the chief auditing officer);
- determining matters relating to the executive management officers' remuneration, performance assessment and rewards and penalties according to the relevant requirements issued by the state;
- determining the scope of authorities delegated to our chairman and executive management;
- considering and approving our basic management systems such as risk management and internal control;
- considering and approving our internal organisation structure, and plans for the establishment, adjustment and discontinuance of our domestic and overseas primary branches;
- considering and approving our internal audit protocols, annual work plans and internal audit units;
- determining the engagement, dismissal or non-reappointment of accounting firms as our auditors,
- formulating our information disclosure policy and system;
- considering and approving our annual reports;
- determining the directors (including the chairman), supervisors (including the chairman of the board of supervisors) and general managers (presidents) to be appointed in the subsidiaries;
- considering the articles of association of our subsidiaries;
- regularly listening to feedbacks provided by commercial financial institutions, corporations and government departments and other parties;
- proactively coordinating different departments; and
- other powers as stipulated by laws and regulations and granted by the State Council.

The following table sets forth information regarding our directors as of the date of this Offering Circular.

<u>Directors</u>	<u>Date of Birth</u>	<u>Position</u>
Mr. Zhao Huan . . . . .	December 1963	Chairman and executive director
Mr. Ouyang Weimin . . . . .	January 1963	Vice chairman, president and executive director
Mr. Zhou Qingyu . . . . .	September 1962	Vice president and executive director
Mr. Lian Weiliang . . . . .	December 1962	Deputy director of the NDRC and government agency director
Ms. Zou Jiayi . . . . .	June 1963	Vice minister of MOF and government agency director
Mr. Li Chenggang . . . . .	February 1967	Assistant minister of Ministry of Commerce and government agency director
Ms. Zhang Xiaohui . . . . .	May 1958	Former assistant governor of the PBOC and government agency director
Mr. Liu Xiangdong . . . . .	June 1969	Equity director
Mr. Zhang Shenghui . . . . .	March 1966	Equity director
Mr. Chu Aiwu . . . . .	April 1969	Equity director
Mr. Bian Ronghua . . . . .	April 1964	Equity director
Mr. Zhang Yong . . . . .	June 1968	Equity director
Mr. Wu Zhenpeng . . . . .	April 1963	Equity director

You may find additional biographical information on each of our current directors under the section entitled “— Management Biographical Information — Directors”.

Pursuant to our articles of association, the meeting of our board of directors are divided into regular meetings and *ad hoc* meetings. Our articles of association requires our board of directors to meet at least four times a year. The quorum for the meeting of our board of directors is more than half of all our directors. The resolution of our board of directors shall be approved by more than half of all our directors; and the resolution of our board of directors in relation to material matters shall be approved by more than two thirds of all our directors.

### **3 SPECIAL COMMITTEES OF BOARD OF DIRECTORS**

Our articles of association requires that our board of directors establish five special committees, subject to the discretionary powers of our board of directors to set up additional special committees and to make adjustment to the existing committees as necessary:

- a committee on strategic development and investment management;
- an audit committee;
- a risk management committee;
- a committee on related-party transaction control;
- a committee on human resources and remuneration.

Each special committee operates in accordance with the authorization from, and is accountable to, our board of directors.

### ***Supervisors and board of supervisors***

According to our articles of association, our board of supervisors is appointed by the State Council in accordance with laws and regulations such as the Provisional Regulations on the Board of Supervisors of Key State-owned Financial Institutions (State Council Order No. 282) (國有重點金融機構監事會暫行條例(國務院令第28)), and is accountable to the State Council. It monitors the performance by our board of directors and executive management personnel of their respective duties, examines and monitors our matters such as business decisions, risk management and internal control and regularly reports to the relevant departments of the State Council.

Our board of supervisors is composed of one chairman and several supervisors. Their appointment and removal is subject to the regulations applicable to the chairman of the board of supervisors and supervisors of key state-owned financial institutions. Currently, the board of supervisors is being established.

### ***Executive Management***

Our articles of association requires that our executive management team is composed of the president, vice presidents, secretary of the board of directors and other executive management officers. We currently have one president and several vice presidents, and our executive management officers may include the chief financial officer, the chief risk officer and the chief audit officer.

The following table sets forth information regarding our executive management officers as of the date of this Offering Circular.

<b><u>Executive Management Officers</u></b>	<b><u>Date of Birth</u></b>	<b><u>Position</u></b>
Mr. Ouyang Weimin . . . . .	January 1963	President
Mr. Zhou Qingyu . . . . .	September 1962	Executive Vice President
Mr. He Xingxiang . . . . .	January 1963	Executive Vice President
		Chief Inspector of Discipline
Mr. Song Xianping . . . . .	August 1962	Inspection and Supervision
Mr. Zhou Xuedong* . . . . .	February 1967	Executive Vice President
Mr. Chen Min . . . . .	July 1962	Secretary of the Board of Directors
Mr. Meng Yaping . . . . .	January 1963	Chief Risk Officer
Ms. Yang Baohua . . . . .	November 1965	Chief Audit Officer

\* Pending confirmation by the CBIRC.

You may find additional biographical information on each of our executive management members under the section entitled “— Management Biographical Information — Executive management”.

Our president is accountable to our board of directors, and has the following powers and duties:

- leading our operational management, and carrying out resolutions adopted by our board of directors;
- preparing our medium- and long-term development strategies, annual business plans and investment plans;
- preparing plans for any adjustments to our business scope and business division;
- preparing our annual financial budget and final accounts;
- preparing our annual bond issuance plans;
- preparing plans for our capital management and issuances of capital instruments;
- preparing our profit distribution plans and loss make-up plans;
- within the authority from our board of directors, approving matters such as investments, asset acquisitions and disposals and guarantees (except for bank guarantee business) under certain limits;
- within the authority from our board of directors, determining matters including the establishment, separation, merger/consolidation and change to the capital of our tier-one subsidiaries, provided that the amount of a single matter does not exceed certain percentage of our net assets in the most recent audited accounts;
- authorising our other executive management officers and responsible persons of internal functions and branches to manage day-to-day operation;
- preparing our basic management systems such as risk management and internal control, and formulating our detailed rules;
- preparing our internal organisation structure, and plans for the establishment, adjustment and discontinuance of our domestic and overseas primary branches;
- establishing special committees relating to operational management if needed;
- nominating and proposing the removal of the vice presidents, and other executive management officers who shall be appointed or removed by our board of directors according to laws and regulations (except for the secretary of our board of directors and the chief auditing officer);
- appointing or removing the responsible persons of our internal departments and branches;
- considering and approving plans for our internal remuneration and performance assessment system;
- formulating remuneration and performance assessment plans for the responsible persons of our internal departments and branches, and assessing their remuneration and performance;
- preparing the salaries, benefits, rewards and penalties plan for our employees, and determining, or authorising the managers at the lower level to determine in accordance with their authorisation, the employment or dismissal of our staff;

- in the event that any unexpected material event or other emergency occurs, taking urgent measures in compliance with laws and regulations to protect our interest, and reporting to our board of directors and our board of supervisors immediately; and
- other powers as stipulated by laws and regulations or authorised by our board of directors.

When our president is unable to perform his duties, such duties shall be performed by the executive director, vice president or other executive management officer designated by our board of director for such purpose.

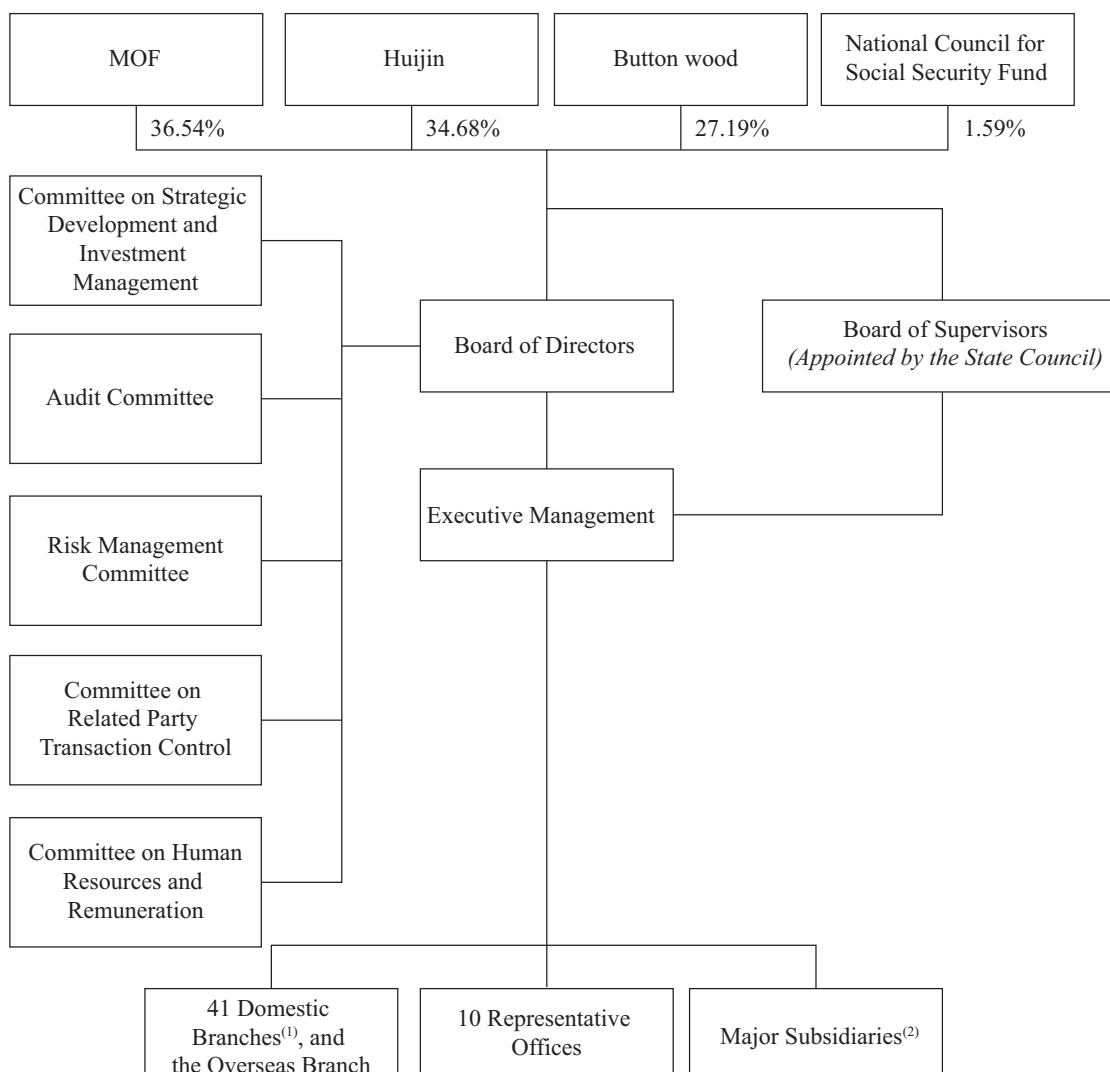
Our vice presidents assist our president and each of them is responsible for a different area of our operation according to the authorisation from our president.

## **CORPORATE ORGANISATION**

The departments at our headquarter include the general office, the research center, the policy research department, the planning department, the planning center, the business development department, the market development and equity investment department, the legal affairs department, the finance and accounting department, the treasury and financial market department, the risk management department, the project appraisal administration department, the project appraisal department I, the project appraisal department II, the loan management department, the large corporate client department, the information technology department, the operational management department, the internal audit department, the human resources department, the compliance department, the education and training department, the administrative affairs management department, the retired staff department, the procurement centre, the CDB housing finance division, the poverty relief programme finance department and the international finance division. At present, our board of directors has a committee on strategic development and investment management, an audit committee, a risk management committee, a committee on related-party transaction control and committee on human resources and remuneration.



The following is our organisational chart as of the date of this Offering Circular:



Notes:

- (1) Including 37 tier-one branches and 4 tier-two branches in Mainland China.
- (2) Including CDB Capital, CDB Securities, CDB Leasing, China-Africa Development Fund and CDB Development Fund.

## MANAGEMENT BIOGRAPHICAL INFORMATION

The following contains certain biographical information about each of our directors, supervisors and executive management members as of the date of this Offering Circular.

### Directors

**Mr. Zhao Huan** — chairman and executive director. Mr. Zhao has served as our chairman and executive director since November 2018. Mr. Zhao served as vice chairman, president and executive director of Agricultural Bank of China Limited since January 2016, executive director of China Everbright Group Ltd. and China Everbright Co., Ltd and vice chairman and president of China Everbright Bank Co., Ltd. since December 2013, and vice president of China Construction Bank Corporation since December 2010. Mr. Zhao held various positions prior to December 2010, including deputy head and head of Business Management of the Credit Department, head of General Corporate

Business Management Department, deputy manager of Corporate Business Department in China Construction Bank Corporation. He was also the vice president of China Construction Bank Corporation's branch in Xiamen. Mr. Zhao received a bachelor degree in engineering from Xi'an Jiaotong University and is a Senior Economist in China.

**Mr. Ouyang Weimin** — vice chairman, president and executive director. Mr. Ouyang has served as vice chairman, president and executive director since October 2019. From 2018 to 2019, Mr. Ouyang served as vice governor of Guangdong Province. From 2011 to 2017, Mr. Ouyang served as Vice Mayor of Guangzhou, member of the Standing Committee of the CPC Guangzhou Municipal Committee and Deputy Secretary of the CPC Guangzhou Municipal Committee. From 1991 to 2007, Mr. Ouyang held positions with the PBOC. Mr. Ouyang holds a PhD in economics, history of Chinese economic thought major from Fudan University.

**Mr. Zhou Qingyu** — vice president and executive director. Mr. Zhou has served as our vice president since August 2016, and executive director since October 2017. From 2010 to 2016, Mr. Zhou served as the secretary of our CPC Discipline Inspection Commission. Mr. Zhou had held various positions at Agricultural Bank of China Limited, including director of agricultural business, general manager of asset risk management department, general manager of credit department, head of Guizhou branch, executive deputy director of the office of joint stock reform leading group, and secretary of CPC Discipline Inspection Commission of the Bank. Mr. Zhou obtained a master's degree in business administration from the Peking University.

**Mr. Lian Weiliang** — deputy director at the NDRC and our government agency director. Mr. Lian has served as deputy director at the NDRC since 2012 and as our government agency director since October 2017. From 1996 to 2012, Mr. Lian held various positions including deputy director of Henan Provincial Planning Committee, deputy director of Henan Development and Planning Committee, member of the Standing Committee of the CPC Henan Provincial Committee, and secretary of the CPC Xinxiang Municipal Committee, the CPC Luoyang Municipal Committee and the CPC Zhengzhou Municipal Committee in Henan. Mr. Lian obtained a master's degree in enterprise management from the Renmin University of China.

**Ms. Zou Jiayi** — vice minister of MOF, member of the leading Party members groups and our government agency director. She has served as our government agency director since May 2019. Ms. Zou has served as the director of the International Division of MOF, the director of the International Economic Relations Division of MOF, the assistant to the minister of MOF, head of the Central Commission for Discipline Inspection in the Foreign Affairs Office of the CPC Central Committee and vice minister of the Ministry of Supervision. Ms. Zou obtained a master degree in economics from the Graduate School of Chinese Academy of Social Sciences.

**Mr. Li Chenggang** — assistant minister of the Ministry of Commerce and our government agency director. Mr. Li has served as assistant minister and director of the Department of Treaty and Law of the Ministry of Commerce since 2016 and as our government agency director since October 2017. From 2004 to 2016, Mr. Li served various positions at the Ministry of Commerce, including deputy head of the Bureau of Fair Trade for Imports and Exports, and deputy director and director of the Department of Treaty and Law. Mr. Li obtained a master's degree in law and economics from the University of Hamburg.

**Ms. Zhang Xiaohui** — government agency director. Ms. Zhang has served as our government agency director since October 2017. Ms. Zhang had held various positions at the PBOC, including deputy director-general of the General Administration Office, director-general of the Financial Markets Department, director-general of the Monetary Policy Department, head of the Shanghai Open Market

Operation Department and assistant governor, and also served as senior advisor of the Office of the Executive Director for China in International Monetary Fund. Ms. Zhang obtained a doctorate degree in monetary policy and banking from the PBOC Research Institute of Finance and Banking.

**Mr. Liu Xiangdong** — equity director. Mr. Liu has served as director at New China Life Insurance as designated by Huijin from 2012 and as our equity director since October 2017. From 2009 to 2012, Mr. Liu served as senior manager of the comprehensive department and designated director of non-banking institutions department at Huijin. From 2003 to 2009, Mr. Liu served as secretary (deputy director level), secretary (director level) and deputy inspector of the general office of the Development Research Center of the State Council. Mr. Liu obtained a doctorate degree in finance from the Renmin University of China.

**Mr. Zhang Shenghui** — equity director. Mr. Zhang has served as the chief accountant of SAFE from March 2017 and as our equity director since October 2017. From 2004 to 2017, Mr. Zhang has served as deputy director-general of the international payments department of SAFE, deputy director-general and director-general of the management and inspection department and chief representative of PBOC American representative office. Mr. Zhang obtained a master's degree in economics from the department of social sciences and law of the University of Manchester.

**Mr. Chu Aiwu** — equity director. Mr. Chu has served as director of the central bank asset division of the Financial Stability Bureau at the PBOC since 2012 and as our equity director since October 2017. From 2005 to 2012, Mr. Chu also served as deputy director and director of the Financial Stability Bureau at the PBOC. Mr. Chu obtained a master's degree in monetary policy and banking from the Southwestern University of Finance and Economics.

**Mr. Bian Ronghua** — equity director. Mr. Bian has served as the vice secretary of the CPC and deputy secretary general (deputy director-general level) of China Appraisal Society since June 2016 and as our equity director since July 2018. From 1986 to 2011, Mr. Bian held various positions at MOF, including director of the Third Division, deputy director of the First Division and Second Division, principal staff member, senior staff member, staff member and cadre of the Department of Treaty and Law, and the director and deputy director of the Administrative Reconsideration Division. During this period, Mr. Bian also served as a lecturer of the Lecturer Group from Central to Sichuan Fuling from August 1988 to August 1989 and studied at the MOF class of the Central Government Organs Branch of Central Party School from April 1996 to August 1996. Mr. Bian obtained a bachelor's degree in finance from the department of finance of the Zhongnan University of Economics and Law (then known as Zhongnan University of Finance and Economics).

**Mr. Zhang Yong** — equity director. Mr. Zhang has served as director at China Export & Credit Insurance Corporation as designated by Huijin from June 2017 and as our equity director since January 2019. From 2002 to 2017, Mr. Zhang held several positions in the Management Information Department of the headquarter of Industrial and Commercial Bank of China, including the director the External Information Department and the deputy general manager. Mr. Zhang obtained a master's degree in investment economics from the School of Finance of Renmin University of China.

**Mr. Wu Zhenpeng** — equity director. The second meeting of the Board of Directors in 2020 approved the appointment of Mr. Wu as an equity director and his appointment is still subject to the CBIRC approval. Mr. Wu has served as deputy director of the Finance Bureau of Xinjiang Production and Construction Corps. Mr. Wu also served as director of the cadre education center of the MOF, and principal of China Accounting Correspondence School. Mr. Wu obtained a master's degree in agricultural economics and a doctorate degree in economics from School of Business Administration of Zhongnan University of Economics and Law.

The business address of the directors is 18 Fuxingmennei Street, Xicheng District, Beijing 100031, the People's Republic of China.

## **Executive Management**

**Mr. Ouyang Weimin** — president. You may find his biographical information under the section entitled “— Management Biographical Information — Directors”.

**Mr. Zhou Qingyu** — executive vice president. You may find his biographical information under the section entitled “— Management Biographical Information — Directors”.

**Mr. He Xingxiang** — executive vice president. Mr. He has served as Vice President and Party Committee Member of Bank of China Limited Jilin Branch, President and Secretary of Party Committee of Bank of China Limited Hainan Branch, President and Secretary of Party Committee of Bank of China Limited Shandong Branch, Vice President and Party Committee Member of Agricultural Development Bank of China. Mr. He obtained a master's degree in business administration from the South China University of Technology.

**Mr. Song Xianping** — chief inspector of discipline inspection and supervision. Previously, Mr. Song served as the secretary of Discipline Committee of Agricultural Development Bank of China. He also held several positions in Agricultural Bank of China, including the director of risk management, the general manager of the risk management department and agricultural business risk management center, the president of Jilin Branch and the director of the research department. Mr. Song obtained a master's degree in monetary banking from the graduate department of the People's Bank of China.

**Mr. Zhou Xuedong** — executive vice president. Mr. Zhou held several positions at the PBOC, including deputy director general of Financial Stability Bureau (director general level), head of Legal Affairs Department, president and secretary of Party Committee of Nanjing Branch. Mr. Zhou also held several positions at SAFE, including director general, director of operation management department and secretary of Party Committee of Jiangsu branch, director general of financial stability bureau, director of general office (Party Committee office) and director of Beijing Foreign Exchange Administrative Department. Mr. Zhou obtained a master's degree in history of economic thought and a doctorate degree in economics from Economics and Management School of Wuhan University.

**Mr. Chen Min** — secretary of the board of directors. Mr. Chen worked as deputy director and director of our policy research office and director of the administrative office of our board of directors. Mr. Chen graduated from the Jiangxi Institute of Finance and Economics with a major in state economic planning.

**Mr. Meng Yaping** — chief risk officer. Mr. Meng has worked as deputy director general of our credit review department, President and Party Committee Member of our Qingdao branch, director general of our project appraisal department III, vice president of our housing program finance department, and vice president of our poverty relief program finance department. Mr. Meng obtained a degree in monetary banking from Central University of Finance and Economics.

**Ms. Yang Baohua** — chief audit officer. Ms. Yang served as chief audit officer and director general of our audit department. Ms. Yang has held several positions including director general of our operations department, director general of our finance & accounting department, chairman and secretary of Party Committee of China-Africa Development Fund. Ms. Yang obtained a master's degree in national economic planning and management from Renmin University of China.

## INTERNATIONAL ADVISORY COUNCIL

To broaden the international perspective and establish a tier-one international development finance institution, we established an international advisory council in 1999, which is composed of prominent leaders in the fields of international political, business and academic research. We look into and gather ideas on international and domestic economic and financial conditions and discuss our significant reform and development strategies, and in the meantime to provide advice to improve our development topics, business operation and management.

The current members of our international advisory council are as follows:

<u>Name</u>	<u>Position held</u>
The Hon. Dr. Henry Kissinger . . . . .	Former Secretary of State, United States
The Rt. Hon. Mr. Tony Blair . . . . .	Former Prime Minister, United Kingdom
Dr. Jacob A. Frenkel . . . . .	Chairman, J. P. Morgan Chase International Chairman of the Board of Trustees, G30 Former Governor, Bank of Israel
Mr. Jean Lemierre . . . . .	Chairman, BNP Paribas Former President, EBRD
Mr. Maurice R. Greenberg . . . . .	Chairman & CEO, C.V. Starr & Co Former Chairman, AIG.
Mr. Hans W. Reich . . . . .	Chairman, Public Sector Group of Citigroup Former Chairman, KfW
Dr. Uli Sigg . . . . .	Former Ambassador of Switzerland to China
Mr. Andrew L. T. Sheng . . . . .	Former Chairman, Securities and Futures Commission of Hong Kong SAR
Prof. Lawrence J. Lau . . . . .	Former President & Professor of Economics, The Chinese University of Hong Kong
Mr. Ng Kee Choe . . . . .	Chairman, CapitaLand Ltd. Former Vice Chairman, DBS Group Holdings
Mr. Nobuyuki Hirano . . . . .	Chairman, Mitsubishi UFJ Financial Group Member of the Board of Directors, MUFG Bank
Mr. Franco Bernabe . . . . .	Senior Advisor for Barclays Former CEO, Telecom Italia
Mr. Jacques Kemp . . . . .	Chairman, Nextportchina Former CEO, ING Insurance and Investment Management Asia/Pacific

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The global Notes contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of some of those provisions.

### INITIAL ISSUE OF NOTES

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary for Euroclear and Clearstream or a sub-custodian for the CMU Service.

Upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream (the “**Common Depositary**”) or with a sub-custodian for the CMU Service or registration of Registered Notes in the name of (i) any nominee for Euroclear and Clearstream or (ii) the HKMA as operator of the CMU Service and delivery of the relevant Global Certificate to the Common Depositary or the sub-custodian for the CMU Service (as the case may be), Euroclear or Clearstream or the CMU Service (as the case may be) will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the applicable Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

### RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the relevant Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service 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 Service as entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the relevant 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 Certificate are credited as being held in the CMU Service in respect of each amount so paid.

Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular principal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU Lodging Agent for his share of each payment so made by the Bank in respect of such Global Note or Global Certificate.

## **EXCHANGE**

### **Temporary Global Notes**

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the applicable Pricing Supplement indicates that such Global Note is issued in compliance with US Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of section 4701 of the Code) (the “**C Rules**”) or in a transaction to which TEFRA is not applicable (as to which, see “Summary of the Programme — Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the applicable Pricing Supplement, for Definitive Notes.

The CMU Service may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified. The holder of a temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the temporary Global Note for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused.

### **Permanent Global Notes**

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “Partial Exchange of Permanent Global Notes” below, in part for Definitive Notes:

- (i) if the permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU Service or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; and
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case Notes lodged with the CMU Service, the CMU Lodging Agent) of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes in any circumstance specified in the Global Note, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

## **Global Certificates**

The following will apply in respect of transfers of Notes held in Euroclear, Clearstream, the CMU Service or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2 may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;
- (ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or
- (iii) with the consent of the relevant Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the holder of the Notes represented by this Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer.

## **Partial Exchange of Permanent Global Notes**

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if principal in respect of any Notes is not paid when due or if so provided in, and in accordance with, the Conditions (which will be set out in the applicable Pricing Supplement).

## **Delivery of Notes**

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent (or, in the case of Notes lodged with the CMU Service, the CMU Lodging Agent).

In exchange for any Global Note, or the part thereof to be exchanged, the relevant Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate principal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes. Global Notes, Global Certificates and Definitive Notes will be delivered outside the United States and its possessions.

In this Offering Circular, "Definitive Notes" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed.

On exchange in full of each permanent Global Note, the relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.



## **Exchange Date**

“Exchange Date” means, (i) in relation to an exchange of a temporary Global Note to a permanent Global Note, the first day following the expiry of 40 days after its issue date and (ii) in relation to an exchange of a permanent Global Note to a Definitive Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent or CMU Lodging Agent is located and, in the case of failure to pay principal in respect of any Notes when due, in the city in which the relevant clearing system is located.

## **AMENDMENT TO CONDITIONS**

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

### **Payments**

No payment falling due after the Exchange Date will be made on any Global Note unless upon due presentation of the Global Note, exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused.

Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement.

All payments in respect of Notes represented by a Global Note (except with respect to a Global Note held through the CMU Service) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent or the CMU Lodging Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be enfaced on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Global Note, the words “in the relevant place of presentation” (if applicable) shall be disregarded in the definition of “business day” set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU Service) will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU Service, any payments of principal, premium, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited as being held by the CMU Service of the relevant time (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Global Note or Global Certificate shall be required for such purpose.

## **Prescription**

Claims against the relevant Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and six years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

## **Meetings**

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholders holding, whether or not represented by a Global Certificate.

## **Cancellation**

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant permanent Global Note upon its presentation to or to the order of the Fiscal Agent (or, in the case of Notes lodged with the CMU Service, the CMU Lodging Agent) for endorsement in the relevant schedule of such permanent Global Note or in the case of a Global Certificate, by reduction in the aggregate principal amount of the Certificates in the Register, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

## **Purchase**

Notes represented by a permanent Global Note may only be purchased by the relevant Issuer if they are purchased together with the rights to receive all future payments of interest (if any) thereon.

## **Issuer's Option**

Any option of early redemption of the relevant Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the relevant Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the relevant Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU Service or any other clearing system (as the case may be).

## **Noteholders' Option**

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note or Global Certificate may be exercised by the holder of the permanent Global Note or Global Certificate giving notice to the Fiscal Agent (or, in the case of Notes lodged with the CMU Service, the CMU Lodging Agent) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions, in accordance with the rules and procedures of Euroclear and Clearstream (or, in the case of Notes lodged with the CMU Service, substantially in the

form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Fiscal Agent (or, in the case of Notes lodged with the CMU Service, the CMU Lodging Agent) or a Paying Agent acting on its behalf, for notation.

### **Notices**

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes 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 the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU Service, 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 CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.

## TAXATION OF NOTES

*The following is a general description of certain tax considerations relating to the Notes. It is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, 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. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.*

### **Taxation — Mainland China**

The following summary accurately describes the principal tax consequences in Mainland China of ownership of the Notes by beneficial owners who, or which, are not residents of Mainland China for Mainland China's tax purposes and do not conduct business activities in Mainland China. These beneficial owners are referred to as non-resident holders in this "Taxation — Mainland China" section, and include both non-resident enterprises and non-resident individuals. If you are considering the purchase of the Notes, you should consult your own tax advisers with regard to the application of tax laws in Mainland China to your particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference also is made to the avoidance of double taxation arrangement between Mainland China and Hong Kong SAR with respect to Hong Kong SAR taxes from the year of assessment beginning on or after 1 April 2007 and with respect to taxes in Mainland China from the taxable year beginning on or after 1 January 2007.

Pursuant to the PRC Enterprise Income Tax Law and the PRC Individual Income Tax Law as well as their respective implementation rules, an income tax is levied on the payment of interest in respect of debt securities, including notes sold by enterprises established within the territory of Mainland China to non-resident enterprises (including Hong Kong SAR enterprises) and non-resident individuals (including Hong Kong SAR resident individuals). The current rates of such income tax are 20% (for non-resident individuals) and 10% (for non-resident enterprises) of the gross amount of the interest. However, some tax agreements entered into between China and the countries in which the investors are the residents may contain more favourable tax treatment. According to the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements (非居民納稅人享受稅收協定待遇管理辦法) (Guoshui [2015] No. 60, "**Announcement 60**"), investors should make their own judgement as to whether they meet the conditions for the treatment under the relevant tax agreement and; if they meet such conditions, they must file the relevant forms and materials. Should the tax authority in Mainland China deem the investors eligible for such treatment, the investors are permitted to pay the income tax in accordance with the agreed tax treatment.

According to the PRC Enterprise Income Tax Law and the relevant implementation rules, non-resident enterprises will not be subject to the income tax in Mainland China in respect of the interest income borne and paid by an enterprise, organisation or establishment located outside Mainland China. However, pursuant to the PRC Individual Income Tax Law and the relevant implementation rules, it remains uncertain as to whether non-resident individuals shall be subject to the income tax in Mainland China in respect of the interest income from Notes issued by the Hong Kong Branch. Should the tax authority in Mainland China deem the interest income from Notes issued by the Hong Kong Branch held by the non-resident individuals as income sourced within the PRC referred to in the Regulations on the Implementation of the PRC Individual Income Tax Law, the non-resident individual holders of Notes issued by the Hong Kong Branch may be subject to the individual income tax at 20%, unless otherwise provided in preferential taxation policies under special taxation arrangements.

According to the double taxation arrangement between Mainland China and Hong Kong SAR, residents of Hong Kong SAR will not be subject to tax in Mainland China on any capital gains from a sale or exchange of the Notes. For other investors of our Notes, according to the PRC Enterprise Income

Tax Law and its implementation rules, it is unclear whether the capital gains of non-resident holders derived from a sale or exchange of the Notes will be subject to income tax in Mainland China. If such capital gains are determined as income sourced in Mainland China by the tax authority in Mainland China, the non-resident Noteholders other than Hong Kong residents may be subject to the enterprise income tax at a rate of 10% for non-resident enterprises, or individual income tax at 20% for non-resident individuals, respectively, unless otherwise provided in other preferential taxation policies under special taxation arrangements.

#### ***Value Added Tax (“VAT”)***

On 23 March 2016, the MOF and the State Administration of Taxation (“SAT”) issued the Circular of Full Implementation of Business Tax to VAT Reform (關於全面推開營業稅改徵增值稅試點的通知) (Caishui [2016] No. 36, “**Circular 36**”) which provides that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which previously attracted business tax will be subject to VAT.

Later on, the MOF and the SAT have successively issued a series of tax policies, including the Circular on Further Specifying the Policies relating to Financial Sector under the Full Implementation of Business Tax to VAT Reform (關於進一步明確全面推開營改增試點金融業有關政策的通知) (Caishui [2016] No. 46, “**Circular 46**”), and the Supplemental Notice on Value-Added Tax Policies for Financial Transactions between Financial Institutions and Other Matters (關於金融機構同業往來等增值稅政策的補充通知) (Caishui [2016] No. 70, “**Circular 70**”).

According to Circular 36, the entities and individuals providing the services within Mainland China shall be subject to VAT. The services are treated as being provided within Mainland China where either the service provider or the service recipient is located in Mainland China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the “loans” refers to the activity of lending funds for another’s use and receiving the interest income thereon. Based on the definition of “loans” under Circular 36, the issuance of Notes shall be treated as the holders of the Notes providing loans to the note issuer, which thus shall be regarded as financial services subject to VAT.

In the case of issuance of Notes by the Bank, given that the Bank is located in Mainland China, the holders of the Notes would be regarded as providing the financial services within Mainland China and consequently, the holders of the Notes shall be subject to VAT at the rate of 6% when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the surcharges at approximately 12% of the VAT payment (actual VAT and surcharges will be determined according to the most updated policies at the time of interest payment). Given that the Bank pays interest income to Noteholders who are located outside Mainland China, the Bank, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and surcharges from the payment of interest income to Noteholders who are located outside Mainland China.

According to Circular 46, interests on policy-oriented financial bonds (which are bonds issued by a development or policy-oriented financial institution) received by onshore financial institution investors are exempt from VAT. However, as at the date of this Offering Circular, it is unclear whether interests on such policy-oriented financial bonds issued outside Mainland China (including the Notes) which are held by onshore financial institution investors will be exempt from VAT, and this is subject to the confirmation by the relevant authority. According to Circular 70, offshore financial institution investors will not be exempt from VAT.

In the case of issuance of Notes by the Hong Kong Branch, Circular 36 does not apply if the provision of loans by individuals or entities located outside Mainland China takes place outside Mainland China. Neither the Hong Kong Branch nor the holders of the Notes are located in Mainland

China and if the provision of loans takes place outside Mainland China, then no VAT is payable on interest payments under the Notes. This is, however, subject to the interpretation of Circular 36 by the relevant authority.

However, in the event that the relevant Issuer is required to make such a deduction or withholding of any tax in Mainland China (including VAT) in respect of any payment of interest on the Notes, the relevant Issuer has agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see “Terms and Conditions of the Notes — Condition 8 (Taxation)”.

Where a holder of the Notes who is an entity or individual located outside Mainland China resells the Notes to an entity or individual located outside Mainland China and derives any gain, Circular 36 does not apply and the relevant Issuer does not have the obligation to withhold the VAT and the surcharges. However, if either the transferor or transferee of the Notes is located in Mainland China, payment of VAT in Mainland China is required. Nevertheless, in such circumstance the relevant Issuer has no obligation to withhold the VAT and relevant surcharges.

The newly issued circular and the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the relevant authority. There is uncertainty as to the application of Circular 36, Circular 46 and Circular 70, and investors are advised to consult their own tax advisers.

## **Hong Kong SAR Taxation**

### ***Withholding Tax***

No withholding tax is payable in Hong Kong SAR in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

### ***Profits Tax***

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong SAR in respect of profits arising in or derived from Hong Kong SAR from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong SAR from a trade, profession or business carried on in Hong Kong SAR in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong SAR and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong SAR;
- (ii) interest on the Notes is derived from Hong Kong SAR and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong SAR and is in respect of the funds of that trade, profession or business; or
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong SAR (the “**IRO**”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong SAR; 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 SAR 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 SAR from the sale, disposal and redemption of Notes will 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 SAR 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 Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong SAR and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

### ***Stamp Duty***

Stamp duty will not be payable on the issue of Bearer Notes provided that either:

- (i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong SAR 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 SAR (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) such Registered Notes are denominated in a currency other than the currency of Hong Kong SAR and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such 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 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.

### **FATCA Withholding**

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 Issuers may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong SAR and Mainland China) 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. 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 date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, 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 advisors regarding how these rules may apply to their investment in the Notes.



## SUBSCRIPTION AND SALE

The Bank and the Hong Kong Branch have entered into an amended and restated dealer agreement with The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited and Bank of China (Hong Kong) Limited (the “**Arrangers**”), ABCI Securities Company Limited, Bank of Communications Co., Ltd. Hong Kong Branch, CCB International Capital Limited, ICBC International Securities Limited and Industrial and Commercial Bank of China (Asia) Limited (together with the Arrangers, the “**Dealers**”) dated 16 October 2020 in relation to the Notes (and as amended and/or supplemented and/or restated from time to time, the “**Dealer Agreement**”) which sets out the basis upon which the Dealers or any of them may from time to time agree to subscribe for the Notes. Where the relevant 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**”), the Dealer(s)’ subsequent offering of those Notes to investors may be at a price different from such Issue Price. The relevant Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it and the expenses incidental to the performance of its obligations under the Dealer Agreement as agreed between the relevant Issuer and the relevant Dealer(s).

The Dealer Agreement provides that the Bank and, if the relevant Issuer is the Hong Kong Branch, the Hong Kong Branch will indemnify the Dealers against certain liabilities in connection with any loss arising out of any misrepresentation made in this Offering Circular. 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 relevant Issuer.

In connection with the offering of the Notes, the Dealers may engage in over-allotment, stabilising transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Dealers. Stabilising transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions and syndicate covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If the Dealers engage in stabilising or syndicate covering transactions, they may discontinue them at any time.

In connection with the issue of any Tranche (as defined in the Conditions) of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or any person acting for any of them) in the applicable Pricing Supplement 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, but in so doing, the Stabilisation Manager(s) (or any person acting for any of them) shall act as principal and not as agent of the relevant Issuer. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms 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 relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

The Dealers and their respective 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 (“**Banking Services or Transactions**”). The Dealers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with the Issuers for which they have received, or will receive, fees and expenses.

In connection with the offering of each Tranche of the Notes, the Dealers and/or their respective affiliates, or affiliates of the Issuers, may act as investors and place orders, receive allocations and trade such Notes for their own account and such orders, allocations or trading of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes of such Tranche or Series for their own account in the secondary market or deal in any other securities of the Issuers, and therefore, they may offer or sell the Notes of such Tranche or Series or other securities otherwise than in connection with the offering of the relevant Tranche of the Notes. Accordingly, references herein to the offering of such Notes should be read as including any offering of the relevant Notes to the Dealers and/or their respective affiliates, or affiliates of the Issuers as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the relevant Notes may be impacted.

Furthermore, it is possible that a significant proportion of any Tranche or Series of the Notes may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in the relevant Notes may be constrained. The Issuers and the Dealers are under no obligation to disclose the extent of the distribution of such Notes amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

In the ordinary course of their various business activities, the Dealers and their respective affiliates make or hold 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. Such investment and securities activities may involve securities and instruments of the Issuers, including the Notes and could adversely affect the trading price and liquidity of the relevant Notes. The Dealers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Issuers, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuers.

## **General**

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

No action has been or will be taken in any jurisdiction by us or Dealers that would, or is intended to, permit the public offering of the Notes, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required, except to the extent provided in the following paragraph. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, by us or any Dealer, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on us or any Dealer.

If a jurisdiction requires that any offering be made by a licensed broker or dealer and the Dealer or any affiliate of it is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by it or such affiliate on behalf of the relevant Issuer in such jurisdiction.

Each Dealer has given the representations and warranties on the selling restrictions below in respect of the relevant tranche(s) of Notes for which it has entered into the Dealer Agreement.

### **Hong Kong SAR**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong SAR, by means of any document, any Notes except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong SAR (the “SFO”) other than (a) to “professional investors” as defined in the SFO and any rules made under the SFO; or (b) 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 SAR (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (ii) 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 SAR 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 SAR (except if permitted to do so under the securities laws of Hong Kong SAR) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong SAR or only to “professional investors” as defined in the SFO and any rules made under the SFO.

### **United States**

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or, in certain cases, to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Fiscal Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Fiscal Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States in reliance on Regulation S, and in certain cases, only to non-U.S. persons.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act.

In respect of any Notes in respect of which the Pricing Supplement specifies that “Regulation S Category 2” applies, each purchaser of such Notes and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the relevant Issuer or a person acting on behalf of such an affiliate.
- (2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) The relevant Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.
- (4) It understands that the Notes offered in reliance on Regulation S will be represented by a Global Certificate. Prior to the expiration of the distribution compliance period, before any interest in the Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Global Certificate, it will be required to provide the Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

### **Mainland China**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes will not be offered or sold and may not be offered or sold, directly or indirectly, in Mainland China, except as permitted by the laws of Mainland China.

### **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 “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed, 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 or sell any Notes in Japan or to, or for the benefit of, any 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 re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## European Economic Area

### *Prohibition of Sales to EEA and UK Retail Investors*

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent 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 this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA or in the UK. 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 Directive 2014/65/EU (as amended, “**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; or
  - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”); and
- (b) the expression “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 for the Notes.

### *Prospectus Regulation public offer selling restriction*

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 and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto 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) if the Pricing Supplement in relation to the Notes specifies 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 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 relevant Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

- (c) 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 relevant Issuer for any such offer; or
- (d) 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 any relevant 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.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have 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 whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as 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 where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Bank or the relevant Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 apply to the Bank or the relevant Issuer; and
- (c) 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.

### **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 and agreed, and each further Dealer appointed under the Programme will be required to represent 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 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:

- (i) 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;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

*Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, unless otherwise specified before an offer of Notes, the Issuers have determined, and hereby notify 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) 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).*

## FORM OF PRICING SUPPLEMENT

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

**[[MiFID II product governance/Professional investors and ECPs only target market** — Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, “**MiFID II**”)]*[MiFID II]*; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Consider any negative target market.]*<sup>1</sup> Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

**[PRIIPs REGULATION — 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 (as amended, “**MiFID II**”)]*[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[●]/[; or] [(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”)]<sup>2</sup>. 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 [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] 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.)]<sup>3</sup>

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<sup>1</sup> The ICMA proposed proportionate “professional investors” only product governance approach envisages that a negative target market will be unlikely. At the time of the programme establishment/update, consider what types of bonds may be issued and whether the flexibility to include a negative target market may be needed for a particular issuance. Note that a programme which only envisages vanilla issuance (this will be the majority of the deals we do in Asia) is unlikely to require a negative target market placeholder. If a negative target market is deemed necessary, wording along the following lines could be included: “The target market assessment indicates that Notes are incompatible with the needs, characteristic and objectives of clients which are [fully risk averse/have no risk tolerance or are seeking on-demand full repayment of the amounts invested].”

<sup>2</sup> Paragraph (iii) is not required where the Notes have a denomination of at least €100,000 or equivalent.

<sup>3</sup> 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.



[This Pricing Supplement 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 (the “**Hong Kong Stock Exchange**”) 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.]**

**[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 Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. 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 quality of disclosure in this Pricing Supplement.** Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, 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 Pricing Supplement.

This Pricing Supplement, together with the Offering Circular (as defined below), 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 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.]<sup>4</sup>

**Pricing Supplement dated [●]**

**China Development Bank [Hong Kong Branch]**

**(China Development Bank is a limited liability company incorporated under the laws of the People’s Republic of China)**

**Issue of [Aggregate Principal Amount of Tranche]  
[Title of Notes] under the US\$30,000,000,000 Debt Issuance Programme**

This 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 Terms and Conditions (the “**Conditions**”) set forth in the Offering Circular dated [*original date*] [and the supplemental Offering Circular dated [*date*]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated [*current date*] as so supplemented.

*[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.]*

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<sup>4</sup> Applicable for Notes to be listed on the Hong Kong Stock Exchange only.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Conditions**”) set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [*current date*] [and the supplemental Offering Circular dated [*date*]], save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] 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 | Issuer:  | China Development Bank [Hong Kong Branch] (LEI Code: 300300C1020111000029)  |
| 2 | [(i)] Series Number:   | [●]   |
|   | [(ii)] Tranche Number:<br>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)] | [●]   |
|   | [(iii)] Tax Jurisdiction:  | [●]   |
| 3 | Specified Currency or Currencies:  | [●]   |
| 4 | Aggregate Principal Amount:  | [●]   |
| 5 | [(i)] Issue Price:   | [●] per cent. of the Aggregate Principal Amount<br>[plus accrued interest from [ <i>insert date</i> ]<br>( <i>in the case of fungible issues only, if applicable</i> )] |
|   | [(ii)] Net proceeds:   | [●] ( <i>Required only for listed issues</i> )  |
|   | [(iii)] Use of proceeds:   | [●]   |
| 6 | (i) Specified Denominations:   | [●] <sup>(1)</sup>  |
|   | (ii) Calculation Amount <sup>(4)</sup> :   | [●]   |
| 7 | (i) Issue Date:  | [●]   |
|   | (ii) Interest Commencement Date:   | [Specify/Issue Date/Not Applicable]   |
| 8 | Maturity Date:   | [specify date (for Fixed Rate Notes) or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year] <sup>(2)</sup>            |

- 9 Interest Basis:  per cent. Fixed Rate]
- [specify reference rate]*  
+/-  per cent. Floating Rate]
- Zero Coupon]  Other (*specify*)]  
(further particulars specified below)
- 10 Redemption/Payment Basis:  Redemption at par]
- 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:  Put]
- Call]
- [(further particulars specified below)]
- 13 Listing:  Hong Kong/Specify Other/None] (*For Notes to be  
listed on the Hong Kong Stock Exchange, insert the  
expected effective listing date of the Notes*)
- 14 (i) Date of [Board] approval for the   
issuance of Notes obtained: (*Only relevant where Board (or similar)  
authorisation is required for the particular tranche  
of Notes*)
- (ii) [Date of NDRC certificate]:   
(*Only relevant where registration with the NDRC is  
required for the particular tranche of Notes*)
- 15 Method of distribution:  Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- 16 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] in arrear]
- (ii) Interest Payment Date(s):  in each year<sup>(3)</sup> [adjusted in accordance with  
*[specify Business Day Convention and any  
applicable Business Centre(s) for the definition of  
“Business Day”]*/not adjusted]

- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount<sup>(4)</sup>  
(Applicable to Notes in definitive form)
- (iv) Broken Amount: [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]  
  
(Applicable to Notes in definitive form) *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate]*
- (v) Day Count Fraction (Condition 5(h)): [30/360/Actual/Actual (ICMA/ISDA)/Other] (Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise)
- (vi) Determination Date(s) (Condition 5(h)): [●] 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]*<sup>(5)</sup>
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
- 17 Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Interest Period(s): [●]
- (ii) Specified Interest Payment Dates: [●]
- (iii) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (iv) Business Centre(s) (Condition 5(h)): [●]
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other *(give details)*]
- (vi) Interest Period Date(s): [Not Applicable/specify dates]  
*(Not applicable unless different from Interest Payment Date)*

- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [●]
- (viii) Screen Rate Determination (Condition 5(b)(ii)(A)):
- Reference Rate: [●]
  - Interest Determination Date: [[●] *[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]*
  - Relevant Screen Page: [●]
- (ix) ISDA Determination (Condition 5(b)(ii)(B)):
- Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]
  - ISDA Definitions: (if different from those set out in the Conditions) [2000/2006]
- (x) Margin(s): [+/-] [●] per cent. per annum
- (xi) Minimum Rate of Interest: [●] per cent. per annum
- (xii) Maximum Rate of Interest: [●] per cent. per annum
- (xiii) Day Count Fraction (Condition 5(h)): [●]
- (xiv) 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: [●]

18	Zero Coupon Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Amortisation Yield (Condition 6(b)):	[●] per cent. per annum
	(ii) Day Count Fraction (Condition 5(h)):	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]

**PROVISIONS RELATING TO REDEMPTION**

19	Call Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(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 (if other than as set out in the Conditions):	[●]
20	Put Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(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 (if other than as set out in the Conditions):	[●]
21	Final Redemption Amount of each Note	[●] per Calculation Amount

- 22 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): [●]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 23 Form of Notes: **[Bearer Notes:**
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice<sup>(6)</sup>]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]
- [Registered Notes:**
- Global Certificate exchangeable for definitive Certificates in the limited circumstances described in the Global Certificate]
- 24 Additional Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates: [Not Applicable/Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iv) and 19(vii) relate]
- 25 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
- 26 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
- 27 Consolidation provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
- 28 Other terms or special conditions: [Not Applicable/*give details*]<sup>(7)</sup>

## DISTRIBUTION

- 29 (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilisation Manager (if any): [Not Applicable/give name]
- 30 If non-syndicated, name of Dealer: [Not Applicable/give name]
- 31 U.S. Selling Restrictions: [Reg. S Category 1/2<sup>(8)</sup>; TEFRA D/TEFRA C/TEFRA Not Applicable]
- 32 Prohibition of Sales to EEA and UK Retail Investors: [Applicable/Not Applicable]  
*(If the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no Key Information Document will be prepared, “Applicable” should be specified.)*
- 33 Additional selling restrictions: [Not Applicable/give details]

## OPERATIONAL INFORMATION

- 34 ISIN Code: [●]
- 35 Common Code: [●]
- 36 CMU Instrument Number: [●]
- 37 Any clearing system(s) other than Euroclear, Clearstream and the CMU Service and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- 38 Delivery: Delivery [against/free of] payment
- 39 Additional Paying Agents (if any): [●]

## GENERAL

- 40 The aggregate principal amount of Notes issued has been translated into US\$ at the rate of [●], producing a sum of (for Notes not denominated in US\$): [Not Applicable/US\$[●]]
- [41] [Expected] Ratings:] [Moody’s: A1/S&P: A+]  
*(Only relevant if the Notes are rated)*
- [42] [Private Bank Rebate/Commission:] [Not Applicable/give details]  
*(Not applicable unless there is a private bank rebate)*



## [STABILISATION

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 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. 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 HKSE of the Notes described herein pursuant to the US\$30,000,000,000 Debt Issuance Programme.]

## [LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US\$30,000,000,000 Debt Issuance Programme of China Development Bank.]

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: \_\_\_\_\_  
Duly authorised

### *Notes:*

- (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 must have a minimum redemption value of £100,000 (or its equivalent in other currencies). 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 set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) 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”.
- (2) Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.
- (3) Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: “provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day.”
- (4) 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 in the case of Renminbi denominated Fixed Rate Notes or to the nearest HK\$0.01, HK\$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.”

- (5) Only to be completed for an issue where the Day Count Fraction is Actual/Actual — ICMA.
- (6) If the temporary Global Note is exchangeable for definitives at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.
- (7) If full terms and conditions are to be used, please add the following here:
- “The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary.” The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.
- (8) Reg. S Category 1 may be available subject to the Issuer having no substantial U.S. market interest.

## GENERAL INFORMATION

We may apply to have Bearer Notes or Registered Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement. The Notes have also been accepted for clearance through the Euroclear and Clearstream systems. The appropriate Common Code and ISIN for each Series of Notes will be set out in the relevant Pricing Supplement.

Prior to each issue of Notes, the Bank or the Hong Kong Branch as the case may be, will have obtained all necessary consents, approvals and authorizations in connection with the issue of such 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.

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the foreign debt quota granted to the Bank by the NDRC pursuant to the Filing and Registration Certificate of Enterprises' Foreign Debts 《企業借用外債備案登記證明》(發改辦外資備[2020]169號) issued on 26 March 2020, unless otherwise specified in the relevant Pricing Supplement. After the issuance of such relevant Tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the prescribed time period.

The Legal Entity Identifier (LEI) code of the Bank is 300300C1020111000029.

You may inspect during usual business hours at the specified office of the Fiscal Agent and the Paying Agent at 20 Pedder Street, Central, Hong Kong SAR:

- copies of the amended and restated agency agreement or an agreed form thereof before such agreement has been executed,
- copies of the amended and restated deed of covenant or an agreed form thereof before such agreement has been executed,
- conformed copies of the global bond or certificate of each Tranche of Notes with full terms and conditions,
- copies of this Offering Circular, and
- copies of our annual financial statements as at and for the years ended 31 December 2018 and 2019 prepared by us in accordance with IFRS (in English).

Application has been made to the SEHK for the listing of the Programme during the 12-month period from the date of this Offering Circular on the SEHK by way of debt issues to Professional Investors only.

We publish our annual report and audited financial statements following the end of each of our financial years. Our financial year ends on 31 December.

Our audited financial statements as at and for the year ended 31 December 2019, included in this Offering Circular have been audited by Ernst & Young as stated in its report appearing therein. Its report was not prepared exclusively for incorporation in this Offering Circular. For the purpose of this Offering Circular, no consolidated management accounts have been prepared in accordance with IFRS in respect of the period from 1 January 2020 to the date of this Offering Circular.

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition, financial or otherwise, or in our earnings, business affairs or business prospects since 31 December 2019, the date of our latest financial statements, that is material in the context of the issue of the Notes.

We are neither involved in any litigation, arbitration or administrative proceedings against or affecting us or any of our assets which are or might be material in the context of the issue of the Notes nor aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened.

**APPENDIX — AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS AT,  
AND FOR THE YEAR ENDED 31 DECEMBER 2019**

# 附录

## APPENDICES

审计报告(按照国际财务报告准则编制的财务报表)

财务报表(按照国际财务报告准则编制)

AUDITOR'S REPORT ON IFRS FINANCIAL STATEMENTS

IFRS FINANCIAL STATEMENTS



## INDEPENDENT AUDITOR'S REPORT

To the board of directors of China Development Bank

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

### OPINION

We have audited the consolidated financial statements of China Development Bank (the "Bank") and its subsidiaries (the "Group") set out on pages 138 to 186, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA 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 judgment, 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 Matter	How our audit addressed the key audit matter
<p><b>Measurement of expected credit losses for loans and advances to customers at amortized cost and loan commitments and financial guarantee contracts</b></p> <p>As at 31 December 2019, the Group's gross loans and advances to customers at amortized cost recognized in the consolidated statement of financial position amounted to RMB12,192.13 billion with a credit loss allowance of RMB517.09 billion. The exposure of loan commitments and financial guarantee contracts was RMB3,498.64 billion, for which a provision of RMB15.45 billion was recognized. The credit impairment losses on loans and advances to customers at amortized cost, loan commitments and financial guarantee contracts recognized in the Group's consolidated income statement for the year ended 31 December 2019 amounted to RMB49.27 billion.</p> <p>The credit loss allowances for loans and advances to customers at amortized cost, together with the provisions for loan commitments and financial guarantee contracts, as of 31 December 2019 represented management's best estimate of expected credit losses ("ECL") at that date under International Financial Reporting Standard 9: Financial Instruments ECL model.</p> <p>The Group assessed whether the credit risk of loans and advances to customers at amortized cost and loan commitments and financial guarantee contracts has increased significantly since their initial recognition, and applied a three-stage impairment model to calculate their ECL. Management assessed the credit loss allowance and provisions in light of forward-looking information and using the risk parameter model that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates.</p> <p>The measurement models for ECL involved significant management judgments and assumptions, primarily including the following:</p> <ol style="list-style-type: none"> <li>(1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;</li> <li>(2) Determination of the criteria for significant increase in credit risk ("SICR") and definition of default and credit-impaired;</li> <li>(3) Adoption of economic indicators, economic scenarios and their weights for forward-looking measurement;</li> <li>(4) The estimated future cash flows for loans and advances to customers at amortized cost in Stage 3.</li> </ol> <p>The Group established governance process and controls over the measurement of ECL.</p> <p>The Group developed a number of complex models that applied significant management judgments and assumptions in measuring the ECL, and the amount of ECL and provisions estimated are significant. These reasons resulted in this matter being identified as a key audit matter.</p> <p>Refer to Note 3 (13) (f), Note 4 (1), Note 14, Note 21, Note 36 and Note 49 (2) to the Group's consolidated financial statements.</p>	<p>We evaluated and tested the effectiveness of the design and operation of the Group's internal controls related to the measurement of ECL for the loans and advances, loan commitments and financial guarantee contracts which comprised:</p> <ol style="list-style-type: none"> <li>(1) Controls over ECL models, including the selection, approval and application of methodologies and models; and the ongoing monitoring and optimization of such models;</li> <li>(2) Review and approval of internal controls related to significant management judgments and assumptions of the Group, including portfolio segmentation, model selections, parameters determination, the criteria for SICR, the definition of default and credit-impaired, the use of forward-looking scenarios;</li> <li>(3) Internal controls over the accuracy and completeness of key inputs used by the models;</li> <li>(4) Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for loans and advances to customers at amortized cost in Stage 3;</li> <li>(5) Internal controls over the information systems for ECL measurement.</li> </ol> <p>The substantive procedures we performed include:</p> <p>We reviewed the ECL modelling methodologies and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the ECL calculation engines on a sample basis, to validate whether or not the ECL calculation engines reflect management's modelling methodologies.</p> <p>We performed testing on a sample basis based on financial and non-financial information, relevant external evidence and other factors of the borrowers, to assess the appropriateness of management's identification of SICR, defaults and credit-impaired.</p> <p>For forward-looking scenarios, we reviewed the basis management used for determining the economic indicators, number of scenarios and relative weightings, assessed the reasonableness of forecasted economic indicators, economic scenarios and relative weightings.</p> <p>We examined major data inputs to the ECL models for selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also tested the major data transfers between the ECL calculation engines and relevant information systems, to verify their accuracy and completeness.</p> <p>For loans and advances in Stage 3, we tested on a sample basis the credit loss allowance computed by management based on estimated future cash flows and discount rates with reference to financial information of borrowers and guarantors, the latest collateral valuations, and other information including forward-looking factors, etc.</p>
<p><b>Consolidation of structured entities in relation to wealth management products</b></p> <p>Structured entities primarily included wealth management products, asset-backed securities, assets management plans and funds that were issued, initiated, managed or invested by the Group. As at 31 December 2019, total assets of consolidated structured entities and unconsolidated structured entities, issued, initiated and managed by the Group, amounted to RMB113.45 billion and RMB179.61 billion, respectively. In addition, as at 31 December 2019, the carrying amount of unconsolidated structured entities invested by the Group which were issued, initiated and managed by other institutions included in the consolidated statement of financial position amounted to RMB28.68 billion.</p> <p>The Group evaluated the following aspects to determine whether the above structured entities need to be consolidated in the consolidated financial statements:</p> <ul style="list-style-type: none"> <li>• its power over these structured entities;</li> <li>• its exposure to variable returns from its involvement with these structured entities; and</li> <li>• its ability to use its power to affect the amount of its variable returns from these structured entities.</li> </ul> <p>The significant judgement exercised by management in assessing whether the Group had control of structured entities and the significant amount of such structured entities resulted in this matter being identified as a key area of audit focus.</p> <p>Refer to Note 3 (4), Note 4 (2) and Note 44 to the consolidated financial statements.</p>	<p>For different types of structured entities, we performed the following tests:</p> <ul style="list-style-type: none"> <li>• assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities through review of related contracts and agreements;</li> <li>• performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income earned and asset management fees earned as the asset manager or service provider, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities; and</li> <li>• assessed whether the Group acted as a principal or an agent, through analysis of the scope of the Group's decision-making authority over the structured entities, the remuneration to which the Group was entitled for its role as the assets manager or service provider, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.</li> </ul>



## OTHER INFORMATION INCLUDED IN THE GROUP'S 2019 ANNUAL REPORT

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the 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 MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible 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. 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 judgment 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 management.
- Conclude on the appropriateness of management's 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.
- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 partner in charge of the audit resulting in this independent auditor's report is Gu Jun.

**Ernst & Young Hua Ming LLP**  
Beijing, the People's Republic of China  
28 September 2020

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December	
		2019	2018
Interest income	7	630,661	617,161
Interest expense	7	(456,712)	(434,213)
<b>Net interest income</b>	7	<u>173,949</u>	<u>182,948</u>
Fee and commission income	8	7,304	9,009
Fee and commission expense	8	(1,127)	(1,311)
<b>Net fee and commission income</b>	8	<u>6,177</u>	<u>7,698</u>
Net trading and foreign exchange gains	9	14,686	37,453
Net gains on financial instruments designated at fair value through profit or loss		1,554	1,011
Net gains on derecognition of debt instruments at amortized cost		176	9
Dividend income	10	14,033	13,298
Net gains/(losses) on investment securities	11	23	(33)
Other income, net	12	6,252	3,887
<b>Operating income</b>		<u>216,850</u>	<u>246,271</u>
Share of profit of associates and joint ventures		4	156
Operating expenses	13	(17,650)	(16,784)
Credit impairment losses	14	(52,033)	(97,186)
Other impairment losses on assets		(1,619)	(897)
<b>Profit before income tax</b>		<u>145,552</u>	<u>131,560</u>
Income tax expense	15	(27,041)	(19,504)
<b>Profit for the year</b>		<u>118,511</u>	<u>112,056</u>
<b>Attributable to:</b>			
Equity holders of the Bank		117,102	110,758
Non-controlling interests		1,409	1,298
		<u>118,511</u>	<u>112,056</u>

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December	
		2019	2018
<b>Profit for the year</b>		118,511	112,056
Other comprehensive income:			
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Remeasurement of supplemental retirement benefits obligation		(27)	(32)
Net gains/(losses) on investments in equity instruments through other comprehensive income		576	(918)
Subtotal		549	(950)
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translation of foreign operations		704	1,549
Net gains of debt instruments at fair value through other comprehensive income		1,313	5,534
Others		(196)	(223)
Subtotal		1,821	6,860
<b>Other comprehensive income for the year, net of tax</b>		2,370	5,910
<b>Total comprehensive income for the year</b>		120,881	117,966
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		119,536	116,499
Non-controlling interests		1,345	1,467
		120,881	117,966

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	As at 31 December	
		2019	2018
<b>Assets</b>			
Cash and balances with central banks	16	189,237	275,168
Deposits with banks and other financial institutions	17	522,571	758,539
Placements with banks and other financial institutions	18	189,000	168,605
Derivative financial assets	19	21,373	34,770
Financial assets held under resale agreements	20	721,029	463,502
Loans and advances to customers	21	11,713,333	11,198,375
Financial Investments			
Financial assets at fair value through profit or loss	22	960,488	1,081,732
Debt instruments at amortized cost	23	1,401,344	1,458,663
Financial assets at fair value through other comprehensive income	24	520,846	484,877
Investments in associates and joint ventures	25	500	1,686
Property and equipment	26	91,529	87,053
Deferred tax assets	27	135,911	125,812
Other assets	28	37,414	41,038
<b>Total assets</b>		<b>16,504,575</b>	<b>16,179,820</b>
<b>Liabilities</b>			
Deposits from banks and other financial institutions	29	3,143,217	3,229,518
Borrowings from governments and financial institutions	30	458,759	428,243
Placements from banks	31	72,086	62,124
Financial liabilities measured at fair value through profit or loss	32	35,188	119,226
Derivative financial liabilities	19	27,593	38,570
Financial assets sold under repurchase agreements	33	112,608	66,249
Due to customers	34	1,371,396	1,670,777
Debt securities issued	35	9,735,782	9,108,416
Current tax liabilities		34,161	49,842
Deferred tax liabilities	27	2,248	1,394
Other liabilities	36	117,802	104,738
<b>Total liabilities</b>		<b>15,110,840</b>	<b>14,879,097</b>
<b>Equity</b>			
Share capital	37	421,248	421,248
Capital reserve	38	181,993	182,109
Investment revaluation reserve	39	(13,716)	(15,562)
Surplus reserve	40	165,399	143,315
General reserve	40	238,344	227,633
Currency translation reserve		874	170
Retained earnings	41	376,035	319,068
Total equity attributable to equity holders of the Bank		1,370,177	1,277,981
Non-controlling interests	42	23,558	22,742
<b>Total equity</b>		<b>1,393,735</b>	<b>1,300,723</b>
<b>Total Liabilities and equity</b>		<b>16,504,575</b>	<b>16,179,820</b>

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

The consolidated financial statements are signed on its behalf by:

\_\_\_\_\_  
Zhao Huan  
Chairman

\_\_\_\_\_  
Ouyang Weimin  
President

\_\_\_\_\_  
He Xingxiang  
Executive Vice President,  
in charge of the finance function

\_\_\_\_\_  
Wu Jiang  
Head of Finance

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts in millions of Renminbi, unless otherwise stated)

Notes	Total equity attributable to equity holders of the Bank									
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2019	421,248	182,109	(15,562)	143,315	227,633	170	319,068	1,277,981	22,742	1,300,723
Profit for the year	-	-	-	-	-	-	117,102	117,102	1,409	118,511
Other comprehensive income	-	(116)	1,846	-	-	704	-	2,434	(64)	2,370
Total comprehensive income	-	(116)	1,846	-	-	704	117,102	119,536	1,345	120,881
Capital injection of non-controlling interests	-	-	-	-	-	-	-	-	(86)	(86)
Appropriation to surplus reserve	-	-	-	22,084	-	-	(22,084)	-	-	-
Appropriation to general reserve	-	-	-	-	10,711	-	(10,711)	-	-	-
Dividends	-	-	-	-	-	-	(27,340)	(27,340)	(443)	(27,783)
Balance at 31 December 2019	421,248	181,993	(13,716)	165,399	238,344	874	376,035	1,370,177	23,558	1,393,735
Balance at 1 January 2018	421,248	182,267	(20,173)	121,672	213,934	(1,132)	270,425	1,188,241	20,675	1,208,916
Profit for the year	-	-	-	-	-	-	110,758	110,758	1,298	112,056
Other comprehensive income	-	(172)	4,611	-	-	1,302	-	5,741	169	5,910
Total comprehensive income	-	(172)	4,611	-	-	1,302	110,758	116,499	1,467	117,966
Capital injection of non-controlling interests	-	-	-	-	-	-	-	-	938	938
Transactions with non-controlling interests	-	-	-	-	-	-	(6)	(6)	6	-
Appropriation to surplus reserve	-	-	-	21,643	-	-	(21,643)	-	-	-
Appropriation to general reserve	-	-	-	-	13,699	-	(13,699)	-	-	-
Dividends	-	-	-	-	-	-	(26,767)	(26,767)	(344)	(27,111)
Others	-	14	-	-	-	-	-	14	-	14
Balance at 31 December 2018	421,248	182,109	(15,562)	143,315	227,633	170	319,068	1,277,981	22,742	1,300,723

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

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December	
		2019	2018
<b>Cash flows from operating activities</b>			
Profit before income tax		145,552	131,560
Adjustments:			
Impairment losses on assets		53,652	98,083
Depreciation and amortization		5,717	4,425
Interest expense for debt securities issued		329,622	308,040
Interest expense for borrowings from governments and financial institutions		14,429	12,182
Interest income for investment securities		(67,925)	(65,188)
Interest income arising from impaired loans and advances to customers		(425)	(638)
Net losses on financial instruments measured at fair value through profit or loss		4,862	16,925
Net (gains)/losses on investment securities		(23)	33
Net gains on disposal of property and equipment		(761)	(652)
Net foreign exchange (gains)/losses		(9,689)	10,611
Dividend income		(309)	(3,830)
Subtotal		474,702	511,551
Net change in operating assets and operating liabilities:			
Net decrease in balances with central banks and deposits with banks and other financial institutions		140,258	320,398
Net decrease in financial assets held under resale agreements		3,612	35
Net decrease in financial assets measured at fair value through profit or loss		121,591	24,272
Net increase in loans and advances to customers		(543,606)	(849,325)
Net (increase)/decrease in placements with banks and other financial institutions		(9,614)	20,253
Net increase in other operating assets		(58,548)	(47,360)
Net decrease in due to customers and deposits from banks and other financial institutions		(384,994)	(443,066)
Net increase/(decrease) in placements from banks		9,980	(23,670)
Net increase in financial assets sold under repurchase agreements		46,338	46,874
Net (decrease)/increase in other operating liabilities		(52,491)	57,702
Subtotal		(727,474)	(893,887)
Income tax paid		(36,932)	(51,547)
Net cash outflows from operating activities		(289,704)	(433,883)
<b>Cash flows from investing activities</b>			
Cash received from disposal/redemption of debt instruments at amortized cost and financial assets at fair value through other comprehensive income		357,686	434,374
Cash received from returns on investment securities		68,209	61,475
Cash received from disposal of property, equipment and other assets		12,141	8,899
Cash received from disposal of investment in subsidiaries and associates		18	1,121
Cash paid for purchase of property, equipment and other assets		(21,588)	(25,919)
Cash paid for purchase of debt instruments at amortized cost and financial assets at fair value through other comprehensive income		(305,598)	(369,154)
Cash paid for investment in subsidiaries and associates	25	—	(413)
Cash paid for other investing activities		—	(6)
Net cash inflows from investing activities		110,868	110,377
<b>Cash flows from financing activities</b>			
Cash received from debt securities issued		1,963,893	3,075,985
Cash received from borrowed funds		151,589	108,075
Transactions with non-controlling interests		(402)	960
Cash paid for repayments of debt securities issued and borrowed funds		(1,487,480)	(2,663,339)
Cash payment for interest on debt securities issued and borrowed funds		(326,776)	(300,554)
Dividends paid		(20,654)	(27,114)
Net cash inflows from financing activities		280,170	194,013
<b>Effect of exchange rate changes on cash and cash equivalents</b>		4,582	9,578
<b>Net increase/(decrease) in cash and cash equivalents</b>		105,916	(119,915)
<b>Cash and cash equivalents at beginning of year</b>		1,031,679	1,151,594
<b>Cash and cash equivalents at end of year</b>	43(1)	1,137,595	1,031,679
Net cash flows from operating activities include:			
Interest received		594,428	576,412
Interest paid		(119,824)	(113,334)

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

## 1. GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

China Development Bank (the "Bank") was formerly a wholly state-owned policy bank which was established on 17 March 1994. Approved by the State Council of the PRC, China Development Bank was converted into a joint stock corporation on 11 December 2008, established jointly by the Ministry of Finance (the "MOF") and Central Huijin Investment Ltd. ("Huijin"), and renamed as China Development Bank Corporation.

On 19 April 2017, with the approval of the China Banking and Insurance Regulatory Commission (the former "China Banking and Regulatory Commission, CBRC" and "China Insurance Regulatory Commission, CIRC", the "CBIRC") and after completing the review by and registration of corporate changes with the State Administration of Business and Commerce, China Development Bank Corporation changed its name to China Development Bank, and changed its form of organization from a joint stock corporation to a limited liability company. After these changes, the Bank operates under business license No. 91110000000184548 issued by Beijing Administration of Industry and Commerce on 19 April 2017, and financial institution license No. G0001H111000001 issued by the CBIRC on 13 June 2017. The registration of corporate changes does not affect the rights and obligations of the Bank. After the changes, the Bank assumes all the assets, creditor's rights, debts and businesses of the former China Development Bank Corporation.

Committed to strengthening national competitiveness and improving people's livelihood, the Bank and its subsidiaries (collectively, the "Group") align their business focus with China's major medium- and long-term economic development strategies by leveraging its unrivalled position as a leading bank for medium and long-term financing and comprehensive financial services, so as to raise and channel economic resources in support of the following areas:

- Economic and social development, including infrastructures, basic industries, pillar industries, public services and management;
- New urbanization, urban-rural integration, and balanced regional development;
- Programs vital for national competitiveness, including energy conservation, environmental protection, high-end manufacturing, and the transformation and upgrading of traditional industries;
- Public welfare, including affordable housing, poverty alleviation, student loans, and inclusive finance;
- National strategies, including those in science and technology, culture, and people-to-people exchange;
- International cooperation, including the Belt and Road Initiative, industrial capacity and equipment manufacturing projects, infrastructure connectivity, energy and resources, and Chinese enterprises "Going Global";
- Initiatives that support China's development needs and economic and financial reforms; and
- Other areas as mandated by and aligned with national development strategies and policies.

The head office and domestic branches of the Bank and its subsidiaries registered in the Mainland China are referred to as the "Domestic Operations". Branches and subsidiaries registered outside of the Mainland China are referred to as the "Overseas Operations".

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

### 2.1 Amendments to the accounting standards effective in 2019 relevant to and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2019:

(1)	IFRS 16	<i>Leases</i>
(2)	IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>
(3)	IAS 19 Amendments	<i>Plan amendment, curtailment or Settlement</i>
(4)	IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>
(5)	Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)	

#### (1) IFRS 16: Leases

The Group has adopted IFRS 16 "Leases" ("IFRS 16") as issued by the International Accounting Standards Board ("IASB") in January 2016 with a date of initial application on 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures.

The Group has adopted several specified practical expedients, including (a) accounting for leases for which the lease term ends within 12 months from the date of initial application in the same way as short-term leases; (b) excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application; and (c) using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group chose to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of prepaid lease payments, etc.

#### (2) IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

The IASB issued IFRIC *Interpretation 23 Uncertainty over Income Tax Treatments* to clarify how to apply the recognition and measurement requirements in IAS 12 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.

#### (3) IAS 19 Amendments: Plan amendment, curtailment or settlement Insurance Contracts

IAS 19 Amendments describe the accounting when a defined benefit plan amendment, curtailment or settlement occurs during a reporting period. The 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.

#### (4) IAS 28 Amendments: Long-term Interests in Associates and Joint Ventures

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.

#### (5) Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 11 – Joint Arrangements, the amendments to IAS 12 – Income Taxes and IAS 23 – Borrowing Costs. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

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.

### 2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2019

The Group has not adopted the following new and amended standards IFRSs that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	IFRS 3 Amendments	<i>Definition of a Business</i>	1 January 2020
(2)	IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>	1 January 2020
(3)	IFRS 9, IAS 39 and IFRS 7 Amendments	<i>Interest Rate Benchmark Reform</i>	1 January 2020
(4)	IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely

**(1) IFRS 3 Amendments: Definition of a Business**

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.

**(2) IAS 1 and IAS 8 Amendments: Definition of Material**

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.

**(3) IFRS 9, IAS 39 and IFRS 7 Amendments: Interest Rate Benchmark Reform**

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.

**(4) IFRS 10 and IAS 28 Amendments: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

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 recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The adoption of the above standards, amendments and interpretations will have no material impact on the financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**(1) Accounting period**

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

**(2) Statement of compliance**

The consolidated financial statements have been prepared in accordance with IFRSs, as issued by The International Accounting Standards Board ("IASB").

**(3) Basis of preparation**

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets and that is received (or in some circumstances the amount expected to be paid) with respect to liabilities.

The preparation of financial statements under 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 4.

**(4) Consolidation**

The consolidated financial statements include the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income, expenses and cash flows of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and the consolidated statement of cash flows from the date the Bank gains control until the date when the Bank ceases to control the subsidiary. The Group consolidates all entities that it controls, including those controlled through investment entity subsidiaries.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into alignment with the Group's accounting policies.

All intragroup transactions, balances and unrealized gains on transactions are eliminated in full on consolidation. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred assets.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. recognized in the consolidated income statement). When the Group retains an interest in the former subsidiary and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair value of the assets transferred by the Group at the acquisition date, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 – Income Taxes and IAS 19 – Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

**(5) Interest in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not constitute control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a



joint venture is initially recognized in the consolidated statement of financial position at cost.

On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in the consolidated income statement in the period in which the investment is acquired.

An investment in an associate or a joint venture is adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Group periodically assesses whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of the interest in the associate or the joint venture is included in the determination of the gain or loss on disposal of the associate or the joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or the joint venture on the same basis as would be required if that associate or the joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or the joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued, excepted for equity instrument designated as fair value through other comprehensive.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

## (6) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of sales related taxes. Specific recognition criteria for different nature of revenue are disclosed below.

### (a) Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.
- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate.

### (b) Fee and commission income

Fee and commission income is recognized when the service is provided.

## (7) Interest expense

Interest expense for all interest-bearing financial liabilities, except for those designated at fair value through profit or loss or held for trading, are recognized within "Interest expense" in the consolidated income statement using the effective interest method.

## (8) Foreign currency transactions

### (a) Functional and presentation currency

The functional currency of the Domestic Operations is Renminbi ("RMB"). Items included in the financial statements of each of the Group's Overseas Operations are measured using the currency of the primary economic environment in which the entity operates. The presentation currency of the Group and the Bank is RMB.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gain and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

Changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the monetary assets and other changes in the carrying amount. Translation differences related to changes in the amortized cost are recognized in the consolidated income statement, and other changes in the carrying amount are recognized in other comprehensive income.

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 items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as FVOCI are recognized in other comprehensive income.

### (c) Translation of financial statements in foreign currency

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from RMB are translated as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position; except the retained earnings, other items in equity holders' equity are translated at the rate prevailing at the date when they occurred;
- income and expenses for each income statement are translated at the exchange rate prevailing on the date when the items occurred, or a rate that approximates the exchange rate at the date of the transaction; and
- all resulting exchange differences are recognized in other comprehensive income.

## (9) Taxation

Income taxes comprise current income tax and deferred income tax.

### (a) Current income tax

Current income tax is the expected tax payable on the taxable income for the year. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before income tax as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### (b) Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in the consolidated income statement, except when they related to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

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 profits will be available to allow all or part of the asset to be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### (10) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits and early retirement benefits.

##### (a) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the short-term employee benefits payable for those services as a liability with the corresponding amounts recognized as expenses in the consolidated income statement. Short-term employee benefits include salaries, bonuses, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

##### (b) Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

##### Defined contribution plans

Contributions to the basic pensions and unemployment insurance plan are recognized in the consolidated income statement for the period in which the related payment obligation is incurred.

The employees of the Bank's head office and domestic branches ("Domestic Institutions") participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated income statement when incurred.

##### Defined benefit plans

The Group provides supplemental pension benefit and post-retirement healthcare benefit to the retirees retired on or before 31 December 2011. The entitlement to the benefits is conditional on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of RMB treasury bonds that have terms to maturity approximating to the terms of the related pension obligation. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated statement of comprehensive income when incurred.

##### (c) Early retirement benefits

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The accounting treatment of the early retirement benefits is in accordance with termination benefits as determined in IAS 19. The liability is recognized for the early retirement benefit payments from the date of early retirement to the normal retirement date when the criteria for recognition as termination benefit is met with a corresponding charge in the consolidated income statement. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognized in the consolidated income statement when incurred.

#### (11) Cash and cash equivalents

Cash and cash equivalents are short term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant

risk of changes in value. Cash and cash equivalents include cash on hand, deposits held at call with banks and other financial institutions and other short-term and highly liquid investments with original maturities of three months or less.

#### (12) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market (or in the absence of a principal market, the most advantageous market) at the measurement date.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. For financial instruments traded in inactive markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data.

#### (13) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

##### (a) Classification of financial assets

Financial assets are classified on the basis of the Group's business model for managing the asset and the cash flow characteristics of the assets:

- (i) Amortized cost ("AC"). Financial assets at amortized cost primarily include balances with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers at amortized cost, debt instruments at amortized cost and other receivables.
- (ii) Fair value through other comprehensive income ("FVOCI"). Financial assets measured at fair value through other comprehensive income include debt securities, and equity instruments designated as fair value through other comprehensive income which are not held for trading purpose.
- (iii) Fair value through profit or loss ("FVTPL"). Financial assets measured at fair value through profit or loss primarily include held-for-trading financial assets, loan and advances to customers measured at fair value through profit or loss, equity instruments other than designated at FVOCI, debt investments that do not meet the criteria for amortized cost or FVOCI.

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determine whether their cash flows are SPPI.

The classification requirements for debt instruments and equity instruments are described as below:

##### Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government and corporate bonds. Classification and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the cash flow characteristics of asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- (i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortized cost.
- (ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI.
- (iii) FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL.

The Group may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

#### Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

#### (b) Reclassification of financial assets

When the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

#### (c) Classification of financial liabilities

Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities at FVTPL, which is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition.

#### (d) Initial recognition and measurement

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Group may, at initial recognition, irrevocably designate a financial liability as measured at FVTPL: (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an accounting mismatch); (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Group recognizes any expense incurred on the financial liability.

#### (e) Subsequent measurement

Subsequent measurement of financial instruments depends on the categories:

##### Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; (iii) for financial assets, adjusted for any credit loss allowance. Interest income and interest expense from these financial assets is included in "Interest income" and "Interest expense" using the effective interest rate method.

For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate. If a floating-rate financial asset or a floating-rate financial liability is recognized initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or the liability.

If the Group revises its estimates of payments or receipts, it shall recalculate the carrying amount of the financial asset or financial liability as the present value of the revised estimated future cash flows, and the carrying amount discounted at the original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

#### Fair value through other comprehensive income

##### Debt instruments

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method.

##### Equity instruments

The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when the Group's right to receive payments is established, and it is probable that future economic benefits associated with the item will flow to the Group, and the amounts of the dividends can be measured reliably.

#### Financial assets at fair value through profit or loss

##### Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the income statement within "Net trading and foreign exchange gain" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separated in "Net gains/(losses) on financial instruments designated at fair value through profit or loss".

##### Equity instruments

Gains and losses on equity investments at FVTPL are included in the "Net trading and foreign exchange gain" in the income statement.

#### Financial liabilities at fair value through profit or loss

Gains or losses on financial liabilities designated as at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss. The gains and losses from financial liabilities including the effects of credit risk variance should be recognized in current profit and loss by the Group.

When the liabilities designated as at fair value through profit or loss is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to retained earnings.

#### (f) Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI and with exposure arising from some loan commitments and financial guarantee contracts.

The Group measures ECL of a financial instrument reflects:

- (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (ii) the time value of money; and
- (iii) 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.

For financial instruments whose credit loss allowance are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their credit loss allowance and recognize their ECL, as follows:

**Stage 1:** If the credit risk has not increased significantly since its initial recognition, the financial instrument is included in Stage 1 and have its ECL measured at an amount equivalent to the ECL of the financial instrument for the next 12 months.

**Stage 2:** If the credit risk has increased significantly since its initial recognition but is not yet deemed to be credit-impaired, the financial instrument is included in Stage 2 and have its ECL measured at an amount equivalent to the ECL over the lifetime of the financial instrument.

**Stage 3:** If the financial instrument is credit-impaired, the financial instrument is included in Stage 3 and have its ECL measured at an amount equivalent to the ECL over the lifetime of the financial instrument.

The Group applies the impairment requirements for the recognition and measurement of credit loss allowance for debt instruments that are measured at FVOCI. The credit impairment loss is recognized in profit or loss, and it should not be presented separately in the consolidated statement of financial position as a reduction of the carrying amount of the financial asset.

The Group has measured the credit loss allowance for a financial instrument other than POCI at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the

credit risk on the financial instruments has increased significantly since initial recognition is no longer met, the Group measures the credit loss allowance at an amount equal to 12-month expected credit losses at the current reporting date and the amount of expected credit losses reversal is recognized in profit or loss. For POCI, at the reporting date, the Group only recognize the cumulative changes in lifetime expected credit losses since initial recognition as credit loss allowance for POCI financial assets.

When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

#### (g) Contractual modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for credit loss allowance calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized as gain or loss on derecognition of debt instrument at amortized cost.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

#### (h) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

#### Securitization

As part of its operational activities, the Group undertakes securitization transactions through which it transfers certain financial assets to special purpose trusts which issue asset-backed securities ("ABS") to investors. The Group holds part of the senior and sub-ordinated tranche of these ABS. As the asset manager of these ABS, the Group provides services including collecting payments from loans in the assets pool, maintaining account records related to the assets pool, providing service reports and other services.

After payment of tax and related costs, the trust assets should firstly be used for principal and interest payment to holders of senior tranche ABS, and then to holders of sub-ordinated tranche ABS. The Group derecognizes or partially derecognizes the transferred financial assets according to the extent of transfer of the risks and rewards of ownership of the transferred financial assets.

#### (i) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated income statement.

#### (j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to offset the recognized amounts and the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty. Otherwise, financial assets and financial liabilities are reported separately.

#### (k) Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantee contracts are measured at the higher of the initial

amount, less amortization of guarantee fees recognized in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions, historical losses and supplemented by the judgment of management. Any increase in the provision of the financial guarantee contracts is taken to profit or loss.

The credit loss allowance of loan commitments provided by the Group is measured by ECL. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For financial guarantee contracts and loan commitments, the credit loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the credit loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

#### (14) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

Both financial assets held under resale agreements and financial assets sold under repurchase agreements of the Group are in the form of pledged repo. The cash advanced or received is recognized as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognized. Assets sold under repurchase agreements continue to be recognized in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

#### (15) Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss. These embedded derivatives are separately accounted for at FVTPL unless the Group choose to designate the hybrid contracts at fair value through profit or loss.

In order to avoid certain risk, the Group has designated certain derivative instruments as hedging instruments. The Group uses hedge accounting to account for these hedging instruments which satisfy specified criteria. The Group's hedging relationship include fair value hedges and cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between hedging instrument and hedged item, as well as its risk management objectives and its strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

##### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity. If the hedged item is de-recognized, the unamortized carrying value adjustment is recognized in profit or loss.

##### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are recognized in profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. When the hedged forecast transaction results in the recognition of a financial asset or a financial liability, the cumulative gains or losses previously recognized in other comprehensive income and accumulated in equity are reclassified from equity to profit or loss in the same period during which the

hedged forecast transaction affect profit or loss.

Hedge accounting is discontinued under following situations:

- When the Group revokes the designation of hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting, any cumulative gains or losses recognized in the consolidated statement of comprehensive income and accumulated in equity at that time remains in equity and is recognized in profit or loss when the forecast transaction ultimately occurs.
- When a forecast transaction is no longer expected to occur, any cumulative gains or losses in equity is transferred immediately to profit or loss.

#### (16) Equity instruments issued by the group

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the fair value of proceeds received, net of direct issuance costs.

	Useful lives	Residual value rates	Annual depreciation rates
Buildings	20-35 years	0%-5%	2.71%-5.00%
Office and machinery equipment	3-25 years	0%-5%	3.80%-33.33%
Motor vehicles and vessels	4-6 years	0%-5%	15.83%-25.00%
Aircrafts	11-20 years	15%	4.25%-7.73%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate category of property and equipment when completed and ready for intended use.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount. These are included in profit or loss.

#### (18) Foreclosed assets

Foreclosed assets are initially recognized at fair value and subsequently measured at the lower of their carrying amount and fair value, less costs to sell, at the end of each reporting period. When the fair value, less costs to sell, is lower than a foreclosed asset's carrying amount, an impairment loss is recognized in the consolidated income statement.

Any gain or loss arising on the disposal of the foreclosed asset is included in the consolidated income statement in the period in which the item is disposed.

The Group disposes of foreclosed assets through various means. In principle, foreclosed assets should not be transferred for own use, but, in the event that they are needed for the Group's own business or management purposes, they are transferred at their net carrying amounts and managed as newly acquired property and equipment.

#### (19) Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditures incurred for the investment property are included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in profit or loss.

#### (20) Leases

##### (a) Identification of leases

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 one or more identified assets 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, 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.

##### (b) As Lessee

###### Lease modifications

Lease modification is a change in the scope of a lease, or the consideration for a lease, 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:

#### (17) Property and equipment

The Group's property and equipment comprise buildings, office and machinery equipment, motor vehicles and vessels, aircrafts and construction in progress.

All property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, 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 repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

(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. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the Group's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability 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 or term of the lease, 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.

###### 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 contains any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is not more than RMB50,000 when it is new as a lease of low-value assets. 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 rental expenses are recognised as "Operating expenses" in the income statement on a straight-line basis over each period of the lease term.

##### (c) As Lessor

At the inception date, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

At the commencement date of the lease, the Group recognises finance lease receivable and derecognises the assets under finance leases. The Group presents lease receivable at an amount equal to the net investment in the lease for the initial measurement. The net investment in the lease is the present value of the sum of the unguaranteed residual value and the unreceived lease payments 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 income in profit or loss.

**(d) Lessee's incremental borrowing rate**

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. The economic circumstance and the observable interest rate set the foundation for each institution of the Group in determining the incremental borrowing rate. 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 lease liability and other specific conditions of the lease.

**(e) Right-of-use assets**

The right-of-use assets of the Group mainly include buildings, vehicles and other right-of-use assets.

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 costs incurred when the Group is a lessee; and
- (4) an estimate of costs to be 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 asset from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The Group remeasures the lease liabilities at the present value of the changed lease payments and adjusts the carrying amounts 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.

**(f) Lease liabilities**

At the commencement date of the lease, the Group measures the lease liabilities 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 lease liabilities 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 lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures lease liabilities by discounting the revised lease payments if any of the following occur: (i) there is a change in the in-substance fixed payments; (ii) there is a change in the amounts expected to be payable under a residual value guarantee; (iii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iv) there is a change in the assessments of options to purchase the underlying asset, extend or terminate the lease, or the circumstances of the actual exercise of these options.

**(21) Intangible assets**

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment loss. Intangible assets include computer software and other intangible assets. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 1 to 10 years.

At the end of each reporting period, the Group reviews the useful lives and amortization method of intangible assets with finite useful lives. The Group has no intangible assets with indefinite useful lives.

**(22) Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the business combination. Cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of

the cash-generating unit on a pro-rata basis, based on the carrying amount of each asset in the cash-generating unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of gain or loss on disposal.

**(23) Impairment of tangible and intangible assets other than financial instruments and goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset. A reversal of an impairment loss is recognized in profit or loss.

**(24) Dividend distribution**

Dividend distribution to the Company's equity holders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by those charged with governance.

**(25) Provisions**

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**(26) Fiduciary activities**

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, trust companies, other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

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

**(27) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognized, but disclosed.

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The estimates and related assumptions are based on historical experience and other relevant factors including on the basis of reasonable expectations for future events.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key estimation uncertainty that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements in the next twelve months.

**(1) Measurement of credit impairment losses**

For financial assets that are measured at amortized cost and measured at fair value through other comprehensive income, including financial guarantee contracts and loan commitments, the Group assesses the credit loss allowance and provisions in light of forward-looking information.

Expected credit loss refers to the weighted average of the credit losses of financial instruments weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable under the contract and all expected cash flows discounted by the Group at the original effective interest rate, that is, the present value of total cash shortage. Among them, POCI financial assets should be discounted at the credit-adjusted actual interest rate of the financial assets.

The expected credit loss ("ECL") model involves periodic review of key definitions, parameters, and assumptions, such as estimates of future macroeconomic conditions and the borrower's credit behavior (e.g., the possibility of customer default and corresponding losses). The significant assumptions primarily include the following:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether there was a significant increase in credit risk, or a default or impairment loss was incurred as well as definition of default and credit impairment;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings;
- The estimated future cash flows for loans and advances to customers at amortized cost in Stage 3.

Explanations of the inputs, assumptions and estimation techniques used in measuring ECL are further detailed in Note 49 (2) Credit risk.

**(2) Consolidation of structured entities**

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager or service provider, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for its role as asset manager or service provider, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

**(3) Fair value of financial instruments**

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow method, net asset value, comparable companies approach, and other valuation techniques commonly adopted by market participants. To the extent practical, the Group uses only observable market data, however areas such as credit risk of the Group and the counterparties, weighted average cost of capital, perpetual growth rate, liquidity discount, prepayment rate and similarity to comparable companies and their performance indicators may not be observable and require management to make estimates and apply judgements. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

**(4) De-recognition of financial assets transferred**

In its normal course of business, the Group transfers its financial assets through various types of transactions including, among others, regular way sales and transfers, securitization, financial assets sold under repurchase agreements.

The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties.
- the extent to which the associated risks and rewards of ownership of the financial assets are transferred.
- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets and if the Group has continuing involvement in these transferred financial assets.

**(5) Income Tax**

There are certain transactions and activities for which the ultimate tax effect is uncertain. The Group makes estimates and judgement for items of uncertainty, taking into account existing taxation legislation and past practice of relevant tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax in the period in which such a determination is made.

**(6) 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.

In assessing the present value of goodwill generated from the acquisition of subsidiaries, the Group estimates the present value of future cash flows at appropriate discounting rates. In assessing the present value of future cash flows of subsidiaries, significant judgements are exercised over the related income, operating expenses and discounting rate to calculate the present value.

**5. TAXATION**

The Group's main applicable taxes and tax rates are as follows:

**Corporate income tax**

The corporate income tax rate applicable to the Group in Mainland China is 25%. Taxation on overseas institutions is charged at the relevant local rates. The difference between the income tax rate of overseas and domestic institutions shall be paid by the head office of the Bank. The pre-tax deduction of corporate income tax shall be implemented in accordance with relevant state regulations.

**Value added tax ("VAT")**

The Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from trading of financial products at 6%.

In accordance with "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No.140), "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No.2) and "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), managers of asset management products shall pay VAT at 3% for taxable activities undertaken after 1 January 2018.

**City construction tax**

City construction tax is calculated as 1% to 7% of VAT.

**Education surcharge**

Education surcharge is calculated as 3% to 5% of VAT.

**6. INVESTMENTS IN SUBSIDIARIES**

Details of the principal subsidiaries held by the Bank as at 31 December 2019 were as follows:

Name of entity	Place of incorporation	Registered capital (in millions)	% of equity interest and voting rights	Principal business
CDB Capital Co., Ltd	Mainland China	RMB62,155	100% directly held	Equity investment
CDB Development Fund	Mainland China	RMB50,000	100% directly held	Non-securities investment & investment management and advisory
China-Africa Development Fund	Mainland China	RMB32,548	84.99% indirectly held	Fund investment & management
CDB Leasing Co., Ltd.	Mainland China	RMB12,642	64.40% directly held	Leasing
CDB Securities Co., Ltd.	Mainland China	RMB9,500	80% directly held	Securities brokerage and underwriting
Upper Chance Group Limited	Hong Kong, China	GBP1,584	100% directly held	Investment holding

During the year ended 31 December 2019, there were no changes in the proportion of equity interests or voting rights the Bank held in its subsidiaries, and there was no restriction on the Group's ability to access or use its assets and settle its liabilities.

**7. NET INTEREST INCOME**

	Year ended 31 December	
	2019	2018
Interest income		
Loans and advances to customers	525,835	500,149
Investment securities (1)	67,925	65,188
Placements with banks and other financial institutions and financial assets held under resale agreements	13,386	16,763
Balances with central banks and deposits with banks and other financial institutions	23,514	34,243
Others	1	818
Subtotal	630,661	617,161
Interest expense		
Debt securities issued	(329,622)	(308,040)
Deposits from banks and other financial institutions	(99,115)	(98,958)
Due to customers	(11,316)	(12,794)
Borrowings from governments and financial institutions	(14,429)	(12,182)
Others	(2,230)	(2,239)
Subtotal	(456,712)	(434,213)
Net interest income	173,949	182,948
Interest income accrued on impaired financial assets	425	638

(1) Interest income of investment securities includes interest income of debt instruments at amortized cost and debt instruments at fair value through other comprehensive income.

**8. NET FEE AND COMMISSION INCOME**

	Year ended 31 December	
	2019	2018
Fee and commission income		
Fiduciary service fee	2,849	3,470
Loan arrangement fee	2,324	2,344
Credit commitment fee	1,556	1,638
Consultancy and advisory fee	146	80
Brokerage fee	63	25
Others	366	1,452
Subtotal	7,304	9,009
Fee and commission expense	(1,127)	(1,311)
Net fee and commission income	6,177	7,698

**9. NET TRADING AND FOREIGN EXCHANGE GAINS**

	Year ended 31 December	
	2019	2018
Foreign exchange gains	14,513	53,793
Net gains/(losses) on trading assets and other financial assets mandatorily classified at fair value through profit or loss	3,408	(11,531)
Net losses on foreign exchange derivatives	(3,445)	(4,934)
Net gains on interest rate derivatives	210	125
Total	14,686	37,453

**10. DIVIDEND INCOME**

	Year ended 31 December	
	2019	2018
Trading assets and other financial assets mandatorily classified at fair value through profit or loss	13,881	13,198
Equity instruments at fair value through other comprehensive income (Designated)	152	100
Total	14,033	13,298

**11. NET GAINS/(LOSSES) ON INVESTMENT SECURITIES**

	Year ended 31 December	
	2019	2018
Net gains/(losses) on disposal of debt instruments at fair value through other comprehensive income	23	(33)



**12. OTHER INCOME, NET**

	Year ended 31 December	
	2019	2018
Rental income, net	4,597	3,549
Others	1,655	338
Total	6,252	3,887

**13. OPERATING EXPENSES**

	Year ended 31 December	
	2019	2018
Taxes and surcharges	4,835	4,479
Staff costs	7,276	6,811
General operating and administrative expenses	3,702	4,103
Depreciation and amortization	1,837	1,391
Total	17,650	16,784

**14. CREDIT IMPAIRMENT LOSSES**

	Year ended 31 December	
	2019	2018
Loans and advances to customers	48,021	92,684
Debt instruments at amortized cost	1,247	324
Debt instruments at fair value through other comprehensive income	32	121
Loan commitments	505	3,281
Financial guarantee contracts	746	66
Others	1,482	710
Total	52,033	97,186

**15. INCOME TAX EXPENSE**

	Year ended 31 December	
	2019	2018
Current tax	36,932	51,546
Deferred tax (Note 27)	(9,891)	(32,042)
Total	27,041	19,504

The income tax expense can be reconciled to profit before income tax presented in the consolidated income statement as follows:

	Year ended 31 December	
	2019	2018
Profit before income tax	145,552	131,560
Tax calculated at the PRC statutory tax rate of 25%	36,388	32,890
Effect of different tax rates on subsidiaries	(236)	(425)
Tax effect of non-taxable income	(13,881)	(13,768)
Tax effect of deductible temporary differences not recognized	262	69
Tax effects of expenses not deductible for tax purpose and others	4,508	738
Income tax expense	27,041	19,504

**16. CASH AND BALANCES WITH CENTRAL BANKS**

	As at 31 December	
	2019	2018
Cash	3	2
Balances with central banks	189,234	275,166
Total	189,237	275,168

## 17. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Deposits with:		
Domestic banks	465,924	661,022
Other domestic financial institutions	11,092	11,959
Overseas banks	43,302	82,363
Subtotal	520,318	755,344
Accrued Interests	2,308	3,521
Total	522,626	758,865
Less: Allowance for impairment losses – Stage 1	(55)	(326)
Deposits with banks and other financial institutions, net	522,571	758,539

As at 31 December 2019, the restricted deposits with banks and other financial institutions of the Group amounted to RMB11,939 million (31 December 2018: RMB12,547 million), which were mainly security deposits pledge with clearing houses.

## 18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2019	2018
Placements with:		
Domestic banks	73,100	124,744
Other domestic financial institutions	500	6,000
Overseas banks	115,283	37,681
Subtotal	188,883	168,425
Accrued Interests	123	195
Total	189,006	168,620
Less: Allowance for impairment losses – Stage 1	(6)	(15)
Placements with banks and other financial institutions, net	189,000	168,605

## 19. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

### (1) Derivative financial instruments

The contractual notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the consolidated statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair values of derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

The table below provides a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at the balance sheet date.

	31 December 2019		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency swaps (including cross-currency interest rate swaps)	1,295,976	10,879	(17,876)
Foreign exchange forwards and foreign exchange options	44,125	149	(62)
Subtotal		11,028	(17,938)
Interest rate derivatives			
Interest rate swaps	1,601,063	10,202	(9,512)
Interest rate options	8,911	143	(143)
Subtotal		10,345	(9,655)
Total		21,373	(27,593)

	31 December 2018		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency swaps (including cross-currency interest rate swaps)	3,195,290	22,907	(28,290)
Foreign exchange forwards and foreign exchange options	152,769	1,375	(81)
Subtotal		24,282	(28,371)
Interest rate derivatives			
Interest rate swaps	2,235,329	10,391	(10,102)
Interest rate options	9,715	97	(97)
Subtotal		10,488	(10,199)
Total		34,770	(38,570)

**(2) Hedge accounting**

The Group's hedging instruments included in the above derivative financial instruments are set out below:

	31 December 2019		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Hedging instruments for fair value hedges			
Interest rate swaps	13,478	880	(48)
Hedging instruments for cash flow hedges			
Interest rate swaps	24,825	32	(702)
Cross-currency interest rate swaps	4,425	–	(51)
Total		912	(801)

	31 December 2018		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Hedging instruments for fair value hedges			
Interest rate swaps	11,437	393	(146)
Hedging instruments for cash flow hedges			
Interest rate swaps	15,890	17	(208)
Total		410	(354)

**Fair value hedges**

The Group uses interest rate swap contracts to hedge against changes in fair values attributable to interest rate risks of the negotiable certificates of deposits issued by the Group as presented in "Due to Customers" in the consolidated statement of financial position.

The Group's fair value changes on hedge instruments and the net gain or loss of hedged items arising from hedging risks, as well as the hedging ineffectiveness portion recognised from changes in fair value gain or loss are not material.

**Cash flow hedges**

The Group uses interest rate swap to hedge against exposure to cash flow variability attributable to interest rate risks, with the hedged items being borrowings from other banks for the Group's leasing business. The Group also uses cross-currency interest rate swap to hedge against exposure to cash flow variability attributable to interest rate risks and exchange rate risks, with the hedged items being the bonds issued by the Group.

As at 31 December 2019 and 2018, the Group recognized in other comprehensive income a cumulative profit or loss from fair value changes of cash flow hedging were insignificant.

**20. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS**

	As at 31 December	
	2019	2018
Analyzed by type of collateral:		
Bonds	718,262	455,665
Others	4,578	7,950
Subtotal	722,840	463,615
Accrued interests	267	408
Total	723,107	464,023
Less: Allowance for impairment losses		
Stage 1	(5)	(33)
Stage 2	(76)	–
Stage 3	(1,997)	(488)
Subtotal	(2,078)	(521)
Financial assets held under resale agreements, net	721,029	463,502

The collateral received in connection with resale agreements is disclosed in Note 48 (7) Contingent Liabilities and Commitments – Collateral.

**21. LOANS AND ADVANCES TO CUSTOMERS****(1) The composition of loans and advance to customers is as follows:**

	As at 31 December	
	2019	2018
At amortized cost, net (a)	11,675,042	11,167,983
At fair value through profit or loss (b)	38,291	30,392
Loans and advances to customers, net	11,713,333	11,198,375

(a) The composition of loans and advance to customers measured at amortized cost is as follows:

	As at 31 December	
	2019	2018
Loans and advances to customers	12,011,204	11,509,779
Finance lease receivables and others	151,829	138,508
Subtotal	12,163,033	11,648,287
Accrued Interests	29,101	29,947
Total	12,192,134	11,678,234
Less: Allowance for impairment losses		
Stage 1	(187,602)	(201,452)
Stage 2	(231,113)	(217,366)
Stage 3	(98,377)	(91,433)
Subtotal	(517,092)	(510,251)
Loans and advance to customers measured at amortized cost, net	11,675,042	11,167,983

(b) The composition of loans and advance to customers measured at fair value through profit or loss is as follows:

	As at 31 December	
	2019	2018
Carrying amount of loans and advances to customers	37,475	30,642
Fair value change	816	(250)
Total	38,291	30,392

Finance lease receivables pledged by the Group is disclosed in Note 48 (7) Contingent Liabilities and Commitments – Collateral.

## (2) Analyzed by assessment method of ECL:

	As at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances	10,875,433	1,189,566	127,135	12,192,134
Less: Allowance for impairment losses	(187,602)	(231,113)	(98,377)	(517,092)
Loans and advances to customers, net	10,687,831	958,453	28,758	11,675,042

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances	10,306,130	1,250,794	121,310	11,678,234
Less: Allowance for impairment losses	(201,452)	(217,366)	(91,433)	(510,251)
Loans and advances to customers, net	10,104,678	1,033,428	29,877	11,167,983

## (3) Movements of allowance for impairment losses are set out below:

	Stage 1	Stage 2	Stage 3	Total
	12-month expected credit losses	Lifetime expected credit losses		
As at 1 January 2019	201,452	217,366	91,433	510,251
Transfers				
Transfers to Stage 1	17,151	(17,151)	–	–
Transfers to Stage 2	(24,510)	29,814	(5,304)	–
Transfers to Stage 3	–	(10,133)	10,133	–
Originated or purchased financial assets	35,209	13	–	35,222
Remeasurement (a)	(27,592)	18,692	45,101	36,201
Repayment and transfer out	(15,891)	(6,184)	(1,327)	(23,402)
Write-off	–	–	(43,325)	(43,325)
Unwinding of discount on allowance	–	–	(425)	(425)
Foreign exchange differences	1,783	(1,304)	2,091	2,570
As at 31 December 2019	187,602	231,113	98,377	517,092

	Stage 1	Stage 2	Stage 3	Total
	12-month expected credit losses	Lifetime expected credit losses		
As at 1 January 2018	190,559	179,247	53,649	423,455
Transfers				
Transfers to Stage 1	8,555	(8,555)	–	–
Transfers to Stage 2	(11,235)	15,414	(4,179)	–
Transfers to Stage 3	–	(11,910)	11,910	–
Originated or purchased financial assets	24,148	–	–	24,148
Remeasurement (a)	8,339	46,707	42,100	97,146
Repayment and transfer out	(20,946)	(7,454)	(210)	(28,610)
Write-off	–	–	(13,686)	(13,686)
Foreign exchange differences	2,032	3,917	1,849	7,798
As at 31 December 2018	201,452	217,366	91,433	510,251

- (a) Remeasurement includes regular review of inputs to the models, e.g. reviewing of Probability of Defaults (PDs), Loss Given Defaults (LGDs) and Exposure at Defaults (EADs); transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decrease) of credit impairment in the period, and the consequent "set up" (or "set down") between 12-month and lifetime Expected Credit Loss (ECL).
- (i) In 2019, major changes in the principal of loans and advances to customers that have a greater impact on the Group's credit loss allowance include:
- As at January 1, 2019, the gross amount of loans and advances to customers in Stage 1 accounted for 88% of total beginning balance of loans and advances to customers. The changes of the Group's ECL of loans and advances to customers in Stage 1 were mainly driven by a net increase of nearly 6% in the corresponding gross amount;
- As at January 1, 2019, the gross amount of loans and advances to customers in Stage 2 accounted for 11% of total beginning balance of loans and advances to customers. Approximately 1% of the beginning balance of Stage 1 transferred to Stage 2 in 2019;
- As at January 1, 2019, the gross amount of loans and advances to customers in Stage 3 accounted for 1% of total beginning balance of loans and advances to customers. Approximately 4% of the beginning balance of Stage 2 transferred to Stage 3 in 2019. Such increase was offset by the decrease resulting from write-offs and recovery of approximately 37% of the beginning balance of Stage 3 loans and advances to customers.
- (ii) For the year ended 31 December 2019, the gross carrying amount of the loans of which credit loss allowances were transferred from Stage 3 to Stage 2, from Stage 3 or Stage 2 to Stage 1, and due to the modification of contractual cash flows which did not result in derecognition were not significant.

**(4) Past due loans and advance to customers by collateral types are set out below:**

Loans and advances to customers are classified as past-due if the principal or the interest is past due. For loans and advances to customers repayable by installment, if any installment repayment is past due, the total balance of the loans and advances is classified as past due.

	Past due				Total
	Within 3 months	3-12 months	1-3 years	Over 3 years	
As at 31 December 2019					
Unsecured loans	7,331	596	1,714	1,455	11,096
Guaranteed loans	5,333	6,334	14,709	–	26,376
Loans secured by collateral	21,729	23,362	13,578	1,255	59,924
Pledged loans	6,761	15,391	12,731	3,038	37,921
Total	41,154	45,683	42,732	5,748	135,317
As at 31 December 2018					
Unsecured loans	5,281	559	3,615	–	9,455
Guaranteed loans	7,947	11,361	5,995	2,134	27,437
Loans secured by collateral	22,524	17,826	7,875	4,686	52,911
Pledged loans	10,006	16,094	7,988	49	34,137
Total	45,758	45,840	25,473	6,869	123,940

**22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	As at 31 December	
	2019	2018
Trading assets and other financial assets mandatorily classified at fair value through profit or loss		
Government and quasi-government bonds	11,705	11,521
Debt securities issued by financial institutions	29,027	16,938
Corporate bonds	31,419	18,759
Asset-backed securities	53	134
Inter-bank certificates of deposit	47,556	107,028
Asset management plans	688	3,853
Stock and fund investments	11,160	7,716
Wealth management products issued by other banks	11,397	8,672
Other equity investments	776,858	808,542
Subtotal	919,863	983,163
Financial assets at fair value through profit or loss (Designated)		
Government and quasi-government bonds	6,136	13,785
Debt securities issued by financial institutions	785	1,979
Corporate bonds	22,391	42,739
Asset-backed securities	419	1,785
Inter-bank certificates of deposit	4,685	17,060
Financial assets held under resale agreements	–	4,933
Deposits and placements with banks and other financial institutions	4,118	13,767
Asset management plans	2,091	2,521
Subtotal	40,625	98,569
Total	960,488	1,081,732

Financial assets designated at fair value through profit or loss primarily include investments in debt securities and funds invested in bonds and deposits with banks and other financial institutions with funds from investors of guaranteed wealth management products.

## 23. DEBT INSTRUMENTS AT AMORTIZED COST

	As at 31 December	
	2019	2018
Government and quasi-government bonds	1,274,134	1,328,591
Debt securities issued by financial institutions	1,247	2,588
Corporate bonds	104,404	104,776
Investments in trust plans and others	8,213	6,977
Subtotal	1,387,998	1,442,932
Accrued Interests	20,934	22,002
Total	1,408,932	1,464,934
Less: Allowance for impairment losses		
Stage 1	(5,196)	(5,086)
Stage 2	(1)	(110)
Stage 3	(2,391)	(1,075)
Subtotal	(7,588)	(6,271)
Debt instruments at amortized cost, net	1,401,344	1,458,663

## (1) Analyzed by assessment method of ECL:

	Year ended 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross debt instrument at amortized cost	1,405,408	354	3,170	1,408,932
Less: Allowance for impairment losses	(5,196)	(1)	(2,391)	(7,588)
Debt instrument at amortized cost, net	1,400,212	353	779	1,401,344

For the year ended 31 December 2019, the transfer among stages of the Group's debt instruments at amortized cost was not significant.

	Year ended 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross debt instrument at amortized cost	1,462,181	700	2,053	1,464,934
Less: Allowance for impairment losses	(5,086)	(110)	(1,075)	(6,271)
Debt instrument at amortized cost, net	1,457,095	590	978	1,458,663

For the year ended 31 December 2018, the transfer among stages of the Group's debt instruments at amortized cost was not significant.

## (2) Movements of allowance for impairment losses are set out below:

	Stage 1	Stage 2	Stage 3	Total
	12-month expected credit losses	Lifetime expected credit losses		
As at 1 January 2019	5,086	110	1,075	6,271
Transfers:				
Stage 1 to Stage 3	(10)	–	10	–
Stage 2 to Stage 3	–	(110)	110	–
Originated or purchased financial assets	25	1	–	26
Remeasurement (a)	88	–	1,198	1,286
Repayments or transfer out	(61)	–	(4)	(65)
Foreign exchange differences	68	–	2	70
As at 31 December 2019	5,196	1	2,391	7,588

	Stage 1	Stage 2	Stage 3	Total
	12-month expected credit losses	Lifetime expected credit losses		
As at 1 January 2018	4,658	134	919	5,711
Transfers:				
Stage 1 to Stage 2	(18)	18	–	–
Stage 2 to Stage 3	–	(134)	134	–
Originated or purchased financial assets	230	–	–	230
Remeasurement (a)	–	92	12	104
Repayments or transfer out	(10)	–	–	(10)
Foreign exchange differences	226	–	10	236
As at 31 December 2018	5,086	110	1,075	6,271

(a) Remeasurement mainly includes the impact of changes in parameters such as probability of default and loss given default, credit loss changes due to stage-transfer.

**24. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	As at 31 December	
	2019	2018
Debt instruments at fair value through other comprehensive income		
Government and quasi-government bonds	182,772	144,763
Debt securities issued by financial institutions	21,902	81,362
Corporate bonds	73,583	32,251
Asset-backed securities	631	196
Inter-bank certificates of deposit	230,329	219,336
Asset management plans	1,879	—
Subtotal	511,096	477,908
Accrued Interests	4,635	3,186
Total	515,731	481,094
Equity instruments at fair value through other comprehensive income (Designated)		
Listed equity	4,090	3,250
Unlisted equity	1,025	533
Total	5,115	3,783
Financial Assets at fair value through other comprehensive income, total	520,846	484,877

The Group has elected to irrevocably designate strategic investments of non-trading equity instruments at FVOCI as permitted under IFRS 9. The changes in fair value of such instruments will no longer be reclassified to profit or loss when they are disposed of.

**(1) Analyzed by assessment method of ECL:**

	Year ended 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Other debt instruments at fair value through other comprehensive income	515,530	161	40	515,731
Allowance for impairment losses	(165)	(1)	(243)	(409)

For the year ended 31 December 2019, the transfer among stages of the Group's financial assets at fair value through other comprehensive income was not significant.

	Year ended 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Other debt instruments at fair value through other comprehensive income	480,918	9	167	481,094
Allowance for impairment losses	(224)	(3)	(150)	(377)

For the year ended 31 December 2018, the transfer among stages of the Group's financial assets at fair value through other comprehensive income was not significant.

**(2) Movements of allowance for impairment losses are set out below:**

	Stage 1	Stage 2	Stage 3	Total
	12-month expected credit losses	Lifetime expected credit losses		
As at 1 January 2019	224	3	150	377
Originated or purchased financial assets	145	1	76	222
Remeasurement (a)	(21)	—	17	(4)
Repayment and transfer out	(183)	(3)	—	(186)
As at 31 December 2019	165	1	243	409

	Stage 1	Stage 2	Stage 3	Total
	12-month expected credit losses	Lifetime expected credit losses		
As at 1 January 2018	106	—	150	256
Originated or purchased financial assets	121	—	—	121
Remeasurement (a)	—	3	—	3
Repayment and transfer out	(3)	—	—	(3)
As at 31 December 2018	224	3	150	377

(a) Remeasurement mainly includes the impact of changes in parameters such as probability of default and loss given default, credit loss changes due to stage-transfer.

**25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

The balance of interest in associates and joint ventures is as follows:

	As at 31 December	
	2019	2018
Investments in associates and joint ventures	1,028	2,214
Allowance for impairment losses	(528)	(528)
Net	500	1,686

Movements of investments in associates and joint ventures are set out below:

	Year ended 31 December	
	2019	2018
1 January	2,214	1,835
Additions	130	413
Disposals	(1,316)	(34)
31 December	1,028	2,214

Information of principal associates and joint ventures of the Group as at 31 December 2019 is as follows:

Name of entity	Place of incorporation	Registered capital (in millions)	% of equity interest and voting rights	Principal business
Tianjin Eco-City Investment & Development Co., Ltd.	Mainland China	RMB3,000	20% indirectly held	Land and infrastructure development
CDB Jintai Capital Investment Co., Ltd.	Mainland China	RMB1,250	40% indirectly held	Investment management and advisory
Weiguang Huitong Tourism Industry Development Co., Ltd.	Mainland China	RMB400	44% indirectly held	Tourism management service
Beijing Far East Instrument Company Ltd.	Mainland China	RMB213	25% indirectly held	Manufacturing of electronic instruments and electric appliance

## 26. PROPERTY AND EQUIPMENT

	As at 31 December	
	2019	2018
Cost (a)	112,798	106,769
Accumulated depreciation (a)	(20,378)	(19,956)
Allowance for impairment loss (a)	(1,509)	(487)
Fixed asset in disposal	618	727
Total	91,529	87,053

(a) Cost, accumulated depreciation and allowance for impairment losses of property and equipment are consisted of the following.

	Buildings	Office and machinery equipment	Motor Vehicles and vessels	Aircrafts	Construction in progress	Total
Cost						
As at 1 January 2019	22,229	7,556	4,671	69,800	2,513	106,769
Acquisitions of a subsidiary	130	218	11	–	–	359
Additions	131	1,976	5,557	11,979	582	20,225
Transfers	189	231	–	–	(420)	–
Disposals	(981)	(6,411)	(619)	(5,892)	(652)	(14,555)
As at 31 December 2019	21,698	3,570	9,620	75,887	2,023	112,798
Accumulated depreciation						
As at 1 January 2019	(5,095)	(2,496)	(440)	(11,925)	–	(19,956)
Acquisitions of a subsidiary	(19)	(214)	(10)	–	–	(243)
Additions	(870)	(490)	(286)	(3,177)	–	(4,823)
Disposals	258	792	185	3,409	–	4,644
As at 31 December 2019	(5,726)	(2,408)	(551)	(11,693)	–	(20,378)
Allowance for impairment losses						
As at 1 January 2019	–	–	–	(487)	–	(487)
Additions	(94)	(210)	(250)	(462)	(43)	(1,059)
Disposals	–	–	–	37	–	37
As at 31 December 2019	(94)	(210)	(250)	(912)	(43)	(1,509)
Net book value						
As at 31 December 2019	15,878	952	8,819	63,282	1,980	90,911

	Buildings	Office and machinery equipment	Motor Vehicles and vessels	Aircrafts	Construction in progress	Total
Cost						
As at 1 January 2018	20,515	2,604	1,582	60,333	3,953	88,987
Acquisitions of a subsidiary	113	3,890	3	–	157	4,163
Additions	837	1,222	3,102	16,475	1,239	22,875
Transfers	2,826	–	–	–	(2,826)	–
Disposals	(2,062)	(160)	(16)	(7,008)	(10)	(9,256)
As at 31 December 2018	22,229	7,556	4,671	69,800	2,513	106,769



	Buildings	Office and machinery equipment	Motor Vehicles and vessels	Aircrafts	Construction in progress	Total
Accumulated depreciation						
As at 1 January 2018	(4,315)	(1,844)	(384)	(10,104)	–	(16,647)
Additions from acquisitions	(11)	(316)	(2)	–	–	(329)
Additions	(919)	(417)	(69)	(2,768)	–	(4,173)
Disposals	150	81	15	947	–	1,193
As at 31 December 2018	(5,095)	(2,496)	(440)	(11,925)	–	(19,956)
Allowance for impairment losses						
As at 1 January 2018	–	–	–	(242)	–	(242)
Additions	–	–	–	(245)	–	(245)
As at 31 December 2018	–	–	–	(487)	–	(487)
Net book value						
As at 31 December 2018	17,134	5,060	4,231	57,388	2,513	86,326

## 27. DEFERRED TAX ASSETS AND LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is the analysis of the deferred tax balances:

	As at 31 December	
	2019	2018
Deferred tax assets	135,911	125,812
Deferred tax liabilities	(2,248)	(1,394)
Net	133,663	124,418

### (1) Movements of deferred income tax asset and liability:

	Year ended 31 December	
	2019	
As at 1 January 2019	124,418	
Credit to profit or loss (Note 15)	9,891	
Charge to other comprehensive income	(632)	
Others	(14)	
As at 31 December 2019	133,663	

	Year ended 31 December	
	2018	
As at 1 January 2018	94,147	
Credit to profit or loss (Note 15)	32,042	
Charge to other comprehensive income	(1,771)	
As at 31 December 2018	124,418	

### (2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	As at 31 December 2019		As at 31 December 2018	
	Deductible/(taxable) temporary difference	Deferred income tax assets/(liabilities)	Deductible/(taxable) temporary difference	Deferred income tax assets/(liabilities)
<b>Deferred tax assets</b>				
Impairment losses	485,884	121,471	450,561	112,640
Fair value changes of financial instruments	68,096	16,942	75,689	18,922
Provisions	15,206	3,801	14,199	3,550
Others	840	246	–	–
Subtotal	570,026	142,460	540,449	135,112
<b>Deferred tax liabilities</b>				
Fair value changes of financial instruments	(31,535)	(7,883)	(41,857)	(10,464)
Others	(6,459)	(914)	(922)	(230)
Subtotal	(37,994)	(8,797)	(42,779)	(10,694)
Net	532,032	133,663	497,670	124,418

**28. OTHER ASSETS**

	As at 31 December	
	2019	2018
Prepayment to vendors	15,056	11,080
Investment property	3,691	3,722
Right-of-use assets	3,076	1,537
Deposits with securities exchange	1,205	735
Interest receivable (1)	957	1,084
Goodwill (2)	724	1,256
Intangible assets	671	694
Long-term deferred expenses	668	510
Prepayment for bond redemption	–	7,409
Continuing involvement assets of asset-backed securitization	–	328
Others	11,902	13,156
Total	<u>37,950</u>	<u>41,511</u>
Less: Allowance for impairment losses		
Interest receivable	(192)	(165)
Others	(344)	(308)
Subtotal	<u>(536)</u>	<u>(473)</u>
Other assets, net	<u>37,414</u>	<u>41,038</u>

(1) As at 31 December 2019, the Group included the interests on financial instruments, accrued using the effective interest rate method, in the carrying amounts of the corresponding financial instruments, and recorded the interests on related financial instruments that had become due and receivable but not yet been received at the balance sheet date in interest receivable under other assets.

**(2) Goodwill**

	As at 31 December	
	2019	2018
Gross amount	1,258	1,256
Allowance for impairment losses	(534)	–
Net balances	<u>724</u>	<u>1,256</u>

As at 31 December 2019 and 2018, the Group performed goodwill impairment test based on cash flow forecast of related cash-generating units. Based on the result of the impairment testing, RMB534 million impairment losses on goodwill were recognized as at 31 December 2019 (31 December 2018: null).

**29. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	As at 31 December	
	2019	2018
Deposits from:		
Domestic banks	3,018,842	3,109,716
Other domestic financial institutions	69,878	60,776
Overseas banks	46,640	53,435
Overseas other financial institutions	2,492	–
Subtotal	<u>3,137,852</u>	<u>3,223,927</u>
Accrued interests	5,365	5,591
Total	<u>3,143,217</u>	<u>3,229,518</u>

**30. BORROWINGS FROM GOVERNMENTS AND FINANCIAL INSTITUTIONS**

	As at 31 December	
	2019	2018
Borrowings from:		
Domestic banks and other financial institutions	381,487	362,343
Foreign banks and other financial institutions	53,275	46,783
Foreign governments	19,599	16,130
Subtotal	<u>454,361</u>	<u>425,256</u>
Accrued interests	4,398	2,987
Total	<u>458,759</u>	<u>428,243</u>

**31. PLACEMENTS FROM BANKS**

	As at 31 December	
	2019	2018
Placements from:		
Domestic banks	14,999	7,940
Overseas banks	56,639	53,718
Subtotal	71,638	61,658
Accrued interests	448	466
Total	72,086	62,124

**32. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS**

The Group designated the liabilities to investors and the financial assets sold under repurchase agreements in relation to the principal-guaranteed wealth management products issued and managed by the Group as financial liabilities measured at fair value through profit or loss. For the years ended 31 December 2019 and 2018, there were no significant changes in the fair value of these liabilities attributable to the changes in the Group's own credit risk.

**33. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS**

	As at 31 December	
	2019	2018
Analyzed by type of collateral:		
Bonds	112,539	66,201
Subtotal	112,539	66,201
Accrued interests	69	48
Total	112,608	66,249

The collateral pledged under repurchase agreements is disclosed in Note 48 (7) Contingent Liabilities and Commitments – Collateral.

**34. DUE TO CUSTOMERS**

	As at 31 December	
	2019	2018
Demand deposits	1,112,648	1,399,456
Term deposits	99,757	99,501
Pledged deposits	3,651	4,833
Certificates of deposit	152,711	163,896
Subtotal	1,368,767	1,667,686
Accrued interests	2,629	3,091
Total	1,371,396	1,670,777

**35. DEBT SECURITIES ISSUED**

		As at 31 December	
		2019	2018
Debt securities issued by financial institutions	(1)	9,438,439	8,783,105
Subordinated bonds issued	(2)	35,009	64,995
Tier-two capital bonds issued	(3)	59,856	71,893
Asset-backed securities issued	(4)	6,021	7,830
Subtotal		9,539,325	8,927,823
Accrued interests		196,457	180,593
Total		9,735,782	9,108,416

As at 31 December 2019 and 2018, there was no default related to any debt securities issued by the Group.

**(1) Debt securities issued by financial institutions**

	As at 31 December 2019			
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB bonds issued in domestic market	2001-2019	2020-2065	1.93-5.90	7,913,690
RMB special bonds issued in domestic market	2015-2018	2020-2037	2.96-4.62	1,295,155
RMB bonds issued in overseas market	2012-2014	2024-2032	4.20-4.50	5,791
Foreign currency bond issued in overseas market	2015-2019	2020-2037	0.00-4.00	165,736
Bonds issued by the Bank				9,380,372
Foreign currency bills issued by subsidiaries in overseas market	2016-2019	2020-2027	2.25-4.25	42,801
RMB bonds issued by subsidiaries in domestic market	2015-2018	2020-2023	4.35-5.10	16,947
Less: Debt securities issued by the Group and held by entities within the Group				(1,681)
Debt securities issued by the Group				9,438,439

As at 31 December 2018				
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB bonds issued in domestic market	2001-2018	2019-2065	1.50-5.90	7,232,285
RMB special bonds issued in domestic market	2015-2018	2019-2037	2.65-4.62	1,356,994
RMB bonds issued in overseas market	2012-2014	2019-2032	3.60-4.50	6,292
Foreign currency bond issued in overseas market	2015-2018	2019-2037	0.13-4.00	130,126
Bonds issued by the Bank				8,725,697
Foreign currency bills issued by subsidiaries in overseas market	2012-2018	2019-2027	2.25-4.00	35,450
RMB bonds issued by subsidiaries in domestic market	2014-2018	2019-2023	3.00-6.05	24,420
Less: Debt securities issued by the Group and held by entities within the Group				(2,462)
Debt securities issued by the Group				8,783,105

**(2) Subordinated bonds issued**

As at 31 December 2019				
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB subordinated bonds issued by the Bank in domestic market	2011-2012	2041-2062	5.50-6.05	30,010
RMB subordinated bonds issued by subsidiaries in domestic market	2016	2021	3.58	4,999
Subordinated bonds issued by the Group				35,009

As at 31 December 2018				
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB subordinated bonds issued by the Bank in domestic market	2009-2012	2024-2062	5.00-6.05	59,996
RMB subordinated bonds issued by subsidiaries in domestic market	2016	2021	3.58	4,999
Subordinated bonds issued by the Group				64,995

All subordinated bonds issued by the Bank have provisions which allow the Bank to redeem them prior to maturity. If the Bank chooses not to exercise its redemption option on a specified date, it is obligated to pay higher interest rates on the bonds.

**(3) Tier-two capital bonds issued**

As at 31 December 2019				
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB Tier-two capital bonds issued by the Bank in domestic market	2016-2018	2026-2028	3.65-4.45	59,856

As at 31 December 2018				
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB Tier-two capital bonds issued by the Bank in domestic market	2014-2018	2024-2028	3.65-5.30	71,893

The Bank issued Tier-two capital bonds which have fixed coupon rates in year 2016 and 2018. The Bank has an option to redeem part or all of the bond at face value upon the closing of the fifth year after the bonds' issuance, if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain the same as the existing rate.

These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable.

**(4) Asset-backed securities issued**

The Group consolidated certain special purpose trusts established in relation with its assets securitization business when the Group determined it has control over these special purpose trusts (Note 44 (2)).

As at 31 December 2019, total face value of unexpired asset-backed securities issued by these consolidated special purpose trusts held by third party investors were RMB6,021 million, with remaining maturities ranging from one month to seven years, and coupon rates ranging from 2% to 5.7% (As at 31 December 2018: face value of RMB7,830 million with remaining maturities ranging from one month to five years and coupon rates ranging from 2% to 5.7%).

### 36. OTHER LIABILITIES

	As at 31 December	
	2019	2018
Payables to other holders of consolidated structured entities	36,631	21,746
Deferred government subsidies for education loans	25,345	21,383
Provision for losses on loan commitments and financial guarantee contracts	15,450	14,199
Amounts received in advance	9,826	11,752
VAT and other taxes payable	9,768	10,105
Security deposits for leasing	7,194	7,126
Maintenance deposits from lessees	2,529	2,003
Accrued staff cost	2,408	2,210
Leases liabilities	1,700	–
Payables for security brokerage service	1,566	867
Purchase payable to leasing equipment vendor	700	798
Payables from purchasing bond investments	–	2,768
Continuing involvement liabilities of asset-backed securitization	–	328
Others	4,685	9,453
Total	117,802	104,738

### 37. SHARE CAPITAL

	As at 31 December 2019 and 2018	
	Amount	%
MOF	153,908	36.54
Huijin	146,092	34.68
Buttonwood Investment Holding Company Ltd.	114,537	27.19
National Council for Social Security Fund	6,711	1.59
Total	421,248	100.00

As at 31 December 2019 and 2018, there was no change in the Bank's equity holders' equity amount or their holding percentage.

### 38. CAPITAL RESERVE

	Capital premium	Others (1)	Total
As at 1 January 2019	182,650	(541)	182,109
Reductions	–	(116)	(116)
As at 31 December 2019	182,650	(657)	181,993
	Capital premium	Others (1)	Total
As at 1 January 2018	182,636	(369)	182,267
Additions/(Reductions)	14	(172)	(158)
As at 31 December 2018	182,650	(541)	182,109

(1) Others include remeasurement of supplemental retirement benefits obligation and the effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges.

### 39. INVESTMENT REVALUATION RESERVE

	Gross amount	Tax effect	Net effect
As at 1 January 2019	(13,930)	(1,632)	(15,562)
Amount of losses of debt instruments measured at FVOCI recognized directly in other comprehensive income			
– Fair value changes of investments in debt instruments measured at FVOCI	1,629	(407)	1,222
– Net losses on investments in debt instruments measured at FVOCI reclassified to profit or loss on disposal	33	(8)	25
– Impairment losses of investments in debt instruments measured at FVOCI	29	(6)	23
Amount of gains of equity instruments designated as FVOCI recognized directly in other comprehensive income			
– Fair value changes of investments in equity instruments designated as FVOCI	830	(254)	576
As at 31 December 2019	(11,409)	(2,307)	(13,716)

	Gross amount	Tax effect	Net effect
As at 1 January 2018	(20,006)	(167)	(20,173)
Amount of losses of debt instruments measured at FVOCI recognized directly in other comprehensive income			
– Fair value changes of investments in debt instruments measured at FVOCI	7,323	(1,807)	5,516
– Net losses on investments in debt instruments measured at FVOCI reclassified to profit or loss on disposal	(144)	36	(108)
– Impairment losses of investments in debt instruments measured at FVOCI	121	–	121
Amount of gains of equity instruments designated as FVOCI recognized directly in other comprehensive income			
– Fair value changes of investments in equity instruments designated as FVOCI	(1,224)	306	(918)
As at 31 December 2018	(13,930)	(1,632)	(15,562)

#### 40. SURPLUS RESERVE AND GENERAL RESERVE

##### (1) Statutory and general surplus reserve

According to relevant laws and regulations, the Bank is required to appropriate 10% of its profit for the year, as determined under the PRC GAAP, to statutory surplus reserve. When statutory surplus reserve has reached 50% of the Bank's share capital, the Bank would not be required to further appropriate to statutory surplus reserve. The statutory surplus reserve appropriated by the Bank can be used to replenish accumulated losses of the Bank or to increase the Bank's share capital upon approval. The remaining balance of the statutory surplus reserve should not be lower than 25% of the Bank's share capital after such capitalization. In addition, the Bank appropriates general surplus reserve as approved by the Board of Directors.

##### (2) General reserve

	As at 31 December	
	2019	2018
The Bank (a)	233,994	223,507
Subsidiaries (b)	4,350	4,126
Total	238,344	227,633

(a) Pursuant to Cai jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF in 2012, the Bank is required to establish a general reserve to address unidentified potential impairment losses. The general reserve should not be lower than 1.5% of the outstanding balance of risk-bearing assets as at the year-end date.

(b) Pursuant to relevant regulatory requirements in the PRC, subsidiaries of the Group are required to appropriate certain amounts of its profit for the year as general reserves.

#### 41. RETAINED EARNINGS

	Notes	2019	2018
At 1 January this year		319,068	270,425
Add: Profit for the year attributable to equity holders of the Bank		117,102	110,758
Less: Appropriation to statutory surplus reserve	(1)	(11,148)	(10,936)
Appropriation to general surplus reserve	(2) (i)	(10,936)	(10,707)
Appropriation to general reserve	(2) (ii)	(10,711)	(13,699)
Dividends	(2) (iii)	(27,340)	(26,767)
Transactions with non-controlling interests		–	(6)
At 31 December this year		376,035	319,068

##### (1) Profit appropriation for 2019

The Bank appropriated RMB11,148 million to the statutory surplus reserve based on profit for the year of 2019. As at 31 December 2019, the statutory surplus reserve has been recognized as appropriation. Other proposal for profit appropriations of the Bank for the year ended 31 December 2019 is pending for approval by the Board of Directors.

##### (2) Profit appropriation for 2018

Pursuant to the Board of Directors' Meeting held on 29 September 2019, the proposal for profit appropriations of the Bank for the year ended 31 December 2018 was approved as following:

- (i) An appropriation of RMB10,936 million to the general surplus reserve by the Bank which had been included in the Group's consolidated financial statements for the year ended 31 December 2019.
- (ii) An appropriation of RMB10,487 million to the general reserve by the Bank which had been included in the Group's consolidated financial statements for the year ended 31 December 2019.
- (iii) A cash dividend of RMB27,340 million by the Bank for the year ended 31 December 2018 which had been included in the Group's consolidated financial statements for the year ended 31 December 2019. As at 31 December 2019, the cash dividend has been paid.

- (3) As at 31 December 2019 and 2018, retained earnings include surplus reserve appropriated by the Bank's subsidiaries that attributable to the Bank amounting RMB2,292 million and RMB1,835 million.

#### 42. NON-CONTROLLING INTERESTS

Non-controlling interests of the Group are as follows:

	As at 31 December	
	2019	2018
CDB Capital Co., Ltd.	11,200	10,833
CDB Leasing Co., Ltd.	9,138	8,616
CDB Securities Co., Ltd.	3,220	3,293
Total	23,558	22,742

### 43. CASH FLOW INFORMATION

#### (1) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances:

	As at 31 December	
	2019	2018
Balance with central banks and deposits with banks and other financial institutions	232,814	409,325
Balances with an original maturity of three months or less:		
Financial assets held under resale agreements	718,262	455,425
Placements with banks and other financial institutions	173,356	161,908
Investments in government bonds	13,163	5,021
Total	1,137,595	1,031,679

### 44. STRUCTURED ENTITIES

#### (1) Principal-guaranteed wealth management products issued and managed by the Group

The Group issued and managed principal-guaranteed wealth management products. Investments made by these products and the corresponding liabilities to the investors are presented as financial assets and liabilities measured at fair value through profit or loss in the consolidated statement of financial position, respectively.

#### (2) Other consolidated structured entities issued, initiated and managed by the Group

Other structured entities consolidated by the Group include certain asset-backed securities, asset management plans and funds issued, initiated and managed by the Group. The Group has power over these structured entities, is entitled to variable returns from its involvement in related activities and is able to use its power to affect the amount of its variable returns from such structured entities. Therefore, the Group has control over these structured entities.

As at 31 December 2019, the total assets of the consolidated structured entities referred to in (1) and (2) above totaled RMB113,451 million (31 December 2018: RMB148,613 million). No financing or other supports have been provided by the Group to these consolidated structured entities.

#### (3) Unconsolidated structured entities issued, initiated and managed by the Group

Unconsolidated structured entities issued, initiated and managed by the Group primarily include non-principal guaranteed wealth management products, asset-backed securities, assets management plans and funds. The Group has no plans to provide financial or other support to these unconsolidated structured entities.

As at 31 December 2019, the size of unconsolidated structured entities issued, initiated and managed by the Group amounted to RMB179,612 million (31 December 2018: RMB220,709 million). The carrying amount of the Group's share in these structured entities amounted to RMB4,260 million (31 December 2018: RMB5,026 million). These amounts represented the Group's maximum exposure to these structured entities.

For the year ended 31 December 2019, the types of return that the Group obtained from these structured entities included fee income and investment gains. The return totalled RMB1,407 million in 2019(2018: RMB1,080 million).

#### (4) Other unconsolidated structured entities invested by the Group

As at 31 December 2019, the Group classifies its interest held in other structured entities issued and managed by other third-party entities into financial assets measured at fair value through profit or loss and financial assets at fair value through other comprehensive income. The information on the size of total assets of these unconsolidated structured entities was not readily available from the public domain. As at 31 December 2019 and 2018, interest held by the Group in structured entities issued by other entities are as follows:

	As at 31 December	
	2019	2018
Trading assets and other financial assets mandatorily classified at fair value through profit or loss	28,466	39,662
Financial assets at fair value through other comprehensive income	216	—
Total	28,682	39,662

### 45. TRANSFERS OF FINANCIAL ASSETS

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note 3 (13) (h) and Note 4 (4).

As at 31 December 2019, the unexpired asset-backed securities included accumulative loans transferred by the Group before impairment of RMB11,412 million (31 December 2018: RMB18,983 million), among which:

- RMB10,905 million was in respect of loans transferred that the Group retained substantially all the risks and rewards of these special purpose trusts and therefore has not been derecognized in the consolidated financial statements (31 December 2018: RMB15,796 million).
- As at 31 December 2019, the group had no continuing involvement in these assets (31 December 2018: RMB961 million was in respect of loans transferred that the Group concluded it had continuing involvement in these assets, carrying amount/maximum exposure to loss was RMB328 million).
- RMB507 million was in respect of loans transferred that qualified for full derecognition (31 December 2018: RMB2,226 million). Carrying amount/maximum exposure to loss was RMB25 million (31 December 2018: RMB111 million).

### 46. SEGMENT INFORMATION

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated at head office level. Income and expenses directly associated with each segment are included in determining operating segment performance.

In accordance with IFRS 8, the Group has the following operating segments: banking, equity investment, leasing and securities. The Group's main operating segments are set out below:

#### (1) Banking operations

This segment consists of corporate banking, debt issuance and treasury operations. The corporate banking operations primarily consist of lending, deposits, agency services, consulting and advisory services, cash management, remittance and settlement, custody and guarantee services. Debt issuance is the major source of funding to corporate banking operations. The treasury operations primarily include money market transactions, foreign exchange transactions, bond investments, customer-based interest rate and foreign exchange derivative transactions and asset and liability management.

**(2) Equity investment**

This segment consists of equity investment activities.

**(3) Leasing operations**

This segment consists of finance lease and operating lease business in which the Group acts as a lessor.

**(4) Securities operations**

This segment consists of security brokerage, proprietary trading and underwriting operations.

	Banking	Equity investment	Leasing	Securities	Consolidation and elimination	Total
<b>2019</b>						
Interest income	622,722	1,007	8,761	1,159	(2,988)	630,661
Interest expense	(449,335)	(2,441)	(7,167)	(753)	2,984	(456,712)
Net interest income	173,387	(1,434)	1,594	406	(4)	173,949
<i>Include: Net interest income from customers</i>	172,122	(139)	1,851	115	–	173,949
<i>Inter-segment net interest income/(expenses)</i>	1,265	(1,295)	(257)	291	(4)	–
Net fee and commission income	5,411	282	(54)	581	(43)	6,177
<i>Include: Net fee and commission from customers</i>	5,378	282	(10)	532	(5)	6,177
<i>Inter-segment net fee and commission</i>	33	–	(44)	49	(38)	–
Other income, net (1)	20,238	11,636	5,522	670	(1,338)	36,728
Operating expenses and credit impairment and other impairment losses on assets	(62,252)	(3,029)	(3,068)	(2,288)	(665)	(71,302)
Profit before income tax	136,784	7,455	3,994	(631)	(2,050)	145,552
<b>As at 31 December 2019</b>						
Total assets	17,469,060	186,551	261,301	37,583	(1,449,920)	16,504,575
Total liabilities	15,243,915	78,681	235,631	21,522	(468,909)	15,110,840
<b>Other information:</b>						
Depreciation and amortization	1,626	271	3,738	82	–	5,717
Capital expenditure	523	637	20,365	63	–	21,588
Credit Impairment losses	47,160	1,921	1,087	1,634	231	52,033
Other impairment losses on assets	–	135	951	–	533	1,619
Credit commitments	3,524,439	244	–	–	(26,047)	3,498,636
	<b>Banking</b>	<b>Equity investment</b>	<b>Leasing</b>	<b>Securities</b>	<b>Consolidation and elimination</b>	<b>Total</b>
<b>2018</b>						
Interest income	609,306	1,124	7,393	1,533	(2,195)	617,161
Interest expense	(426,434)	(2,138)	(6,863)	(980)	2,202	(434,213)
Net interest income	182,872	(1,014)	530	553	7	182,948
<i>Include: Net interest income from customers</i>	181,061	71	1,287	529	–	182,948
<i>Inter-segment net interest income/(expenses)</i>	1,811	(1,085)	(757)	24	7	–
Net fee and commission income	6,621	381	(75)	772	(1)	7,698
<i>Include: Net fee and commission from customers</i>	6,715	386	(29)	626	–	7,698
<i>Inter-segment net fee and commission</i>	(94)	(5)	(46)	146	(1)	–
Other income, net (1)	50,268	778	5,027	584	(876)	55,781
Operating expenses and credit impairment and other impairment losses on assets	(110,090)	(1,453)	(2,207)	(1,094)	(23)	(114,867)
Profit before income tax	129,671	(1,308)	3,275	815	(893)	131,560
<b>As at 31 December 2018</b>						
Total assets	15,856,948	182,011	238,067	40,789	(137,995)	16,179,820
Total liabilities	14,617,753	82,627	213,864	24,380	(59,527)	14,879,097
<b>Other information:</b>						
Depreciation and amortization	1,301	129	2,948	47	–	4,425
Capital expenditure	1,651	5,357	20,123	106	–	27,237
Credit Impairment losses	95,516	68	992	460	150	97,186
Other impairment losses on assets	65	530	302	–	–	897
Credit commitments	3,705,399	–	–	–	(9,863)	3,695,536

(1) Other income includes net trading and foreign exchange gains/(losses), net gains/(losses) on financial instruments designated at fair value through profit or loss, net gains/(losses) on derecognition of debt instruments at amortized cost, dividend income, net (losses)/gains on investment securities, other income and share of profit of associates and joint ventures.



## 47. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (1) Ministry of Finance

As at 31 December 2019 and 2018, the MOF owned 36.54% of the issued share capital of the Bank.

The Group enters into transactions with the MOF in its ordinary course of business, including subscription and redemption of treasury bonds. Details of transactions with the MOF are as follows:

	As at 31 December	
	2019	2018
Treasury bonds issued by the MOF	85,399	91,409
Interest rate range (%)	2.31-4.68	2.22-4.68
	<b>Year ended 31 December</b>	
	2019	2018
Interest income	2,683	2,800
Net trading gain	96	201

### (2) Huijin

As at 31 December 2019 and 2018, Huijin owned 34.68% of the issued share capital of the Bank.

Huijin is a wholly owned subsidiary of China Investment Corporation, with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorized by the Chinese State Council and it does not engage in other commercial operations. Huijin exercises its rights and assumes the obligations as an investor of the Bank on behalf of the PRC Government.

Details of the balances and transactions with Huijin were as follows:

	As at 31 December	
	2019	2018
Trading assets and other financial assets mandatorily classified at fair value through profit or loss	4,859	2,055
Debt instruments at fair value through other comprehensive income	22,196	8,433
Interest rate range (%)	2.85-5.15	3.12-5.15
	<b>Year ended at 31 December</b>	
	2019	2018
Interest income	555	336
Net trading gain	142	-

Transactions with Huijin and transactions with entities controlled or jointly controlled by Huijin are carried out in the Group's ordinary course of business under normal commercial terms.

### (3) Buttonwood Investment Holding Company Ltd. ('Buttonwood')

As at 31 December 2019 and 2018, Buttonwood owned 27.19% of the issued share capital of the Bank.

Buttonwood is a wholly owned subsidiary of the State Administration of Foreign Exchange of China. Its principal activities are domestic and overseas investments in project, equity, debt, loan and fund, fiduciary management and investment management.

Transactions with Buttonwood and transactions with entities controlled or joint controlled by Buttonwood are carried out in the Group's ordinary course of business under normal commercial terms.

### (4) Transaction with subsidiaries

Outstanding balances of transactions with subsidiaries included in the Bank's statement of financial position are as follows:

	As at 31 December	
	2019	2018
<b>Assets</b>		
Derivative financial assets	22	5
Loans and advances to customers	41,946	42,142
Trading assets and other financial assets mandatorily classified at fair value through profit or loss	-	202
Financial assets at fair value through profit or loss (Designated)	71	163
Debt instruments at fair value through other comprehensive income	404	713
Property and equipment	787	654
Other assets	1,066	430
<b>Liabilities</b>		
Deposits from banks and other financial institutions	6	6
Derivative financial liabilities	1	16
Due to customers	225,265	156,067
Debt securities issued	1,004	961
Other liabilities	750	2

As at 31 December 2019, the total outstanding balance of loan commitments and financial guarantee contracts issued to subsidiaries were RMB26,047 million (31 December 2018: RMB9,863 million).

Transactions with subsidiaries included in the Bank's income statement are as follows:

	Year ended 31 December	
	2019	2018
Net trading and foreign exchange gains	(71)	(161)
Interest income	1,639	2,004
Interest expense	(639)	(454)
Fee and commission income	45	51
Fee and commission expense	(10)	(23)
Dividend income	726	1,123

Transactions between the Bank and its subsidiaries are carried out on normal commercial terms in ordinary course of business.

#### (5) Transactions with associates and joint ventures

Transactions between the Bank and its associates and joint ventures are carried out on normal commercial terms in ordinary course of business. The Group's transactions and balances with associates and joint ventures for the years ended 31 December 2019 and 2018 were not significant.

#### (6) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. During the years ended 31 December 2019 and 2018, the Group had no material transactions with key management personnel.

#### (7) The Group and the Annuity Scheme

During the years ended 31 December 2019 and 2018, the Group had no material transactions with the Annuity Scheme set up by the Bank, apart from the obligation for defined contribution to the Annuity Scheme.

### 48. CONTINGENT LIABILITIES AND COMMITMENTS

#### (1) Legal proceedings

As at 31 December 2019, the Group was involved in certain lawsuits arising from its normal business operations. After consulting legal professionals, management of the Group believes that the ultimate outcome of these lawsuits will not have a material impact on the financial position or operating result of the Group.

#### (2) Credit commitments

	As at 31 December	
	2019	2018
Loan commitments	3,444,028	3,622,583
Letters of guarantee issued	35,634	59,968
Bank acceptance	11,693	8,001
Letters of credit issued	7,281	4,984
Total commitments	3,498,636	3,695,536

As at 31 December 2019, the amount of the Group's credit commitments with original maturities of less than one year was RMB20,856 million (31 December 2018: RMB26,614 million), with the remainder of the credit commitments were all with original maturities over one year.

#### (3) Capital commitments

	As at 31 December	
	2019	2018
Contracted but not provided for		
– equity instruments	49,207	37,972
– properties and equipments	61,545	68,193
Total	110,752	106,165

The Group's capital commitments of properties and equipments are mainly purchased fixed assets for lease. As at 31 December 2019, the Group's capital commitments of purchased fixed assets for lease were RMB61,151 million (31 December 2018: RMB65,798 million).

#### (4) Operating lease commitments

At the end of each reporting period, the Group, as a lessee, had the following non-cancellable operating lease commitments:

	As at 31 December	
	2019	2018
Within one year	–	586
One to two years	–	312
Two to three years	–	207
Above three years	–	796
Total revocable or irrevocable commitments	–	1,901

#### (5) Finance lease commitments

At the end of each reporting period, the Group, as a lessor, had the following non-cancellable finance lease commitments:

	As at 31 December	
	2019	2018
Contractual amount	31,170	27,002

As at 31 December 2019 and 2018, the Group's finance lease commitments were all within one year.

#### (6) Underwriting obligations

As at 31 December 2019 and 2018, the Group had no outstanding securities underwriting obligations.

**(7) Collateral****(a) Assets pledged**

The carrying amounts of assets pledged as collateral under repurchase agreements at the end of each reporting period are as follows:

	As at 31 December	
	2019	2018
Bonds	117,344	67,487

As at 31 December 2019, the principal of financial assets sold under repurchase agreements by the Group was RMB112,539 million (31 December 2018: RMB66,201 million) as set out in Note 33 financial assets sold under repurchase agreements. All repurchase agreements were due within 5 years from the effective date of these agreements.

In addition, certain finance lease receivables and leased assets under operating lease, where the Group was a lessor, were pledged as collateral for borrowings from other banks. As at 31 December 2019, carrying amounts of these collateral amounted to RMB26,286 million (31 December 2018: RMB11,300 million).

**(b) Collateral accepted**

The Group received securities as collateral in connection with the purchase of financial assets under resale agreements (Note 20). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2019 and 31 December 2018.

**49. FINANCIAL RISK MANAGEMENT****(1) Strategies adopted in managing financial risks**

The Group's activities expose it to a variety of financial risks. The Group analyzes, identifies, monitors and reports on these financial risks or the combinations of these financial risks during its operations. Risk-taking is a core characteristic of a financial undertaking, and business operations cannot be carried out without being exposed to operating risks. The Group's aim is, therefore, to achieve an appropriate balance between risks and returns, and minimize the potential adverse effects these risks may have on the Group's financial performance.

The Group raises funds primarily through issuing fixed-rate and floating-rate debts with different maturities, and earns spread income by investing these funds in medium- to long-term lending projects in infrastructure sectors, basic industries and pillar industries. In China, the benchmark deposit and lending interest rates are set by the People's Bank of China, the central bank. The PBOC established RMB benchmark interest rates for loans whereby financial institutions are in a position to price their loans based on credit risk, commercial and market factors. The Group seeks to increase its profitability by minimizing the funding costs as it issues different types of bonds, where feasible under market conditions, to meet its asset and liability management needs and funding needs.

The Group carries out a range of plain vanilla derivative transactions including, among others, currency forward, currency and interest rate swaps, interest rate floor options, for risk management purposes as well as to meet the needs of its customers.

The Group provides appropriate risk limits and control measures in its risk management policies, and monitors the risks and the implementation of the risk limits in reliance of reliable and timely information from its information systems, as part of its efforts to identify and analyze risks. The Group regularly reviews and continues to make improvement to its risk management policies and systems to reflect changes in markets and products, and incorporate best practices. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk and market risk.

**(2) Credit risk**

The Group takes on exposure to credit risk which represents the potential loss that may arise from a customer's or counterparty's failing to discharge an obligation. Credit risk is the most important risk for the Group's business, management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities including debt instruments and derivatives. Off-balance sheet financial instruments, such as loan commitments and financial guarantee contracts, also expose the Group to credit risk.

In accordance with the CBIRC's regulatory guidelines on the internal credit rating approach, and in light of its unique business features, the Group has established its credit rating framework, including credit rating methodologies, policies, procedures, control and management, data collection and IT infrastructure. It is a two-dimensional risk rating framework that incorporates both customer credit ratings for their probabilities of default and the facility credit ratings for estimated loss given default when the customers become default. To ensure the accuracy and comprehensiveness of the ratings, the Group has also established internal guidelines and criteria for country rating, sovereign rating, local government rating, regional rating and industry rating.

**(a) Credit Risk Management**

The Group performs standardized credit management procedures on the entire credit process, including credit due diligence and loan applications, credit review and approval, loan disbursement, post-lending monitoring and non-performing loan management. By applying strict and standardized credit operational procedures, the Group strives to strengthen its end-to-end credit management for pre-lending due diligence, credit rating, review and approval, disbursement review and approval, and post-lending monitoring, improve the mitigating effectiveness of collateral, accelerate the recovery and disposal of non-performing loans, and drive the upgrade of its credit management systems, as part of its efforts to comprehensively enhance its credit risk management capabilities across the Group.

The Group writes off a financial asset, in whole or in part, when it comes to the conclusion, after exhausting all necessary recovery procedures, that it cannot reasonably expect to recover the whole or part of the financial asset. Indicators that it has become impossible to reasonably expect to recover a financial asset, in whole or in part, include: (1) enforcement has been completed; and (2) the Group has no other recovery alternative but to foreclose and dispose of the collateral, and does not expect the value of the collateral to fully cover the principal and interest of the financial asset.

Apart from the credit risk exposures on credit assets, the Group is also exposed to credit risk arising from its treasury operations, and it manages its risk exposures on its treasury operations by carefully screening counterparties with acceptable credit quality, balancing credit risk and investment returns, adopting rating-based underwriting by comprehensively considering the internal and external credit rating information, and reviewing and adjusting credit limits in a timely manner through limit management systems. In addition, the Group also provides off-balance sheet loan commitments and financial guarantee services to customers, which may expose the Group to the risk of having to make payments on behalf of customers in case they default, where the risk approximates that of a loan. For these operations, the Group adopts risk control procedures and policies similar to those applicable to the credit business to minimize their credit risk.

**(b) Credit risk limit control and risk mitigation policy**

The Group has adopted a series of credit risk mitigation policies and measures, including the requirement for collateral, the most widely used and traditional measure. The Group has developed operational guidelines for the acceptability of specific assets pledged as collateral and their capability to mitigate credit risk, and regularly reviews the assessment results of the collateral.

The primary types of collateral are rights and commercial assets such as toll collection rights, real estate, land use rights, equity securities, cash deposits and equipment, collateral held for financial assets other than loans and advances to customers are dependent on the nature of the financial instrument. Debt instruments are generally unsecured, but for asset-backed securities and other similar instruments, they are generally secured by pools of financial assets. As at 31 December 2019, the Group held no significant foreclosed assets.

**(c) Credit risk ratings**

The Group uses internal credit risk ratings to reflect the probability of default (PD) assessments of individual counterparties, and employs different internal rating models for different types of counterparties. Borrower information and specific loan information collected during loan application (e.g., the borrower's revenue and the industry/sector it operates in) is incorporated into the rating models. At the same time, the Group also includes external data as supplementary information, such as a borrower's credit rating from a credit reporting agency. In addition, the models also incorporate the expert judgments of credit and risk management officers into the final internal credit rating of each individually reviewed credit exposure, thus enabling the rating models to capture factors that may not have been considered by other sources.

**(d) Measurement of ECL**

The Group applies ECL models to calculate the credit loss allowance for its debt financial instruments carried at amortized cost and FVOCI, as well as loan commitments and financial guarantee contracts. The method applied by the Group in assessing the expected credit losses of its financial assets is a risk parameters model.

For the financial instruments incorporated into the measurement of expected credit losses, the group uses a "3 - Stage" model to measure the credit loss allowance and ECL:

Stage 1: A financial instrument whose credit risk has not increased significantly since its initial recognition.

Stage 2: Credit risk has increased significantly since the initial recognition, but it is not considered as a financial instrument with credit impairment.

Stage 3: A financial instrument in which credit impairment has occurred.

A Stage 1 financial instrument credit loss allowance is measured at an amount equivalent to the expected credit loss of the financial instrument in the next 12 months. Stage 2 and Stage 3 financial instruments shall have their credit loss allowances measured at an amount equivalent to the expected credit loss of the financial instrument expected to arise over its remaining duration.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

The Group assesses ECL in light of forward-looking information and uses complex models and assumptions in calculating the expected credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrowers' creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). In assessing the expected credit risks in accordance with accounting standards, the Group uses judgments, assumptions and estimates where appropriate, including:

- Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;
- Determination of the criteria for SICR;
- Definition of default and credit impairment;
- Establishment of the number and relative weightings of forward-looking scenarios;
- The estimated future cash flows for loans and advances to customers at amortized cost in Stage 3.

#### Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters

For expected credit loss allowances modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, the Group uses information such as the type of borrower, industry, usage, and type of collateral to ensure the reasonableness of its credit risk grouping.

According to whether there is a significant increase in credit risk and whether a financial asset has become credit-impaired, the Group recognizes an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the financial asset. The key parameters of ECL measurement include possibility of default (PD), loss given default (LGD) and exposure at default (EAD). The Group establishes its PD, LGD and EAD based on the internal rating system currently used for risk management purposes. In accordance with the requirements of IFRS 9, the Group performs quantitative analyses of historical statistics (such as counterparty ratings, guarantee methods and collateral types, repayment methods, etc.) and forward-looking information.

The parameters are defined as follows :

PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12m PD) or over the remaining lifetime (Lifetime PD) of the obligation. The definition of default refers to the failure to pay the debt as agreed in the contract or other violations of the debt contract that have a significant impact on the normal debt repayment.

LGD represents the Group's expectation of the extent of loss on defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

EAD is based on the amounts the Group expects to be owed at the time of default.

The group uses an internal credit risk rating to track the default probability assessment results of a single counterparty and adopts different internal rating models for different types of counterparties. Borrowers and specific loan information collected at the time of a loan application are incorporated into the rating model. The group regularly monitors and reviews the assumptions associated with the calculation of expected credit losses, including the probability of default and changes in value of the collateral over each period.

In 2019, no significant changes were made to the estimated methodology or key assumptions.

#### Determination of the criteria for SICR

The Group assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. For the purpose of staging an assessment of its financial assets, the Group thoroughly considers various reasonable and supportable criteria that may reflect whether or not there has been a significant change in their credit risk. Key factors considered include regulatory and operating environments, internal and external credit ratings, solvency, viability as a going concern, terms of loan contracts, repayment behaviors, among others. The Group compares the risk of default of financial instruments on the reporting date against that on the initial recognition date in order to determine the changes of default risk.

The Group sets quantitative and qualitative criteria to help determine whether the credit risk of a financial instrument has increased significantly since its initial recognition. The criteria include changes in the borrower's PD, changes in its credit risk rating and other factors. The Group decided that credit risk has significantly increased if contractual payments are more than 30 days past due. The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. As of the report date, low credit risk financial instruments with a high credit rating (internal rating above admittance threshold) are deemed to have a low credit risk and no assessment is performed as to whether the credit risk on the report date has significantly increased compared with the initial recognition.

#### Definition of default and credit impairment

The criteria used by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives. In assessing whether a borrower has become credit-impaired, the Group mainly considers the following quantitative and qualitative factors:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event in relation to interest or principal payment, or the borrower is overdue for more than 90 days in any principal, advances, interest or investment in corporate bonds due to the Group;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The credit impairment of a financial asset may be caused by the combined effect of multiple events rather than any single discrete event.

#### Establishment of the number and relative weightings of forward-looking scenarios

The assessment of whether there has been 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, including macroeconomic index, Enterprise prospect index and Real estate index, etc. The impact of these economic indicators on the PDs and the LGDs varies from one type of business to another. The Group comprehensively considers internal and external data, expert forecasts and statistical analyses to determine the relationships between these economic indicators and the PDs and LGDs. The Group assesses and forecasts these economic indicators at least on an annual basis, calculates the best estimates for the future, and regularly reviews the assessment results.

Based on statistical analyses and expert judgements, the Group determines the weightings of the optimistic scenario, base scenario and pessimistic scenario and the corresponding macro-economic forecast under each scenario. The group's multi-scenario economic forecasts include the most likely base scenario and a number of possible scenarios that reflect positive or negative trends in the economy. The group assesses and determines the weighting of each scenario. The weighting of base scenario is greater than the aggregated weightings of the rest scenarios. The Group uses the weighted 12-month ECL (Stage 1) or weighted lifetime ECL (Stage 2 and Stage 3) to measure relevant impairment allowances. These weighted credit losses are calculated by multiplying the expected credit loss under each scenario by the corresponding scenario weighting.

ECL impairment allowances recognized in the financial statements reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis, based on the economic scenarios. The key macroeconomic variable is set using the forecasts of an external organization which was consistent with the Government's guideline. The following table describes the key macroeconomic variable assigned in the ECL model.

Factor	Range
Year-on-year growth rate of GDP	5.8%-6.3%
<p>Assuming that the core macroeconomic forward-looking indicator would increase or decrease by 10%, the impact to the balance of credit loss allowance as at 31 December 2019 would be less than 5%.</p> <p>At 31 December 2019, the Group concluded that three scenarios are appropriate, being the optimistic scenario, base scenario and pessimistic scenario. As at 31 December 2019, the incremental impact to the credit loss allowance of using the probability-weighted ECL against the base scenario was less than 5%.</p> <p>Scenario weightings</p> <p>Scenario weighting is one of the important methods of sensitivity analysis. The decremental impact would be less than 5%, assuming a 10% increase of probability-weighting of the optimistic scenario and a 10% decrease of the probability-weighting of the base case scenario when measuring the ECL derived from using aforesaid three scenarios. The incremental impact would be less than 5%, assuming a 10% increase on probability-weighting of the pessimistic scenario and a 10% decrease on probability-weighting of the base case scenario when measuring the ECL derived from using aforesaid three scenarios.</p> <p><a href="#">The estimated future cash flows for loans and advances to customers at amortized cost in Stage 3</a></p> <p>At each measurement date, the Group projects the future cash inflows of each future period related to credit-impaired financial assets. The cash flows are discounted and aggregated to determine the present value of the assets' future cash flows.</p>	
<a href="#">(e) Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements</a>	

	As at 31 December	
	2019	2018
Credit risk exposures relating to financial assets		
Balances with central banks	189,234	275,166
Deposits with banks and other financial institutions	522,571	758,539
Placements with banks and other financial institutions	189,000	168,605
Derivative financial assets	21,373	34,770
Financial assets held under resale agreements	721,029	463,502
Loans and advances to customers	11,713,333	11,198,375
Financial investments		
<i>Trading assets and other financial assets mandatorily classified at fair value through profit or loss</i>	784,791	868,709
<i>Financial assets at fair value through profit or loss (Designated)</i>	40,625	98,569
Debt instruments at amortized cost	1,401,344	1,458,663
Debt instruments at fair value through other comprehensive income	515,731	481,094
Others	7,717	22,605
	<u>16,106,748</u>	<u>15,828,597</u>
Credit risk exposures relating to credit commitments		
Loan commitments	3,444,028	3,622,583
Letters of guarantee issued	35,634	59,968
Bank acceptance	11,693	8,001
Letters of credit issued	7,281	4,984
	<u>3,498,636</u>	<u>3,695,536</u>
Total	<u>19,605,384</u>	<u>19,524,133</u>

The above table represents a worst case scenario of credit risk exposures to the Group as at 31 December 2019 and 2018, without taking into account any collateral held or other credit enhancements attached. For financial assets on the consolidated statement of financial position, the exposures set out above are based on carrying amounts of these assets.

[\(f\) Credit commitments and provision](#)

[\(i\) Change in provision for loan commitments and financial guarantee contracts](#)

	Stage 1	Stage 2	Stage 3	Total
	12-month expected credit losses	Lifetime expected credit losses		
As at 1 January 2019	9,246	4,139	814	14,199
Transfers:				
Transfers to Stage 1	2,072	(2,072)	–	–
Transfers to Stage 2	(1,263)	1,263	–	–
Transfers to Stage 3	–	(62)	62	–
Remeasurement (a)	(4,590)	5,811	587	1,808
Charge for the year	3,671	–	649	4,320
Reverse	(2,291)	(1,964)	(733)	(4,988)
Foreign exchange differences	17	87	7	111
As at 31 December 2019	<u>6,862</u>	<u>7,202</u>	<u>1,386</u>	<u>15,450</u>

	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses	Stage 3	Total
As at 1 January 2018	9,044	1,650	97	10,791
Transfers:				
Transfers to Stage 1	1	(1)	–	–
Transfers to Stage 2	(168)	168	–	–
Transfers to Stage 3	–	(7)	7	–
Remeasurement (a)	(1,498)	2,481	768	1,751
Charge for the year	4,126	–	–	4,126
Reverse	(2,346)	(222)	(75)	(2,643)
Foreign exchange differences	87	70	17	174
As at 31 December 2018	9,246	4,139	814	14,199

(a) Remeasurement includes regular review of inputs to the models, e.g. reviewing of PDs, LGDs and EADs; transfer between Stage 1 and Stage 2 or 3 due to loan commitments and financial guarantee contracts experiencing significant increases (or decrease) of credit impairment in the period, and the consequent "set up" (or "set down") between 12-month and lifetime Expected Credit Loss (ECL).

(ii) Change in loan commitments and financial guarantee contracts

	As at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments and financial guarantee contracts	3,417,498	77,383	3,755	3,498,636

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments and financial guarantee contracts	3,649,401	41,383	4,752	3,695,536

(g) The following financial instruments subject to impairment are analyzed for the different expected credit losses

The Group classified the credit grades of loans and advances to customers into "Low Risk", "Medium Risk", "High Risk".

- "Low Risk" exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- "Medium Risk" exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- "High Risk" exposures require varying degrees of special attention and default risk is of greater concern.

The following financial instruments subject to impairment are analyzed for the different expected credit losses, unless otherwise stated, Stage 1 represents a 12-month expected credit loss, and Stages 2 and 3 represent lifetime expected credit losses.

Loans and advances to customers at amortized cost

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Credit Grade				
Low Risk	10,846,396	–	–	10,846,396
Medium Risk	–	1,189,509	–	1,189,509
High Risk	–	–	127,128	127,128
Total	10,846,396	1,189,509	127,128	12,163,033
Less: Credit impairment losses on assets	(187,602)	(231,113)	(98,377)	(517,092)
Net	10,658,794	958,396	28,751	11,645,941

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Credit Grade				
Low Risk	10,276,183	–	–	10,276,183
Medium Risk	–	1,250,794	–	1,250,794
High Risk	–	–	121,310	121,310
Total	10,276,183	1,250,794	121,310	11,648,287
Less: Credit impairment losses on assets	(201,452)	(217,366)	(91,433)	(510,251)
Net	10,074,731	1,033,428	29,877	11,138,036

Debt instruments at amortized cost

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Credit Grade				
Low Risk	1,404,909	–	–	1,404,909
Medium Risk	499	354	–	853
High Risk	–	–	3,170	3,170
Total	1,405,408	354	3,170	1,408,932
Less: Credit impairment losses on assets	(5,196)	(1)	(2,391)	(7,588)
Net	1,400,212	353	779	1,401,344

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Credit Grade				
Low Risk	1,461,682	–	–	1,461,682
Medium Risk	499	700	–	1,199
High Risk	–	–	2,053	2,053
Total	1,462,181	700	2,053	1,464,934
Less: Credit impairment losses on assets	(5,086)	(110)	(1,075)	(6,271)
Net	1,457,095	590	978	1,458,663

## Debt instruments at fair value through other comprehensive income

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Credit Risk				
Low Risk	515,530	–	–	515,530
Medium Risk	–	161	–	161
High Risk	–	–	40	40
Total	515,530	161	40	515,731
Expected credit losses on assets	(165)	(1)	(243)	(409)

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Credit Risk				
Low Risk	480,918	–	–	480,918
Medium Risk	–	9	–	9
High Risk	–	–	167	167
Total	480,918	9	167	481,094
Expected credit losses on assets	(224)	(3)	(150)	(377)

## Loan commitments and financial guarantee contracts

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Credit Grade				
Low Risk	3,417,498	–	–	3,417,498
Medium Risk	–	77,383	–	77,383
High Risk	–	–	3,755	3,755
Total	3,417,498	77,383	3,755	3,498,636

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Credit Grade				
Low Risk	3,649,401	–	–	3,649,401
Medium Risk	–	41,383	–	41,383
High Risk	–	–	4,752	4,752
Total	3,649,401	41,383	4,752	3,695,536

## Provision

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Credit Grade				
Low Risk	7,752	–	–	7,752
Medium Risk	–	7,202	–	7,202
High Risk	–	–	1,386	1,386
Total	7,752	7,202	1,386	16,340

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Credit Grade				
Low Risk	10,195	–	–	10,195
Medium Risk	–	4,139	–	4,139
High Risk	–	–	814	814
Total	10,195	4,139	814	15,148

**Collateral and Other Credit Enhancements**

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

As at 31 December 2019	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit impaired assets				
Loans and advances to customers	127,135	(98,377)	28,758	39,054
Debt instruments at amortized cost	3,170	(2,391)	779	–
Debt instruments at fair value through other comprehensive income	40	(243)	40	–
Total	130,345	(101,011)	29,577	39,054

As at 31 December 2018	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit impaired assets				
Loans and advances to customers	121,310	(91,433)	29,877	54,132
Debt instruments at amortized cost	2,053	(1,075)	978	–
Debt instruments at fair value through other comprehensive income	167	(150)	167	–
Total	123,530	(92,658)	31,022	54,132

The fair value of collateral presented in the table above is up to the book value of the credit risk exposure. As at 31 December 2019, the quality of the Group's collateral or credit enhancement did not change significantly compared to prior year.

**(h) Loans and advances to customers**

The gross amounts of loans and advances to customers by types of collateral and maturity are as follows:

As at 31 December 2019	Within 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	484,556	137,119	2,122,101	2,743,776
Guaranteed loans	152,140	77,990	1,165,449	1,395,579
Loans secured by collateral	72,049	118,270	979,286	1,169,605
Pledged loans	57,070	99,142	6,735,336	6,891,548
Total	765,815	432,521	11,002,172	12,200,508

As at 31 December 2018	Within 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	272,933	507,893	1,829,441	2,610,267
Guaranteed loans	162,691	226,295	1,274,627	1,663,613
Loans secured by collateral	55,523	110,806	1,091,761	1,258,090
Pledged loans	36,496	85,218	6,025,245	6,146,959
Total	527,643	930,212	10,221,074	11,678,929

Loans and advances to customers by industry of counterparties:

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
<b>Loans and advances to customers</b>				
Urban renewal	3,112,777	26	3,041,138	26
Road transportation	2,006,160	16	1,812,274	15
Electric power, heating and water production and supply	1,097,145	9	1,068,583	9
Railway transportation	1,017,961	8	972,949	8
Water conservation, environmental protection and public utilities	900,250	7	878,469	8
Petroleum, petrochemical and chemical industry	745,918	6	764,554	7
Urban public transportation	742,430	6	657,229	6
Manufacturing industry	643,131	5	540,960	5
Mining industry	263,893	2	284,421	2
Other transportation	359,156	3	264,543	2
Financial industry	345,691	3	227,165	2
Education	154,947	1	137,665	1
Telecommunication and other information transmission services	96,875	1	109,690	1
Others	714,174	7	919,289	8
	12,200,508	100	11,678,929	100

**Contractual modification of loans**

The Group sometimes renegotiates or otherwise modifies the terms of loans and advances provided to customers due to deterioration in the borrower's financial position which resulted in the borrower's inability to meet its repayment obligations, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness, etc. Restructuring measures are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These measures are kept under continuous review. As at 31 December 2019, the Group's total restructured loans amounted to RMB26,146 million (31 December 2018: RMB24,661 million).



## (i) Investment in debt instruments

Carrying amount of investment in debt instruments analyzed by credit rating from independent rating agencies is as follows:

As at 31 December 2019							
	AAA	AA	A	Below A	PRC government and quasi-governments (2)	Other (3)	Total
Debt securities issued by:							
Governments and quasi-governments	52,538	–	–	–	1,441,961	2,593	1,497,092
Financial institutions	36,292	584	3,090	3,162	–	10,161	53,289
Corporates	90,160	21,751	395	2,534	–	116,245	231,085
Asset-backed securities	868	277	–	–	–	53	1,198
Inter-bank certificates of deposit (1)	282,617	–	–	–	–	–	282,617
Deposits and placements with banks and other financial institutions	3,903	215	–	–	–	–	4,118
Wealth management products issued by other banks	–	–	–	–	–	11,397	11,397
Investments in trust plans and others	–	–	–	–	363	3,635	3,998
Asset management plans	4	–	–	–	–	4,747	4,751
Total	466,382	22,827	3,485	5,696	1,442,324	148,831	2,089,545

As at 31 December 2018							
	AAA	AA	A	Below A	PRC government and quasi-governments (2)	Other (3)	Total
Debt securities issued by:							
Governments and quasi-governments	–	–	–	–	1,495,400	28,421	1,523,821
Financial institutions	21,205	997	–	2,918	–	79,405	104,525
Corporates	46,667	15,029	92	8,644	–	126,910	197,342
Asset-backed securities	1,273	20	–	–	–	1,682	2,975
Inter-bank certificates of deposit (1)	340,474	899	–	–	–	2,052	343,425
Financial assets held under resale agreements	–	–	–	–	–	4,933	4,933
Deposits and placements with banks and other financial institutions	–	–	–	–	–	13,767	13,767
Wealth management products issued by other banks	–	–	–	–	–	8,059	8,059
Investments in trust plans and others	437	164	–	–	–	3,261	3,862
Asset management plans	–	–	–	–	–	2,521	2,521
Total	410,056	17,109	92	11,562	1,495,400	271,011	2,205,230

(1) Analyzed by ratings of issuers of inter-bank certificates of deposit.

(2) Unrated debt securities issued by PRC government and quasi-governments are from issuers including the MOF, the PBOC, Huijin and policy banks of China.

(3) Other unrated debt instruments mainly include subordinated bonds issued by insurance companies, super short-term commercial papers, asset management plans, and wealth management products issued by other banks and investments in trust plans.

## (j) Financial assets other than loans and advances to customers by industry of counterparties:

	Governments and quasi-governments	Financial institutions	Corporate and others	Total
<b>As at 31 December 2019</b>				
Balances with central banks	189,234	–	–	189,234
Deposits with banks and other financial institutions	–	522,571	–	522,571
Placements with banks and other financial institutions	–	189,000	–	189,000
Derivative financial assets	588	17,673	3,112	21,373
Financial assets held under resale agreements	–	718,122	2,907	721,029
Financial assets measured at fair value through profit or loss	222,860	97,526	505,030	825,416
Debt instruments at amortized cost	1,293,947	1,288	106,109	1,401,344
Debt instruments at fair value through other comprehensive income	183,956	252,497	79,278	515,731
Other financial assets	1,423	2,604	3,690	7,717
Total	1,892,008	1,801,281	700,126	4,393,415

	Governments and quasi-governments	Financial institutions	Corporate and others	Total
<b>As at 31 December 2018</b>				
Balances with central banks	275,166	–	–	275,166
Deposits with banks and other financial institutions	–	758,539	–	758,539
Placements with banks and other financial institutions	–	168,605	–	168,605
Derivative financial assets	2,204	30,782	1,784	34,770
Financial assets held under resale agreements	–	455,950	7,552	463,502
Financial assets measured at fair value through profit or loss	239,868	178,243	549,167	967,278
Debt instruments at amortized cost	1,348,631	2,632	107,400	1,458,663
Debt instruments at fair value through other comprehensive income	146,027	301,178	33,889	481,094
Other financial assets	942	1,756	19,907	22,605
Total	2,012,838	1,897,685	719,699	4,630,222

### (3) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and stock and commodity prices. The Group's major market risks are interest rate risk and foreign exchange risk in its trading book and banking book.

The objective of the Group's market risk management is to manage and control market risk exposures within an acceptable range to optimize return on risk. The aim is to ensure the Group could operate safely and soundly under a reasonable market risk level and undertake market risk consistent with the market risk management capabilities and capital capacity.

Market risk is managed using risk limits approved by the Board of Directors and its affiliated committees. The Governors on Risk Management and the Asset & Liability Committee ("ALCO") supervise overall market risk, meetings and review risk management reports periodically to ensure that all market risks are effectively managed.

#### Segregation of trading book and banking book

The Group's exposures to market risk mainly exist in its trading book and banking book.

Trading book consists of financial instruments and commodity positions held for trading or for economic hedging purposes. Banking book consists of on and off balance sheet financial instruments not held in the trading book.

Market risks arising from trading and banking books are managed by the Risk Management Department and the Treasury Department within the scope of their respective roles and responsibilities. The Risk Management Department assumes the responsibility for the overall risk management and the periodical submission of market risk reports to the Governors of Risk Management. The Treasury Department assumes the responsibility for the overall asset and liability management as well as management of interest rate risk and foreign exchange risk in the banking book, and the periodical submission of interest rate risk and foreign exchange risk reports related to banking book to the ALCO.

#### Market risk measurement and management approaches

Market risk is monitored and managed through established limits, market value revaluation, duration analysis, gap analysis and sensitivity analysis indicators.

#### Trading book

The Group monitors and manages its various risk exposures in trading book through limits control, risk limits control, enforcement of stop-loss limits and sensitivity analysis.

The Group adopts stress testing approach to estimate the potential maximum losses under extremely unfavorable conditions. The Group also continues adjusting and refining the stress testing scenarios and measurements in relation to its trading book, so as to capture impact of market price on market value,

and to improve its ability in identifying market risks.

The Group establishes appropriate risk limits for each risk category considering its risk management capabilities over risks as well as capital capacity. The Risk Management Department is responsible for the identification, measurement, monitoring and reporting of risk exposures from all trading portfolios.

#### Banking book

The Bank monitors market risks for banking mainly through sensitivity analysis for foreign exchange risk and interest rate risk. The Risk Management Department is responsible for reporting risk measurement results to Governors of Risk Management by means of market value revaluation, duration analysis, etc. The Treasury Department is responsible for the accurate and timely identification and measurement of interest rate risk and foreign exchange risk using gap analysis and other methods, and regularly reporting to the ALCO.

For sensitivity analysis of interest rate risk and foreign exchange risk, please refer to Note 49 (3) (a) interest rate risk and Note 49 (3) (b) foreign exchange risk (including trading book and banking book).

#### (a) Interest rate risk

Interest rate risk of the banking book is the risk of loss arising from unfavorable movements in interest rate, duration and other elements of the risk.

The Group's pricing strategy in China mainland is impacted by the macro-economic environment and the monetary policies of the PBOC. The PBOC established RMB benchmark interest rates for loans whereby financial institutions are in a position to price their loans based on credit risk, commercial and market factors. In general, the interest rates of interest-bearing assets and liabilities with the same currency and maturity terms will move in the same direction. During the year ended 31 December 2019, the PBOC has not adjusted the benchmark interest rates for RMB loans and deposits.

Interest rate risk of the Bank's banking book is principally managed based on assessing impact of interest rate change on both the income and economic value, by using gap analysis, duration analysis, basis point ("BP") analysis and net interest income simulation model. The Group adjusts its asset and liability structure and uses hedging instruments to mitigate the interest rate risk of banking book. Interest rate risk of trading book is mainly managed and monitored by using interest rate limits, sensitivity analysis, exposure analysis by currency, mark-to-market and breakeven analysis.

In terms of measuring and managing interest rate risk, the Group regularly measures interest rate repricing gaps, portfolio duration and monitors the sensitivity of projected net interest income and fair value changes to interest net moves under varying interest rate scenarios (simulation modeling).

#### Repricing gap analysis

The table below summarizes the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

As at 31 December 2019	Within 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Non-interest bearing	Total
<b>Financial assets:</b>							
Cash and balances with the central banks	185,309	–	–	–	–	3,928	189,237
Deposits with banks and other financial institutions	497,466	7,147	105	–	–	17,853	522,571
Placements with banks and other financial institutions	187,731	1,146	–	–	–	123	189,000
Derivative financial assets	–	–	–	–	–	21,373	21,373
Financial assets held under resale agreements	718,799	1,037	–	–	–	1,193	721,029
Loans and advances to customers	2,152,297	3,128,631	810,926	1,038,259	4,560,362	22,858	11,713,333
Financial assets measured at fair value through profit or loss	46,327	50,699	34,104	48,075	1,741	779,542	960,488

As at 31 December 2019	Within 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Non-interest bearing	Total
<i>Include: Trading assets and other financial assets mandatorily classified at fair value through profit or loss</i>	37,158	41,513	18,246	44,377	523	778,046	919,863
<i>Financial assets at fair value through profit or loss (Designated)</i>	9,169	9,186	15,858	3,698	1,218	1,496	40,625
Debt instruments at amortized cost	12,523	206,442	748,113	412,971	–	21,295	1,401,344
Financial assets at fair value through other comprehensive income	105,852	188,966	141,252	71,425	3,561	9,790	520,846
Other financial assets	1,294	–	–	–	–	6,423	7,717
<b>Total financial assets</b>	<b>3,907,598</b>	<b>3,584,068</b>	<b>1,734,500</b>	<b>1,570,730</b>	<b>4,565,664</b>	<b>884,378</b>	<b>16,246,938</b>
<b>Financial liabilities:</b>							
Deposits from banks and other financial institutions	120,884	3,165	3,003,004	–	–	16,164	3,143,217
Borrowings from governments and financial institutions	182,238	245,097	18,227	8,799	–	4,398	458,759
Placements from banks	44,276	27,363	–	–	–	447	72,086
Financial liabilities measured at fair value through profit or loss	28,350	6,522	–	–	–	316	35,188
Derivative financial liabilities	–	–	–	–	–	27,593	27,593
Financial assets sold under repurchase agreements	112,539	–	–	–	–	69	112,608
Due to customers	1,180,384	74,763	58,260	3,170	7,196	47,623	1,371,396
Debt securities issued	1,027,118	1,034,070	3,596,784	3,259,571	621,761	196,478	9,735,782
Other financial liabilities	2,150	1,247	972	1,271	526	34,598	40,764
<b>Total financial liabilities</b>	<b>2,697,939</b>	<b>1,392,227</b>	<b>6,677,247</b>	<b>3,272,811</b>	<b>629,483</b>	<b>327,686</b>	<b>14,997,393</b>
<b>Net interest repricing gap</b>	<b>1,209,659</b>	<b>2,191,841</b>	<b>(4,942,747)</b>	<b>(1,702,081)</b>	<b>3,936,181</b>	<b>556,692</b>	<b>1,249,545</b>
As at 31 December 2018	Within 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Non-interest bearing	Total
<b>Financial assets:</b>							
Cash and balances with the central banks	275,023	–	–	–	–	145	275,168
Deposits with banks and other financial institutions	715,960	10,572	5,093	105	–	26,809	758,539
Placements with banks and other financial institutions	161,896	6,515	–	–	–	194	168,605
Derivative financial assets	–	–	–	–	–	34,770	34,770
Financial assets held under resale agreements	455,665	7,573	–	–	–	264	463,502
Loans and advances to customers	5,457,359	2,898,294	262,339	234,145	2,311,307	34,931	11,198,375
Financial assets measured at fair value through profit or loss	67,180	108,555	52,376	41,066	1,538	811,017	1,081,732
<i>Include: Trading assets and other financial assets mandatorily classified at fair value through profit or loss</i>	33,171	17,024	44,877	24,174	1,538	810,419	931,203
<i>Financial assets at fair value through profit or loss (Designated)</i>	34,009	91,531	7,499	16,892	–	598	150,529
Debt instruments at amortized cost	106,911	49,376	710,996	569,378	–	22,002	1,458,663
Financial assets at fair value through other comprehensive income	111,194	211,205	100,370	51,652	3,471	6,985	484,877
Other financial assets	912	5	(950)	–	–	22,638	22,605
<b>Total financial assets</b>	<b>7,352,100</b>	<b>3,292,095</b>	<b>1,130,224</b>	<b>896,346</b>	<b>2,316,316</b>	<b>959,755</b>	<b>15,946,836</b>
<b>Financial liabilities:</b>							
Deposits from banks and other financial institutions	98,549	821	3,122,150	–	–	7,998	3,229,518
Borrowings from governments and financial institutions	159,552	228,366	23,395	10,437	–	6,493	428,243
Placements from banks	16,480	41,655	–	3,453	71	465	62,124
Financial liabilities measured at fair value through profit or loss	85,744	32,643	–	–	–	839	119,226
Derivative financial liabilities	–	–	–	–	–	38,570	38,570
Financial assets sold under repurchase agreements	66,227	–	–	–	–	22	66,249
Due to customers	1,481,313	110,160	64,718	3,518	6,093	4,975	1,670,777
Debt securities issued	1,069,926	1,160,910	3,282,209	2,697,168	717,595	180,608	9,108,416
Other financial liabilities	869	1,084	(52)	–	–	27,696	29,597
<b>Total financial liabilities</b>	<b>2,978,660</b>	<b>1,575,639</b>	<b>6,492,420</b>	<b>2,714,576</b>	<b>723,759</b>	<b>267,666</b>	<b>14,752,720</b>
<b>Net interest repricing gap</b>	<b>4,373,440</b>	<b>1,716,456</b>	<b>(5,362,196)</b>	<b>(1,818,230)</b>	<b>1,592,557</b>	<b>692,089</b>	<b>1,194,116</b>

**Sensitivity analysis of net interest income and other comprehensive income**

The following table illustrates the potential pre-tax impact of a parallel upward or downward shift of 100 basis points in all financial instruments' yield curves on the Group's net interest income and other comprehensive income for the next twelve months from the reporting date, based on the Group's net positions of interest-bearing assets and liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparallel yield curve movements.

	As at 31 December 2019		As at 31 December 2018	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
Increase 100 basis points	18,804	(8,898)	44,704	(6,922)
Decrease 100 basis points	(18,804)	9,351	(44,704)	7,294

The sensitivity analysis above is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in interest rates on fair value changes on financial assets at FVOCI held at the period end.

The assumptions do not consider the Group's capital and interest rate risk management policy. Therefore, the above analysis may differ from the actual situation. In addition, the impact of interest rate fluctuation is only for illustrative purpose, showing the potential impact on net interest income and other comprehensive income of the Group under different yield curve movements and current interest rate risk situation. The impact did not take into account the risk management activities to mitigate the interest rate risk.

**(b) Foreign exchange rate risk**

The Group takes on foreign currency exposure arising from moves of foreign currency exchange rates on its financial position and cash flows.

The Group's primary business is conducted in RMB, with certain foreign currency transactions in USD, Euro ("EUR"), Japanese Yen ("JPY") and, to a much lesser extent, other currencies. The Group manages its foreign currency exposures by using exchange rate derivatives, and economically hedges its USD exposure to the extent possible. RMB depreciated by 0.113 RMB/1 USD during the year ended 31 December 2019 (2018: depreciation of 0.329 RMB/1 USD).

The Group measures the impact from exchange rate risk primarily by using foreign currency exposure management, sensitivity analysis of foreign currency exchange rates, and Earnings at Risk ("EaR"). The Group adjusts its asset and liability structure and uses hedging instruments to mitigate the foreign exchange risk to the extent possible.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the end of the reporting period, with the Group's assets and liabilities presented at carrying amounts in RMB or RMB equivalents categorized by the original currency.

	As at 31 December 2019			Total
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	
<b>Financial assets:</b>				
Cash and balances with central banks	185,257	3,979	1	189,237
Deposits with banks and other financial institutions	405,677	97,661	19,233	522,571
Placements with banks and other financial institutions	50,411	128,286	10,303	189,000
Derivative financial assets	16,790	2,908	1,675	21,373
Financial assets held under resale agreements	721,029	–	–	721,029
Loans and advances to customers	10,289,425	1,247,685	176,223	11,713,333
Financial assets measured at fair value through profit or loss	930,564	28,771	1,153	960,488
<i>Include: Trading assets and other financial assets mandatorily classified at fair value through profit or loss</i>	<i>889,939</i>	<i>28,771</i>	<i>1,153</i>	<i>919,863</i>
<i>Financial assets at fair value through profit or loss (Designated)</i>	<i>40,625</i>	<i>–</i>	<i>–</i>	<i>40,625</i>
Debt instruments at amortized cost	1,299,117	101,311	916	1,401,344
Financial assets measured at fair value through other comprehensive income	392,464	104,295	24,087	520,846
Others	6,807	539	371	7,717
Total financial assets	14,297,541	1,715,435	233,962	16,246,938
<b>Financial liabilities:</b>				
Deposits from banks and other financial institutions	2,918,059	206,014	19,144	3,143,217
Borrowings from governments and financial institutions	120,244	322,759	15,756	458,759
Placements from banks	–	41,702	30,384	72,086
Financial liabilities measured at fair value through profit or loss	35,188	–	–	35,188
Derivative financial liabilities	23,609	3,692	292	27,593
Financial assets sold under repurchase agreements	112,608	–	–	112,608
Due to customers	1,140,367	169,428	61,601	1,371,396
Debt securities issued	9,527,039	138,657	70,086	9,735,782
Others	36,217	4,029	518	40,764
Total financial liabilities	13,913,331	886,281	197,781	14,997,393
<b>Net on-balance sheet position</b>	<b>384,210</b>	<b>829,154</b>	<b>36,181</b>	<b>1,249,545</b>
Currency forwards and swaps (Contractual/notional amount)	98,341	(60,873)	(22,952)	24,516
Credit commitments	3,219,741	240,811	38,084	3,498,636

	As at 31 December 2018			Total
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	
<b>Financial assets:</b>				
Cash and balances with central banks	275,004	161	3	275,168
Deposits with banks and other financial institutions	641,543	93,477	23,519	758,539
Placements with banks and other financial institutions	27,055	138,579	2,971	168,605
Derivative financial assets	32,324	1,566	880	34,770
Financial assets held under resale agreements	463,502	—	—	463,502
Loans and advances to customers	9,655,164	1,373,564	169,647	11,198,375
Financial assets measured at fair value through profit or loss	1,051,308	30,266	158	1,081,732
<i>Include: Trading assets and other financial assets mandatorily classified at fair value through profit or loss</i>	<i>952,739</i>	<i>30,266</i>	<i>158</i>	<i>983,163</i>
<i>Financial assets at fair value through profit or loss (Designated)</i>	<i>98,569</i>	<i>—</i>	<i>—</i>	<i>98,569</i>
Debt instruments at amortized cost	1,359,155	99,508	—	1,458,663
Financial assets measured at fair value through other comprehensive income	401,545	71,383	11,949	484,877
Others	18,723	3,607	275	22,605
Total financial assets	13,925,323	1,812,111	209,402	15,946,836
<b>Financial liabilities:</b>				
Deposits from banks and other financial institutions	2,997,917	212,411	19,190	3,229,518
Borrowings from governments and financial institutions	133,892	280,642	13,709	428,243
Placements from banks	3,684	37,135	21,305	62,124
Financial liabilities measured at fair value through profit or loss	119,226	—	—	119,226
Derivative financial liabilities	36,251	1,800	519	38,570
Financial assets sold under repurchase agreements	66,249	—	—	66,249
Due to customers	1,426,079	167,907	76,791	1,670,777
Debt securities issued	8,942,297	117,154	48,965	9,108,416
Others	19,719	9,848	30	29,597
Total financial liabilities	13,745,314	826,897	180,509	14,752,720
<b>Net on-balance sheet position</b>	<b>180,009</b>	<b>985,214</b>	<b>28,893</b>	<b>1,194,116</b>
Currency forwards and swaps (Contractual/notional amount)	276,282	(262,113)	(14,859)	(690)
Credit commitments	3,355,632	295,721	44,183	3,695,536

Given a 1% possible movement in exchange rate of RMB against other currencies, there is no significant impact on the Group's other comprehensive income. The table below summarizes the effect of such movement on the Group's profit before tax in the consolidated income statement:

USD against RMB	As at 31 December 2019	As at 31 December 2018
	Profit before tax	Profit before tax
1% appreciation	8,292	9,852
1% depreciation	(8,292)	(9,852)

In analyzing the impact on profit before tax exchange gain or losses due possible exchange rate movements, simplified assumptions and scenarios are adopted and do not take into account the following:

- changes in the Group's net position in USD subsequent to the balance sheet date;
- the impact on the customers' behavior due to the movement of the exchange rate;
- the effect of economic hedge on the Group's net position in USD by using certain derivative instruments; and
- the impact on market prices as a result of the movement of exchange rate.

#### (4) Liquidity risk

Liquidity risk is the risk that although the Group has the payment capacity, however is unable to raise sufficient funds at a reasonable cost to increase its assets as needed or to replace matured debt. The consequence may be the failure to meet obligations to repay debtors and depositors and fulfill commitments to lend.

The Group has established a set of liquidity management policies and to mitigate the liquidity risk effectively. These policy and approaches include the forecasting and monitoring of future cash flows, stress testing scenarios, plans for emergency, etc.

In 2019, the Bank continued to obtain funds from markets through issuance of debt securities. In accordance with the approval from the CBIRC, all RMB bonds issued by the Bank enjoy sovereign debt credit rating, which enables the Bank to continuously raise funds in the market through issuance of sovereign debt.

##### Objectives of liquidity risk management and processes

The Group is exposed to daily calls on its available cash resources from current customer deposit, matured customer term deposits, repayment of debt securities issued, loan drawdown, fulfill obligations under guarantees and other calls on cash settled derivatives.

To maintain the mismatching of the cash flows and maturities of assets and liabilities within a reasonable range is a significant mission of the Group. It is impracticable for the Group to be completely matched in such positions since business transactions are often of uncertain terms and of different types. A mismatched position might enhance profitability, but at the same time carries the risk of loss. The Group takes effect to manage its mismatched positions within a reasonable range.

Liquidity risk management is performed by the ALCO. The Treasury Department is the execution department for detailed daily management. The Group's liquidity management processes include:

- Projecting cash flows by major currencies with consideration of the level of liquid assets necessary in relation thereto;
- Monitoring the liquidity gaps on the balance sheet;
- Managing the concentration risk of debt maturities; and
- Maintaining debt financing plans.

The Group does not need to maintain cash resources to meet all of its liquidity needs for demand payment as the Group has the ability to finance of new debts in the market. In addition, experience shows that a certain level of matured liabilities such as term deposit from customers will be remained and not to be withdrawn. Management maintains an appropriate level of highly liquid assets to address unexpected cash demands.

In general, the Group does not generally expect third-parties to draw all of the committed funds under letters of guarantees or letters of credit issued. The total outstanding contractual amount of commitment to extend credit does not necessarily represent future cash requirements, since some of these commitments will either expire, be terminated or not meeting requirements for drawdown due to customers' inability to fulfill the related conditions.

#### Liquidity analysis of financial instruments

Sources of liquidity are regularly reviewed by the Group to maintain a wide diversification in terms of liquidity provider, product, term, currency and geographical area.

The Group's funding policy is to seek a long-term healthy balance between its funding requirements and demands from investors by maintaining a presence and participation in, and constantly making returns to, the debt capital markets, and to raise funds under its different funding programs. The Group issues fixed rate and floating rate debt securities each year. These debt instruments might be with embedded options that allow the Group or the bond holders to redeem them prior to the bonds' respective maturity. However, bonds with redemption options only comprise a small portion of all bonds issued. As at 31 December 2019, long-term (with a maturity of one year or longer) debt securities issued of the Group amounted to RMB8.10 trillion (31 December 2018: RMB7.69 trillion), and other long-term debts (include deposits from banks and other financial institutions, borrowings from governments and financial institutions, financial assets sold under repurchase agreements and due to customers) amounted to RMB3.26 trillion (31 December 2018: RMB3.31 trillion).

The table below presents the cash flows payable by the Group under non-derivative financial instruments and derivatives, whether settled in net or gross by their contractual maturities. The amounts disclosed in the table are the contractually undiscounted cash flows. The expected cash flows of these financial instruments by the Group may have different with the table as below:

As at 31 December 2019									
	Past due/ undated	On demand	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 – 10 years	Over 10 years	Total
<b>Non-derivative financial assets</b>									
Cash and balances with central banks	–	189,194	43	–	–	–	–	–	189,237
Deposits with banks and other financial institutions	17,894	501,985	989	93	1,514	109	–	–	522,584
Placements with banks and other financial institutions	–	–	169,568	18,433	1,157	–	–	–	189,158
Financial assets held under resale agreements	926	–	718,804	397	1,056	–	–	–	721,183
Loans and advances to customers	123,403	–	102,781	133,653	1,323,622	3,947,210	4,008,531	6,620,790	16,259,990
Financial assets at fair value through profit or loss	127,059	3,564	6,132	26,385	59,324	46,038	56,358	658,076	982,936
Debt instruments at amortized cost	1,500	–	445	19,629	150,321	912,960	638,369	106,887	1,830,111
Financial assets measured at fair value through other comprehensive income	5,265	–	39,347	44,626	207,685	188,649	110,053	3,870	599,495
Other financial assets	4,049	1,740	–	574	2,204	380	14	20	8,981
<b>Total non-derivative financial assets</b>	<b>280,096</b>	<b>696,483</b>	<b>1,038,109</b>	<b>243,790</b>	<b>1,746,883</b>	<b>5,095,346</b>	<b>4,813,325</b>	<b>7,389,643</b>	<b>21,303,675</b>
<b>Non-derivative financial liabilities</b>									
Deposits from banks and other financial institutions	5,365	44,018	24,154	53,350	4,595	3,011,735	–	–	3,143,217
Borrowings from governments and financial institutions	–	489	22,695	144,364	123,760	162,152	17,160	–	470,620
Placements from banks	–	–	24,001	20,220	24,319	774	3,612	806	73,732
Financial liabilities measured at fair value through profit or loss	32	–	15,667	13,009	6,655	–	–	–	35,363
Financial assets sold under repurchase agreements	–	–	74,152	38,596	–	–	–	–	112,748
Due to customers	–	1,116,174	53,867	32,072	101,679	59,613	3,258	7,573	1,374,236
Debt securities issued	–	–	218,849	272,435	1,291,988	5,456,634	3,864,780	1,165,766	12,270,452
Other financial liabilities	3,224	21,352	145	797	10,679	7,379	4,299	105	47,980
<b>Total non-derivative financial liabilities</b>	<b>8,621</b>	<b>1,182,033</b>	<b>433,530</b>	<b>574,843</b>	<b>1,563,675</b>	<b>8,698,287</b>	<b>3,893,109</b>	<b>1,174,250</b>	<b>17,528,348</b>
<b>Net position</b>	<b>271,475</b>	<b>(485,550)</b>	<b>604,579</b>	<b>(331,053)</b>	<b>183,208</b>	<b>(3,602,941)</b>	<b>920,216</b>	<b>6,215,393</b>	<b>3,775,327</b>
<b>Derivative cash flows</b>									
Derivatives settled on a net basis:									
Net inflow	–	–	29	33	(47)	390	461	491	1,357
Derivatives settled on a gross basis:									
Total inflow	–	–	260,986	452,846	552,483	97,222	791	1	1,364,329
Total outflow	–	–	(260,919)	(456,122)	(555,321)	(99,157)	(821)	(1)	(1,372,341)
<b>Total derivative cash flows</b>	<b>–</b>	<b>–</b>	<b>96</b>	<b>(3,243)</b>	<b>(2,885)</b>	<b>(1,545)</b>	<b>431</b>	<b>491</b>	<b>(6,655)</b>

As at 31 December 2018									
	Past due/ undated	On demand	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 – 10 years	Over 10 years	Total
<b>Non-derivative financial assets</b>									
Cash and balances with central banks	-	275,162	5	-	1	-	-	-	275,168
Deposits with banks and other financial institutions	33,891	704,653	4,986	11,281	4,453	-	-	-	759,264
Placements with banks and other financial institutions	-	500	152,207	10,262	5,914	-	-	-	168,883
Financial assets held under resale agreements	-	-	456,275	-	7,967	-	-	-	464,242
Loans and advances to customers	81,710	-	116,381	228,857	1,523,619	5,062,860	4,257,012	4,800,596	16,071,035
Financial assets at fair value through profit or loss	106,792	1,797	22,632	26,413	135,759	199,089	209,042	401,309	1,102,833
Debt instruments at amortized cost	8	265	484	15,391	89,976	874,190	627,662	102,262	1,710,238
Financial assets measured at fair value through other comprehensive income	3,783	-	21,167	78,909	222,204	123,826	57,988	50,524	558,401
Other financial assets	1,968	1,630	1	37	15,916	(588)	9	20	18,993
Total non-derivative financial assets	228,152	984,007	774,138	371,150	2,005,809	6,259,377	5,151,713	5,354,711	21,129,057
<b>Non-derivative financial liabilities</b>									
Deposits from banks and other financial institutions	5,584	92,517	6,642	2,495	312	3,122,150	-	-	3,229,700
Borrowings from governments and financial institutions	-	-	26,335	123,789	142,229	128,149	6,860	20,294	447,656
Placements from banks	30	-	6,979	9,125	41,622	739	4,217	961	63,673
Financial liabilities measured at fair value through profit or loss	30	-	57,630	29,964	33,469	-	-	-	121,093
Financial assets sold under repurchase agreements	-	-	65,410	855	-	-	-	-	66,265
Due to customers	-	1,407,285	46,728	32,372	111,476	69,232	4,491	10,924	1,682,508
Debt securities issued	-	-	189,337	254,344	1,190,553	4,951,214	3,315,589	1,325,199	11,226,236
Other financial liabilities	1,873	3,245	1,203	139	19,236	711	-	2	26,409
Total non-derivative financial liabilities	7,517	1,503,047	400,264	453,083	1,538,897	8,272,195	3,331,157	1,357,380	16,863,540
<b>Net position</b>	<b>220,635</b>	<b>(519,040)</b>	<b>373,874</b>	<b>(81,933)</b>	<b>466,912</b>	<b>(2,012,818)</b>	<b>1,820,556</b>	<b>3,997,331</b>	<b>4,265,517</b>
<b>Derivative cash flows</b>									
Derivatives settled on a net basis:									
Net inflow	-	-	14	(57)	287	20	347	302	913
Derivatives settled on a gross basis:									
Total inflow	-	-	1,063,995	752,240	1,518,891	146,064	811	19	3,482,020
Total outflow	-	-	(1,064,216)	(752,254)	(1,524,086)	(147,374)	(843)	(16)	(3,488,789)
Total derivative cash flows	-	-	(207)	(71)	(4,908)	(1,290)	315	305	(5,856)

**Off-balance sheet items**

Letters of guarantee issued, letters of credit issued, bank acceptance and loan commitments are included below based on the earliest contractual maturity date.

As at 31 December 2019	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 – 10 years	Over 10 years	Total
Loan commitments	5,720	4,882	146,992	225,119	217,651	2,843,664	3,444,028
Letters of guarantee issued	1,215	4,463	7,597	22,359	-	-	35,634
Bank acceptance	2,596	1,540	7,557	-	-	-	11,693
Letters of credit issued	1,240	2,778	2,813	450	-	-	7,281
Total	10,771	13,663	164,959	247,928	217,651	2,843,664	3,498,636

As at 31 December 2018	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 – 10 years	Over 10 years	Total
Loan commitments	4,484	8,657	65,066	224,293	269,230	3,050,853	3,622,583
Letters of guarantee issued	3,223	2,113	4,222	40,243	9,685	482	59,968
Bank acceptance	1,619	1,628	4,754	-	-	-	8,001
Letters of credit issued	1,776	1,510	1,585	113	-	-	4,984
Total	11,102	13,908	75,627	264,649	278,915	3,051,335	3,695,536

**(5) Fair value of financial assets and liabilities**

The best evidence of fair value for a financial instrument is the quoted prices (unadjusted) in active markets for identical assets or liabilities. If the market for a financial instrument is not active, fair value is determined using valuation techniques. The valuation technique makes maximum use of observable market data and relies as little as possible on the unobservable inputs. The valuation techniques adopted by the Group incorporate all factors that market participants could consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

Substantially all financial instruments classified within Level 1 of the fair value hierarchy are securities and funds listed on exchange. The fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are securities investments, derivatives, underlying assets of principal-guaranteed wealth management products and the associated liabilities to investors in relation to the principal-guaranteed wealth management products. Fair value of securities investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by the Bloomberg. Fair value of derivatives are calculated by applying discounted cash flow method or the Black Scholes Pricing Model. Fair value of underlying assets of principal-guaranteed wealth management products and the associated liabilities to investors in relation to the principal-guaranteed wealth management products are estimated by discounted cash flow method. All significant inputs for the fair valuation of these financial assets and liabilities are observable in the market.

Level 3 financial assets of the Group are primarily unlisted equity investments and equity investments with embedded derivatives. Management uses valuation techniques to determine the fair value, which mainly include discounted cash flow method, net asset value, and comparable companies approach. The fair value of these financial instruments based on unobservable inputs which may have significant impact on the valuation of these financial instruments, including credit risk of the counterparties, weighted average cost of capital, perpetual growth rate, liquidity discount, prepayment rate and similarity to comparable companies and their performance indicators, etc.

**(a) Financial instruments measured at fair value**

Fair value hierarchy of financial instruments measured at fair value are as follows:

As at 31 December 2019				
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Derivative financial assets				
– Exchange rate derivatives	–	11,028	–	11,028
– Interest rate derivatives	–	10,345	–	10,345
Loans and advances to customers	–	–	38,291	38,291
Financial investment				
Financial assets measured at fair value through profit or loss				
Trading assets and other financial assets mandatorily classified at fair value through profit or loss				
– Bonds	282	68,763	3,159	72,204
– Inter-bank certificates of deposit	–	47,556	–	47,556
– Stock and fund	3,061	245	7,854	11,160
– Wealth management products issued by other banks	26	804	10,567	11,397
– Equity investments	2,642	3,943	770,273	776,858
– Asset management plans	–	688	–	688
Financial assets at fair value through profit or loss (Designated)				
– Bonds	–	29,731	–	29,731
– Inter-bank certificates of deposit	–	4,685	–	4,685
– Deposits and placements with banks and other financial institutions	–	4,118	–	4,118
– Asset management plans	–	2,091	–	2,091
Financial assets measured at fair value through other comprehensive income				
– Bonds	7,602	275,918	–	283,520
– Inter-bank certificates of deposit	–	230,329	–	230,329
– Fund investments	–	–	1,882	1,882
– Equity investments	4,090	–	1,025	5,115
Total	17,703	690,244	833,051	1,540,998
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss				
– Wealth management products with principal guaranteed	–	(35,188)	–	(35,188)
Derivative financial liabilities				
– Exchange rate derivatives	–	(17,938)	–	(17,938)
– Interest rate derivatives	–	(9,655)	–	(9,655)
Total	–	(62,781)	–	(62,781)
As at 31 December 2018				
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Derivative financial assets				
– Exchange rate derivatives	–	24,282	–	24,282
– Interest rate derivatives	–	10,488	–	10,488



As at 31 December 2018				
	Level 1	Level 2	Level 3	Total
Loans and advances to customers	–	–	30,392	30,392
Financial investment				
Financial assets measured at fair value through profit or loss				
Trading assets and other financial assets mandatorily classified at fair value through profit or loss				
– Bonds	216	43,578	3,558	47,352
– Inter-bank certificates of deposit	–	107,028	–	107,028
– Stock and fund	2,760	4,956	–	7,716
– Wealth management products issued by other banks	–	–	8,672	8,672
– Equity investments	–	–	808,542	808,542
– Asset management plans	–	3,853	–	3,853
Financial assets at fair value through profit or loss (Designated)				
– Bonds	–	60,288	–	60,288
– Inter-bank certificates of deposit	–	17,060	–	17,060
– Financial assets held under resale agreements	–	4,933	–	4,933
– Deposits and placements with banks and other financial institutions	–	13,767	–	13,767
– Asset management plans	–	2,521	–	2,521
Financial assets measured at fair value through other comprehensive income				
– Bonds	31,571	230,187	–	261,758
– Inter-bank certificates of deposit	–	219,336	–	219,336
– Fund investments	–	–	–	–
– Equity investments	3,250	–	533	3,783
Total	<u>37,797</u>	<u>742,277</u>	<u>851,697</u>	<u>1,631,771</u>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss				
– Wealth management products with principal guaranteed	–	(119,226)	–	(119,226)
Derivative financial liabilities				
– Exchange rate derivatives	–	(28,371)	–	(28,371)
– Interest rate derivatives	–	(10,199)	–	(10,199)
Total	<u>–</u>	<u>(157,796)</u>	<u>–</u>	<u>(157,796)</u>

There were no significant transfers between Level 1 and Level 2 during the years ended 31 December 2019 and 31 December 2018.

The reconciliation of Level 3 financial assets and financial liabilities presented at fair value in the consolidated statement of financial position is as follows:

Financial assets				
	Loans and advances to customers	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income (Designated)	Total financial assets
As at 1 January 2019	30,392	820,772	533	851,697
Disposals	–	(14,127)	–	(14,127)
Additions	7,083	45,456	2,487	55,026
Settlements	–	(36,293)	–	(36,293)
Transfer out from Level 3	–	(1,502)	–	(1,502)
Total losses recognized in				
– Profit or loss	816	(22,204)	(103)	(21,491)
– Other comprehensive income	–	(249)	(10)	(259)
As at 31 December 2019	<u>38,291</u>	<u>791,853</u>	<u>2,907</u>	<u>833,051</u>
Change in unrealized losses for the year recognized in				
– Profit or loss	816	(13,797)	(103)	(13,084)
– Other comprehensive income	–	(249)	(10)	(259)

	Financial assets			
	Loans and advances to customers	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income (Designated)	Total financial assets
As at 1 January 2018	3,666	885,637	33	889,336
Disposals	–	(9,819)	–	(9,819)
Additions	26,976	10,881	500	38,357
Settlements	–	(49,244)	–	(49,244)
Transfer out from Level 3	–	–	–	–
Total losses recognized in				
– Profit or loss	(250)	(17,166)	–	(17,416)
– Other comprehensive income	–	483	–	483
As at 31 December 2018	<u>30,392</u>	<u>820,772</u>	<u>533</u>	<u>851,697</u>
Change in unrealized losses for the year recognized in				
– Profit or loss	(250)	(15,349)	–	(15,599)
– Other comprehensive income	–	483	–	483

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

In respect of financial assets and financial liabilities carried at other than fair value, the following methods and assumptions were used to estimate the fair value of each type of financial instruments for which it is practicable. The fair value hierarchy is primarily categorized as Level 2.

(i) Cash and balances with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, demand deposits from banks and other financial institutions, demand deposits from customers, placements from banks, financial assets sold under repurchase agreements, current receivables or payables within other assets and other liabilities.

Given that these financial assets and liabilities are short-term in nature and repurchase to current market rates frequently, the carrying amounts approximate the fair value.

(ii) Debts investments

Fair value of listed securities is estimated using quoted market price. Fair value of unlisted securities is estimated using valuation techniques that take into consideration future cash flows and market price of similar quoted securities.

(iii) Loans and advances to customers

The carrying amounts of variable rate loans and advances to customers are reasonable approximate of fair values because interest rates reflect market rates which are based on PBOC's established rates and are adjusted when applicable. Fair value of fixed rate loans and advances to customers is estimated using a discounted cash flow analysis utilizing the rates currently offered for loans of similar remaining maturities.

(iv) Fixed interest-bearing customer deposits, deposits from banks and other financial institutions and borrowings

Fair value of fixed rate customer deposits, deposits from banks and other financial institutions and borrowings is estimated using a discounted cash flow analysis utilizing the rates currently offered for deposits and borrowings with similar remaining maturities.

The carrying amount of financial instruments referred to in (i) to (iv) are approximate fair value.

(v) Debt securities issued

Fair value of debt securities issued is determined using quoted market prices where available or by reference to quoted market prices for similar instruments. For those securities where quoted market prices or quoted market prices for similar instruments are not available, a discounted cash flow analysis is used based on a current yield curve appropriate for the remaining maturity of the instruments.

The tables below summarize the carrying amounts and fair values of debt securities issued:

	As at 31 December 2019	
	Amortized cost	Fair value
Debt securities issued	<u>9,735,782</u>	<u>9,928,156</u>
	As at 31 December 2018	
	Amortized cost	Fair value
Debt securities issued	<u>9,108,416</u>	<u>9,246,768</u>

**(6) Capital management**

Capital of the Group uses for capital management, which is a broader concept than the "equity" as presented on the consolidated statement of financial position. The purpose of the Group's capital management is:

- to comply with the capital requirements set by the regulators of the banking markets where the Group entities operate;
- to safeguard the Group's ability to continue as a going concern so that it can continue to generate returns for equity holders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy of the Group and the utilization of regulatory capital are closely monitored by management in accordance with the guidelines established by the Basel Committee and relevant regulations promulgated by the CBIRC. Required information related to capital levels and utilization is filed quarterly with the CBIRC. As of 31 December 2019, the Group had a total capital of RMB1,597,998 million, total Tier 1 capital RMB1,350,758 million, total Common Equity Tier 1 capital RMB1,349,677 million, capital adequacy ratio 11.71%, Tier 1 capital adequacy ratio 9.89%, Common Equity Tier 1 capital adequacy ratio 9.89%.

**50. EVENTS AFTER THE REPORTING PERIOD****Assessment of the impact of novel coronavirus**

Since the outbreak of Novel Coronavirus Disease 2019 ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the world. The Group will earnestly implement the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the PBOC, the Ministry of Finance, the CBIRC, China Securities Regulatory Commission and State Administration of Foreign Exchange, and strengthen financial support for the epidemic prevention and control.

The Group has been closely monitoring the impact of developments on the Group's business and has adopted emergency measures. The COVID-19 has certain impacts on the business operation in some areas and industries. This may affect the quality or the yields of the credit assets and investment assets of the Group in a degree, and the degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies.

The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

**THE BANK**

**China Development Bank**

18 Fuxingmennei Street  
Xicheng District  
Beijing 100031  
People's Republic of China

**THE HONG KONG BRANCH**

**China Development Bank**

**Hong Kong Branch**

33rd Floor, One International Finance Centre  
Central, Hong Kong SAR  
People's Republic of China

**FISCAL AGENT, PAYING AGENT, TRANSFER AGENT, CALCULATION AGENT,  
REGISTRAR AND CMU LODGING AGENT**

**Bank of Communications Co., Ltd.**

**Hong Kong Branch**

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**AUDITOR**

**Ernst&Young Hua Ming LLP**

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Oriental Plaza 1 East Chang An Avenue,  
Dong Cheng District Beijing, China 100738

**APPENDIX 2 – PRICING SUPPLEMENT DATED 10 JUNE 2021, AS  
AMENDED AND RESTATED ON 17 JUNE 2021**

**IMPORTANT NOTICE**

**THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"))**

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

**Confirmation of Your Representation:** The attached Pricing Supplement is being sent to you at your request and by accepting the e-mail and accessing the attached document, you shall be deemed to represent to us that (1) you and any customers you represent are not U.S. persons (as defined in Regulation S under the Securities Act) and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) that you consent to delivery of the attached Pricing Supplement and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer and the Managers (each as defined herein) nor their respective affiliates and their respective directors, officers, employees, representatives, agents and each person who controls any of the Issuer and the Managers or their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

**Restrictions:** The attached document is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

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Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Issuer or the Managers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or affiliate on behalf of the Issuer in such jurisdiction.

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You are responsible for protecting against viruses and other destructive items. If you receive this document by email, 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.

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) and are 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).

This Pricing Supplement 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 (the “**Hong Kong Stock Exchange**”)) (“**HKSE Professional Investors**”) only.

**Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by HKSE 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 Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to HKSE Professional Investors only have been reproduced in this Pricing Supplement. 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 quality of disclosure in this Pricing Supplement.** Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, 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 Pricing Supplement.

This Pricing Supplement, together with the Offering Circular (as defined below), 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 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.

Application will be made for the listing of the Notes on Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the “**MOX**”). This document is 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)) in Macau and professional investors from other jurisdictions in accordance with a relevant exemption from public offering regulations in those jurisdictions (“**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 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 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 Notes, the Issuer or the 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 10 June 2021, as amended and restated on 17 June 2021**

**China Development Bank Hong Kong Branch**

*(China Development Bank is a limited liability company incorporated under the laws of the People's Republic of China)*

**Issue of RMB2,500,000,000 2.65 per cent. Notes due 2024  
under the US\$30,000,000,000 Debt Issuance Programme**

This document supersedes and replaces the pricing supplement dated 10 June 2021 in its entirety.

This 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 Terms and Conditions (the "**Conditions**") set forth in the Offering Circular dated 16 October 2020 (the "**Offering Circular**"). The Notes will be issued pursuant to an amended and restated agency agreement dated 16 October 2020 between China Development Bank (the "**Bank**"), the Issuer and Bank of Communications Co., Ltd. Hong Kong Branch as fiscal agent, Bank of Communications Co., Ltd. Hong Kong Branch as CMU lodging agent and the other agents named in it (as amended or supplemented by a supplemental agency agreement dated on or around 18 June 2021 in relation to the Notes only, the "**Agency Agreement**").

This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. This Pricing Supplement (including the information set out in the Schedule to this Pricing Supplement) supplements the Offering Circular and supersedes the information in the Offering Circular to the extent inconsistent with the information included therein.

1	Issuer:	China Development Bank Hong Kong Branch (LEI Code: 300300C1020111000029)
2	(i) Series Number:	097
	(ii) Tranche Number:	001
3	Specified Currency or Currencies:	Renminbi (" <b>RMB</b> ")
4	Aggregate Principal Amount:	
	(i) Series:	RMB2,500,000,000
	(ii) Tranche:	RMB2,500,000,000
5	Issue Price:	100.00 per cent. of the Aggregate Principal Amount
6	(i) Specified Denominations:	RMB1,000,000 and integral multiples of RMB10,000 in excess thereof
	(ii) Calculation Amount:	RMB10,000
7	(i) Issue Date:	18 June 2021
	(ii) Interest Commencement Date:	Issue Date



8	Maturity Date:	Interest Payment Date falling on or nearest to 18 June 2024
9	Interest Basis:	2.65 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	Listing:	<p>Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to HKSE Professional Investors only. The expected effective listing date is 21 June 2021.</p> <p>Application will also be made to the MOX for the listing of the Notes.</p>
14	(i) Date of Board approval for the issuance of Notes obtained:	19 March 2021
	(ii) Date of NDRC certificate:	7 May 2021
15	Method of distribution:	Syndicated

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16	Fixed Rate Note Provisions:	Applicable
	(i) Rate of Interest:	2.65 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Dates:	18 June and 18 December in each year, commencing on 18 December 2021 up to and including the Maturity Date subject to adjustment in accordance with the Modified Following Business Day Convention
	(iii) Fixed Coupon Amount (Applicable to Notes in definitive form):	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 RMB0.01, with RMB0.005 being rounded upwards.
	(iv) Broken Amount (Applicable to Notes in definitive form):	Not Applicable
	(v) Day Count Fraction (Condition 5(h)):	Actual/365 (Fixed)
	(vi) Determination Date(s) (Condition 5(h)):	Not Applicable

- |       |  |                |
|-------|--|----------------|
| (vii) | Other terms relating to the method of calculating interest for Fixed Rate Notes: | Not Applicable |
| 17    | Floating Rate Note Provisions:   | Not Applicable |
| 18    | Zero Coupon Note Provisions:   | Not Applicable |

**PROVISIONS RELATING TO REDEMPTION**

- |    |   |                                  |
|----|---|----------------------------------|
| 19 | Call Option:  | Not Applicable                   |
| 20 | Put Option:   | Not Applicable                   |
| 21 | Final Redemption Amount of each Note:   | RMB10,000 per Calculation Amount |
| 22 | Early Redemption Amount(s) 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): | RMB10,000 per Calculation Amount |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

- |    |   |  |
|----|---|--|
| 23 | Form of Notes:  | <b>Registered Notes:</b><br>Global Certificate exchangeable for definitive Certificates in the limited circumstances described in the Global Certificate |
| 24 | Additional Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:            | Hong Kong  |
| 25 | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | No   |
| 26 | Redenomination, renominatisation and reconventioning provisions:  | Not Applicable   |
| 27 | Consolidation provisions:   | Not Applicable   |
| 28 | Other terms or special conditions:  | Not Applicable   |

**DISTRIBUTION**

- |    |                                       |  |
|----|---------------------------------------|--|
| 29 | (i) If syndicated, names of Managers: | Agricultural Bank of China Limited Hong Kong Branch, Bank of China (Hong Kong) Limited, Bank |
|----|---------------------------------------|--|

of China Limited, Bank of Communications Co., Ltd. Hong Kong Branch, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, CMB Wing Lung Bank Limited, Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, Industrial Bank Co., Ltd. Hong Kong Branch, Mizuho Securities Asia Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch and Standard Chartered Bank (together the “**Managers**”, each a “**Manager**”)

(ii) Stabilisation Manager (if any): Each of the Managers (provided that China CITIC Bank International Limited shall not be appointed or acting as the Stabilisation Manager)

- 30 If non-syndicated, name of Dealer: Not Applicable
- 31 U.S. Selling Restrictions: Reg. S Category 2; TEFRA Not Applicable
- 32 Prohibition of Sales to EEA and UK Retail Investors: Not Applicable
- 33 Additional selling restrictions: See further information in the Schedule

**OPERATIONAL INFORMATION**

- 34 ISIN Code: HK0000732930
- 35 Common Code: 235259222
- 36 CMU Instrument Number: CDBHFN21023
- 37 Any clearing system(s) other than Euroclear, Clearstream and the CMU Service and the relevant identification number(s): Not Applicable
- 38 Delivery: Delivery against payment
- 39 Additional Paying Agents (if any): Not Applicable

**GENERAL**

- 40 The aggregate principal amount of Notes issued has been translated into US\$ at the rate of US\$0.1565 to RMB1.00, producing a sum of (for Notes not denominated in US\$): US\$391,250,000

41 Expected Rating:

Moody's: A1

### **USE OF PROCEEDS**

The net proceeds of the Notes shall be used for the Issuer's general corporate purposes (including various loan projects in Guangdong – Hong Kong – Macao Greater Bay Area).

### **STABILISATION**

In connection with this issue, each of the Managers (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) (provided that China CITIC Bank International Limited shall not be appointed and acting as the Stabilisation Manager) 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. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

### **LISTING APPLICATION**

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the US\$30,000,000,000 Debt Issuance Programme of China Development Bank and the Issuer.

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:

\_\_\_\_\_   
Duly authorised

## SCHEDULE

The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule.

### CORPORATE GOVERNANCE AND MANAGEMENT

1. The following rows shall be deemed to be deleted in the table under the sub-section “*Directors and Board of Directors*” appearing on page 81 of the Offering Circular:

“Mr. Liu Xiangdong.....June 1969	Equity director
Mr. Chu Aiwu.....April 1969	Equity director”

2. The appointment of Mr. Zhou Xuedong as our Executive Vice President has been approved by the CBIRC and the note “Pending confirmation by the CBIRC” on page 82 of the Offering Circular shall be deemed to be deleted in its entirety.
3. The following row shall be deemed to be inserted after the row detailing Mr. Zhou Xuedong in the table under the sub-section “*Executive Management*” appearing on page 82 of the Offering Circular:

“Mr. Zhang Hui.....April 1972	Vice President”
-------------------------------	-----------------

4. The paragraph headed “Mr. Zhao Huan —” under the sub-section “*Directors*” appearing from page 85 to page 86 of the Offering Circular shall be deemed to be replaced in its entirety by the following:

“**Mr. Zhao Huan** — chairman and executive director. Mr. Zhao has served as our chairman and executive director since November 2018. Mr. Zhao served as vice chairman, president and executive director of Agricultural Bank of China Limited since January 2016, executive director of China Everbright Group Ltd. and China Everbright Co., Ltd and vice chairman and president of China Everbright Bank Co., Ltd. since December 2013, and vice president of China Construction Bank Corporation since December 2010. Mr. Zhao held various positions prior to December 2010, including deputy head and head of Business Management of the Credit Department, head of General Corporate Business Management Department, deputy manager of Corporate Business Department in China Construction Bank Corporation. He also served as vice president of China Construction Bank Corporation’s branch in Xiamen, general manager of Business Department and president of China Construction Bank Corporation’s branch in Shanghai. Mr. Zhao received a bachelor’s degree in engineering from Xi’an Jiaotong University and is a Senior Economist in China.”

5. The paragraph headed “Mr. Ouyang Weimin —” under the sub-section “*Directors*” appearing on page 86 of the Offering Circular shall be deemed to be replaced in its entirety by the following:

“**Mr. Ouyang Weimin** — vice chairman, president and executive director. Mr. Ouyang has served as vice chairman, president and executive director since October 2019. From 2018 to 2019, Mr. Ouyang served as vice governor of Guangdong Province. From 2011 to 2017, Mr. Ouyang served as Vice Mayor of Guangzhou, member of the Standing Committee of the CPC Guangzhou Municipal Committee and Deputy Secretary of the CPC Guangzhou Municipal Committee. From 1991 to 2007, Mr. Ouyang held positions with the PBOC. Mr. Ouyang holds a PhD in economics, history of Chinese economic thought major from Fudan University and is a Researcher and a Senior Economist in China.”

6. The paragraph headed “Mr. Zhou Qingyu —” under the sub-section “*Directors*” appearing on page 86 of the Offering Circular shall be deemed to be replaced in its entirety by the following:

“**Mr. Zhou Qingyu** — vice president and executive director. Mr. Zhou has served as our vice president since August 2016, and executive director since October 2017. From 2010 to 2016, Mr. Zhou served as the secretary of our CPC Discipline Inspection Commission. Mr. Zhou had held various positions at Agricultural Bank of China Limited, including general manager of asset risk supervision department, general manager of risk asset management department, head of Guizhou branch, general manager of agricultural credit department, executive deputy director of the office of joint stock reform leading group and director of agricultural business of the Bank. Mr. Zhou obtained a master’s degree in business administration from the Peking University and is a Senior Economist in China.”

7. The paragraph headed “Ms. Zou Jiayi —” under the sub-section “*Directors*” appearing on page 86 of the Offering Circular shall be deemed to be replaced in its entirety by the following:

“**Ms. Zou Jiayi** — vice minister of MOF, member of the leading Party members groups and our government agency director. She has served as our government agency director since May 2019. Ms. Zou has served as the director of the International Division of MOF, the director of the International Economic Relations Division of MOF, the assistant to the minister of MOF, head of the Central Commission for Discipline Inspection of the CPC Central Committee and vice minister of the Ministry of Supervision. Ms. Zou obtained a master’s degree in international relations of Department of World Economy and Politics from the Graduate School of Chinese Academy of Social Sciences.”

8. The paragraph headed “Mr. Wu Zhenpeng —” under the sub-section “*Directors*” appearing on page 87 of the Offering Circular shall be deemed to be replaced in its entirety by the following:

“**Mr. Wu Zhenpeng** — equity director. In August 2020, the second meeting of the Board of Directors in 2020 approved the appointment of Mr. Wu as an equity director of our Bank. Mr. Wu has served as deputy director of the Finance Bureau of Xinjiang Production and Construction Corps. Mr. Wu also served as director of the cadre education center of the MOF, and principal of China Accounting Correspondence School.”

9. The following paragraphs shall be deemed to be deleted under the sub-section “*Directors*” appearing on page 87 of the Offering Circular:

“**Mr. Liu Xiangdong** — equity director. Mr. Liu has served as director at New China Life Insurance as designated by Huijin from 2012 and as our equity director since October 2017. From 2009 to 2012, Mr. Liu served as senior manager of the comprehensive department and designated director of non-banking institutions department at Huijin. From 2003 to 2009, Mr. Liu served as secretary (deputy director level), secretary (director level) and deputy inspector of the general office of the Development Research Center of the State Council. Mr. Liu obtained a doctorate degree in finance from the Renmin University of China.”

“**Mr. Chu Aiwu** — equity director. Mr. Chu has served as director of the central bank asset division of the Financial Stability Bureau at the PBOC since 2012 and as our equity director since October 2017. From 2005 to 2012, Mr. Chu also served as deputy director and director of the Financial Stability Bureau at the PBOC. Mr. Chu obtained a master’s degree in monetary policy and banking from the Southwestern University of Finance and Economics.”

10. The paragraph headed “Mr. Song Xianping —” under the sub-section “*Executive Management*” appearing on page 88 of the Offering Circular shall be deemed to be replaced in its entirety by the following:

**“Mr. Song Xianping** — chief inspector of discipline inspection and supervision assigned by the Central Commission for Discipline Inspection and the National Supervisory Commission of the People's Republic of China. Previously, Mr. Song served as the secretary of Discipline Committee of Agricultural Development Bank of China. He also held several positions in Agricultural Bank of China, including the director of risk management, the general manager of the risk management department and agriculture, rural areas, and farmers risk management center, the president of Jilin Branch and the deputy director of the research department.”

11. The paragraph headed “Mr. Zhou Xuedong —” under the sub-section “*Executive Management*” appearing on page 88 of the Offering Circular shall be deemed to be replaced in its entirety by the following:

**“Mr. Zhou Xuedong** — executive vice president. Mr. Zhou held several positions at the PBOC, including deputy director general of financial stability bureau, head of legal affairs department and president of Nanjing branch. Mr. Zhou also held several positions at SAFE, including director general and director of operation management department of Jiangsu branch, director general of financial stability bureau, director of general office (Party Committee office) and director of Beijing Foreign Exchange Administrative Department.”

12. The following paragraph shall be deemed to be inserted after the paragraph headed “Mr. Zhou Xuedong —” under the sub-section “*Executive Management*” appearing on page 88 of the Offering Circular:

**“Mr. Zhang Hui** — executive vice president. Mr. Zhang has held various positions in Bank of Communications Co., Ltd. (“**Bank of Communications**”), including deputy general manager and general manager of the asset preservation department, deputy general manager and general manager of the risk management department, head of the office of inspection leadership team, chief risk officer and general manager of the risk management department and head of the office of internal control and inspection. He has also served as vice president of Bank of Communications Shanghai Branch and president and vice president of Bank of Communications Guizhou Branch.”

#### **UPDATES TO CERTAIN PROVISIONS RELATING TO CMU SERVICES**

13. The following disclosure (in italics) in “*Terms and Conditions of the Notes*” on page 39 of the Offering Circular:

*“So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global 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 the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in the CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.”*

shall be deleted in its entirety and replaced by the following:

*“So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global 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 the Conditions or by delivery of the relevant notice to the holder of the Global Note or*



*Global Certificate or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the CMU Service for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to be given to the Noteholders on the date on which such notice is delivered to the CMU Service.”*

14. The risk factor entitled “*The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note or Certificate must rely on the procedures of the relevant Clearing System(s)*” in “*Risk Factors*” on page 46 of the Offering Circular shall be deleted in its entirety and replaced by the following:

***“The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note or 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 Certificates. Such Global Notes or Certificates will be deposited with a common depository for Euroclear and Clearstream or lodged with the CMU Service (each of Euroclear, Clearstream and the CMU Service, a “Clearing System”). Except in the circumstances described in the relevant Global Note or 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 or Certificates. While the Notes are represented by one or more Global Notes or 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 Certificates, the relevant Issuer will discharge its payment obligations under the Notes by making payments to the common depository for Euroclear and Clearstream or, as the case may be, in the case of the CMU Service, to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited as being held in the CMU Service in accordance with the CMU Rules. A holder of a beneficial interest in a Global Note or Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The relevant Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Certificates. Holders of beneficial interests in the Global Notes or 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.”

15. The following disclosure in “*Summary of Provisions Relating to the Notes While in Global Form*” on pages 90 and 91 of the Offering Circular:

“If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service 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 Service as entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the relevant 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 Certificate are credited as being held in the CMU Service in respect of each amount so paid.

Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular principal amount of Notes represented by such Global Note or Global

Certificate must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Bank in respect of such Global Note or Global Certificate.”

shall be deleted in its entirety and replaced by the following:

“If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU Service in accordance with the CMU Rules shall be the only person(s) entitled (or in the case of Registered Notes, directed or deemed by the CMU Service as entitled) to receive payments in respect of Notes represented by such Global Note or Global Certificate and the relevant 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 Certificate are credited as being held in the CMU Service in respect of each amount so paid.

Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular principal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU Service for his share of each payment so made by the Bank in respect of such Global Note or Global Certificate.”

16. The following disclosure in “*Summary of Provisions Relating to the Notes While in Global Form*” on page 91 of the Offering Circular:

“The CMU Service may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified.”

shall be deleted in its entirety and replaced by the following:

“The CMU Service may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Issue Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified.”

17. The following disclosure in “*Summary of Provisions Relating to the Notes While in Global Form – Amendments to Conditions – Payments*” on page 93 of the Offering Circular:

“In respect of a Global Note or Global Certificate held through the CMU Service, any payments of principal, premium, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited as being held by the CMU Service of the relevant time (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Global Note or Global Certificate shall be required for such purpose.”

shall be deleted in its entirety and replaced by the following:

“In respect of a Global Note or Global Certificate representing the Notes held through the CMU Service, any payments of principal, premium, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited as being held by the CMU Service (as set out in the record of the CMU Service) at the close of business on the Clearing System Business Day immediately prior to the date for payment and, save in the case of final payment, no presentation of the relevant Global Note or Global Certificate shall be required for such

purpose. For the purposes of this paragraph, "Clearing System Business Day" means a day on which the CMU Service is operating and open for business."

18. The following disclosure in "*Summary of Provisions Relating to the Notes While in Global Form – Amendments to Conditions – Notices*" on page 95 of the Offering Circular:

"So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes 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 the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU Service, 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 CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate."

shall be deleted in its entirety and replaced by the following:

"So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes 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 the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the CMU Service for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to be given to the Noteholders on the date on which such notice is delivered to the CMU Service."

## SUBSCRIPTION AND SALE

19. The sub-section "*Prospectus Regulation public offer selling restriction*" under "*Subscription and Sale - European Economic Area*" appearing on pages 105 and 106 of the Offering Circular shall be deemed to be replaced with:

### **"Prospectus Regulation public offer selling restriction"**

As the Pricing Supplement in respect of the 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 (each, a "**Relevant State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto 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) if the Pricing Supplement in relation to the Notes specifies 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 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 relevant Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (c) 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 relevant Issuer for any such offer; or
- (d) 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 any relevant 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 the 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, as amended.”

20. The following paragraphs shall be deemed to be inserted at the end of the last paragraph under the sub-section “*United Kingdom*” appearing on page 106 of the Offering Circular:

“As the Pricing Supplement in respect of the Notes specifies “Prohibition of Sales to EEA and UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

- (A) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to section 86 of the Financial Services and Markets Act 2000 (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 Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or the Pricing Supplement, as applicable, and the relevant Issuer has consented in writing to its use for the purpose of that Public Offer;
- (B) at any time to any legal entity which is a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”);
- (C) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(D) 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 relevant Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

For the purposes of this provision, the expression “**an offer of Notes to the public**” in relation to the 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 for 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.”