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This announcement and the listing document attached hereto are for information purposes only and do not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Issuer (as defined below). This announcement and the listing document attached hereto are not, and are not intended to be, an offer of securities of the Issuer for sale, or the solicitation of an offer to buy securities of the Issuer, in the United States. The securities referred to in this announcement and the listing document attached hereto have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to registration requirements of the Securities Act. This announcement and the listing document attached hereto are not for distribution, directly or indirectly, in or into the United States. No public offer of the securities referred to herein is being or will be made in the United States.

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Notice to Hong Kong investors: The Issuer confirms that the Notes (as defined below) are intended for purchase by Professional Investors (as defined in Chapter 37 of the Listing Rules) 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 DRAWDOWN OFFERING CIRCULAR

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

Bank 中国光大银行
CHINA EVERBRIGHT BANK

中國光大銀行股份有限公司
China Everbright Bank Company Limited
(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6818)

Issue of U.S.$500,000,000 0.826 per cent. Notes Due 2024 (the "Notes")

(Stock Code: 40837)

under its
U.S.$5,000,000,000 Medium Term Note Programme (the "Programme")

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IMPORTANT NOTICE

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

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

THIS OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of Your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to have represented to CEB International Capital Corporation Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, Citigroup Global Markets Limited and CLSA Limited (each an "**Arranger**" or "**Dealer**" and collectively, the "**Arrangers**" or "**Dealers**"), China Everbright Bank Company Limited (the "**Bank**") or any branch of the Bank located outside of the PRC, as specified as issuer in the relevant Pricing Supplement (each such branch of the Bank, a "**Branch Issuer**" and, together with the Bank, each an "**Issuer**") that (1) you and any customers you represent are not, and that the electronic mail address that you gave us and to which this e-mail has been delivered is not, located in the United States and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that this Offering Circular has been delivered to you 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 authorised to, deliver or disclose the contents of this Offering Circular to any other person. You should not reply by e-mail to this notice, 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.

This Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Arranger or Dealer or any affiliate of such Arranger or Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Arranger or Dealer or such affiliate on behalf of the relevant Issuer in such jurisdiction.

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

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

CHINA EVERBRIGHT BANK COMPANY LIMITED

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

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

Medium Term Note Programme

Under the U.S.$5,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), China Everbright Bank Company Limited (the "**Bank**"), or any branch of the Bank located outside of the PRC, as specified as an issuer in the relevant Pricing Supplement, (each such branch of the Bank, a "**Branch Issuer**" and, together with the Bank, each, an "**Issuer**") may, subject to compliance with all relevant laws, regulations and directives, from time to time issue notes (the "**Notes**") under the Programme. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$5,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of a dealer agreement dated 12 August 2021 entered into by the Bank (on behalf of itself and each Branch Issuer) (the "**Dealer Agreement**").

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

Investing in the Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement (as defined in "*Summary of the Programme*") and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with the Notes. The principal risk factors that may affect the ability of the Bank, or as the case may be, the relevant Branch Issuer to fulfil its obligations in respect of the Notes are discussed under "*Risk Factors*" beginning on page 16.

Application has been made to The Stock Exchange of Hong Kong Limited ("**HKSE**") for the listing of the Programme under which Notes may be issued by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only during the 12-month period after the date of this Offering Circular on the HKSE. This document is for distribution to Professional Investors only.

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

HKSE 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 HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the relevant Issuer or the Bank or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the HKSE 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.

Unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Series of Notes will specify whether or not such Series of Notes will be listed on the HKSE (or listed, traded or quoted on or by any other competent authority, other exchange or quotation system). Notice of the aggregate nominal amount of Notes, interest payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined in "*Summary of the Programme*") of Notes will be set out in the Pricing Supplement which, with respect to Notes to be listed on the HKSE, will be delivered to the HKSE, on or before the date of issue of such series of Notes.

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted by the National Development and Reform Commission of the PRC (the "**NDRC**") pursuant to the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises（國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資 [2015] 2044 號））issued by the NDRC which came into effect on 14 September 2015 and any implementation rules, reports, certificates and guidelines and applicable policies as issued by the NDRC from time to time (the "**NDRC Circular**"). After the issuance of such relevant Tranche of Notes, the relevant Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota (as defined in "*Terms and Conditions of the Notes*").

Each Series of Notes in bearer form ("**Bearer Notes**") 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**", together with the temporary Global Note, the "Global Notes"). Notes in registered form will be represented by registered certificates (each a "**Note Certificate**"), one Note Certificate being issued in respect of each holder's entire holding of Registered Notes of one Series. The Notes of each Series in registered form will initially be represented by a global certificate (each a "**Global Certificate**") without interest coupons. The Global Notes and Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), with a common depositary on behalf of Euroclear and Clearstream or with a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU**"), operated by the Hong Kong Monetary Authority and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear an d/or Clearstream or CMU, or delivered outside a clearing system, as agreed between the relevant Issuer and the relevant Dealer.

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

The Programme is expected to be rated "Baa2" by Moody's Investors Service, Inc. ("**Moody's**") and "BBB+" by S&P Global Ratings, a division of S&P Global Inc. ("**S&P**"). Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. A 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 and Dealers

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

Offering Circular dated 12 August 2021

IMPORTANT NOTICE

Each of the relevant Issuer and the Bank (as to itself and the Group (as defined below)), having made all reasonable enquiries, confirms that (i) this Offering Circular (including any supplements thereto, as of their respective dates of publication) contains all information with respect to the Bank and its subsidiaries ("**Group**"), the relevant Issuer and the Notes which is material in the context of the Programme or the issue, sale, distribution and offering of the Notes (including all information required by applicable laws, regulations and the listing rules of the the Hong Kong Stock Exchange and rules of other relevant stock exchange where the Notes are listed), which, according to the particular nature of the Bank, the relevant Issuer, the Group and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank, the relevant Issuer, the Group and of the rights attached to the Notes, (ii) this Offering Circular, at the date of its publication, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, (iii) the statements contained in this Offering Circular, at the date of its publication are in every material particular true and accurate and not misleading and there are no other facts in relation to the Bank, the relevant Issuer, the Group and the Notes the omission of which would in the context of the issue of the Notes make any statement in this Offering Circular, misleading, (iv) the statements of intention, opinion, belief or expectation contained in this Offering Circular are, at the date of its publication, honestly and reasonably made or held and have been reached after considering all relevant circumstances, and (v) all reasonable enquiries have been and will be made by the Bank and the relevant Issuer to ascertain such facts and to verify the accuracy of all such statements in this Offering Circular.

This Offering Circular includes particulars given in compliance with the HKSE Listing Rules for the purposes of giving information with regard to each of the relevant Issuer and the Bank. Each of the relevant Issuer and the Bank accepts full responsibility for the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statements herein misleading.

Listing of the Programme or any Series of Notes on the HKSE is not to be taken as an indication of the merits of the relevant Issuer, the Bank, its subsidiaries and associated companies (if any), the Group, the Programme or such Series of Notes. In making an investment decision, investors must rely on their own examination of the relevant Issuer, the Bank and the terms of the offering of the Notes, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

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

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

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

UK MiFIR product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") 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 UK MiFIR 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 UK MiFIR Product Governance Rules.

PRIIPS/IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA 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 (the "**EEA**"). 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 EU MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU 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 (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PRIIPS/IMPORTANT – UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to 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 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "UK Prospectus Regulation"). Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Each Series of the Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the Pricing Supplement specific to each Series. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of the Notes, must be read and construed together with the relevant Pricing Supplement. This Offering Circular is to be read in conjunction with all documents, which are deemed to be incorporated by reference (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE)

The Pricing Supplement in respect of any Notes may include a legend entitled "*Singapore Securities and Futures Act Product Classification*" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the "**SFA**").

The relevant Issuer or the Bank will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

No person is or has been authorised by the relevant Issuer or the Bank to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the relevant Issuer, the Bank, or any of the Arrangers or the Dealers (as defined in "*Summary of the Programme*") or the Agents (as defined in "*Terms and Conditions of the Notes*"). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by any of the relevant Issuer, the Bank, any Arranger, any Dealer or any Agents that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer and the Bank. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the relevant Issuer, the Bank, any Arranger, any Dealer or any Agents to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the relevant Issuer, the Bank or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the relevant Issuer, the Bank or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the relevant Issuer, the Bank, the Arrangers, the Dealers or the Agents to inform themselves about and to observe any such restriction.

The Notes are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular, see "*Subscription and Sale*" and the relevant Pricing Supplement.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the relevant Issuer, the Bank, any Arranger, any Dealer or any Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the relevant Issuer, the Bank, the Arrangers, the Dealers or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the relevant Issuer, the Bank, the Arrangers, the Dealers or the Agent which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Japan, the PRC, Hong Kong, Singapore, Macau and Taiwan. See "*Subscription and Sale*" and the relevant Pricing Supplement.

None of the Arrangers, the Dealers or the Agents independently verified the information contained herein. To the fullest extent permitted by law, none of the Arrangers, the Dealers or the Agents accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by any Arranger, Dealer or Agent on its behalf in connection with the relevant Issuer, the Bank, the Programme or the issue and offering of the Notes. Each Arranger, each Dealer and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the Bank or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the relevant Issuer, the Bank, the Arrangers, the Dealers and the Agents that any recipient of this Offering Circular or any financial statements of the Bank or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers or the Agents undertakes to review the financial condition or affairs of the relevant Issuer, the Bank or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers or the Agents.

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Bank and its affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions, with the Bank and its affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the relevant Issuer, the Bank or the Group and the terms of the Notes being offered, including the merits and risks involved. None of the relevant Issuer, the Bank, the Arrangers, the Dealers or the Agents make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with the issue of any Tranche of the Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) 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 for a limited period after the relevant issue date in respect of that Tranche of the Notes. However, stabilisation may not necessarily occur. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

In this Offering Circular, unless otherwise specified, references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "**PRC**" or "**China**" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, references to "**U.S.$**" or "**U.S. dollars**" are to the lawful currency of the United States of America, references to "**Renminbi**" or "**RMB**" are to the lawful currency of the PRC, and references to "**Hong Kong dollars**" or "**HK$**" are to the lawful currency of Hong Kong.

In this Offering Circular, unless otherwise specified, references to:

the "**Bank**" is to China Everbright Bank Company Limited and, as the context may require, its subsidiaries;

the "**Issuer**" is to the Bank or the relevant Branch Issuer as specified as an issuer in the relevant Pricing Supplement;

the "**branch outlet**" include the head office, branches and outlets and other establishments of the Bank;

a "**business day**" is a day that is not Saturday, Sunday or a public holiday in Hong Kong and Singapore; and

the terms "**associate**", "**subsidiary**" and "**substantial shareholder**" shall have the meanings given to such terms in the HKSE Listing Rules, unless the context otherwise requires.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

For convenience only, this Offering Circular contains translations of certain amounts denominated in Renminbi and U.S. dollars. Unless indicated otherwise, the translations between Renminbi and U.S. dollars were made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Further information on exchange rates are set forth in the section headed "*Exchange Rates*" in this Offering Circular.

As at the date of this Offering Circular, the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020; and the Bank's unaudited and unreviewed consolidated financial statements as at and for the three months ended 31 March 2021 (the "**2021 First Quarterly Financial Statements**") are the most recently published financial statements available.

The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2018 and 2019 were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and have been audited by Ernst & Young and are included in the F-pages and are incorporated by reference into this Offering Circular. The Bank adopted new standards, including IFRS 9 – Financial Instruments, IFRS 15 and Amendments – Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note III (1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018.

The audited consolidated financial statements of the Bank as at and for the year ended 31 December 2020 were prepared in accordance with IFRS and have been audited by Ernst & Young and are included in the F-pages of this Offering Circular. The 2021 First Quarterly Financial Statements as at and for the three months ended 31 March 2021 were prepared in accordance with IFRS and have neither been audited nor reviewed by a certified public accountant and are included in the F-pages of this Offering Circular. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2021 should not be taken as an indication of the expected financial condition and results of operations for the Bank for the full financial year ending 31 December 2021.

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

INFORMATION INCORPORATED BY REFERENCE

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

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

Copies of all such documents which are so deemed to be incorporated by reference in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the office of the Bank at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and from the specified office of the Fiscal Agent (as defined under “*Summary of the Programme*”) set out at the end of this Offering Circular.

Each of the Bank and relevant Issuer has given an undertaking to the Dealers that the Bank shall update or amend this Offering Circular (following consultation with the Arrangers who will consult with the Dealers) by the publication of a supplement thereto or a new Offering Circular in a form approved by the Dealers: (i) before agreement is reached for the first issue of Notes by the relevant Issuer occurring after each anniversary of the date of the Dealer Agreement for the purposes of updating all relevant information in the Offering Circular in relation to the financial year of the latest published financial statements of the Bank; and (ii) provided that any Issuer intends to issue Notes under the Programme, in the event that a significant new factor, material mistake or inaccuracy relating to the information included in this Offering Circular arises or is noted which is capable of affecting the assessment of any Notes to be issued under the Programme. Each of the Bank or the relevant Issuer, as the case may be, shall deliver to the Dealers, without charge, from time to time as requested as many copies of any such supplement to the Offering Circular or any such new Offering Circular as the Dealers may reasonably request.

Special Note on Forward-Looking Statements

Certain statements under "*Risk Factors*", "*Business*" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Bank and the plans and objectives of the Bank's management for their future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Bank to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future. The Bank expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Bank's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*", "*Business*" and elsewhere, important factors that could cause actual results to differ materially from the Bank's expectations. All subsequent written and forward- looking statements attributable to each of the Bank or persons acting on behalf of each of them are expressly qualified in their entirety by such cautionary statements.

CONTENTS

SUMMARY OF THE PROGRAMME

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

"**Bank**"..	China Everbright Bank Company Limited. (LEI: 549300U6PKQ4H1P34E17).
"**Issuer**"	The Bank or, a Branch Issuer, specified as issuer in the relevant Pricing Supplement.
"**Programme Size**"..............................	Up to U.S.$5,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in "*Subscription and Sale*")) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
"**Risk Factors**"	Investing in Notes issuable under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Bank, or, the relevant Branch Issuer to fulfil its obligations in respect of the Notes, and risk factors that are material for the assessment of market risks associated with Notes issued under the Programme are discussed under the section "*Risk Factors*" below.
"**Issue Price**"	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly paid Notes may be issued, the issue price of which will be payable in two or more instalments.
"**Status of the Notes**"	The Notes constitute direct, general, unconditional, unsecured and unsubordinated obligations of the relevant Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future, unsecured and unsubordinated obligations of the relevant Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
"**Method of Issue**"...............................	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
"**Clearing Systems**"	Euroclear Bank SA/NV ("**Euroclear**"), Clearstream Banking S.A. ("**Clearstream**"), the Central Moneymarkets Unit Service (the "**CMU**") operated by the Hong Kong Monetary Authority (the "**HKMA**") and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, Fiscal Agent, the CMU Lodging and Paying Agent and the relevant Dealer(s).
"**Form of the Notes**"	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and

	vice versa. No single Series or Tranche may comprise both Bearer Notes and Registered Notes. Each Tranche of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary for Clearstream and/or Euroclear and/or, in respect of CMU Notes, a sub-custodian for the CMU and/ or, as the case may be, any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Global Certificates. Global Certificates representing Registered Notes will be registered in the name of a nominee for one or more of Euroclear and Clearstream and/or, in respect of CMU Notes, the Hong Kong Monetary Authority as the operator of the CMU.
"**Currencies**"	Notes may be denominated in any currency or currencies, agreed between the relevant Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of the Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
"**Denominations**"	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
"**Maturities**"	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or an amount of equivalent value denominated wholly or partly in a currency other than sterling) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") by the relevant Issuer.

"**Notification and Reporting to PBOC or CBIRC**"	Where applicable, the Bank undertakes to (i) duly obtain or complete any approval from, submission, filing or reporting to PBOC or CBIRC in accordance with all applicable PRC laws and regulatory requirements and (ii) provide a notice confirming the same for dissemination to Noteholders and Couponholders in accordance with Condition 20 (*Notices*).
"**NDRC Post-issue Information Report**"	Where the NDRC Circular applies to the Tranche of Notes to be issued, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes to (i) file or cause to be filed with the NDRC the requisite information and documents (the "**NDRC Post-issue Information Report**") within the prescribed timeframe after the Issue Date in accordance with the NDRC Circular and (ii) within ten PRC Business Days after submission of such NDRC Post-issue Information Report, provide a notice confirming the due filing of the NDRC Post-issue Information Report for dissemination to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).
"Benchmark Event"	Notwithstanding the provisions of Condition 7 (*Floating Rate Note Provisions and Index-Linked Interest Note Provisions*), if the Relevant Issuer (in consultation with the Calculation Agent) determines that a Benchmark Event has occurred (or will occur on or prior to the Interest Determination Date relating to the next succeeding Interest Period), when the Rate of Interest (or any relevant component part thereof) remains to be determined by reference to the Reference Rate, then the Benchmark Discontinuation provisions under Condition 7(k) shall apply. "**Benchmark Event**" means: (A) the Reference Rate has ceased to be published for a period of at least five Business Days; or (B) the making of a public statement by the administrator of the Reference Rate that it has ceased, or will cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or (C) the making of a public statement by the supervisor of the administrator of the Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued; or (D) the making of a public statement by the supervisor of the administrator of the Reference Rate that means that such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in circumstances where the same shall be applicable to the Notes; or (E) the making of a public statement by the supervisor of the administrator of the Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of its underlying market, in circumstances where the same shall be applicable to the Notes; or

	(F) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Reference Rate (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable), provided that in the case of paragraphs (B) to (E) above, the Benchmark Event shall occur on: (1) in the case of (B) above, the date of the cessation of the publication of the Reference Rate; (2) in the case of (C) above, the discontinuation of the Reference Rate; (3) in the case of (D) above, the date on which the Reference Rate is prohibited from use or becomes subject to restrictions or adverse consequences (as applicable); or (4) in the case of (E) above, the date on which the Reference Rate is deemed no longer to be representative, (5) and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (1), (2), (3) or (4) above, as applicable).
"**Events of Default**"	Events of Default for the Notes are set out in Condition 14 (*Events of Default*).
"**Cross-acceleration**"	The Notes will contain a cross-acceleration provision as further described in Condition 14(c) (*Cross-acceleration of Bank, Issuer or Subsidiary*).
"**Withholding Tax**".............................	All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the relevant Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Tax Jurisdiction or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. Where such withholding or deduction is made by the Issuer as a result of the Issuer being deemed to be a PRC tax resident by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax at the rate applicable in the PRC on the date of issue of the first Tranche of the Notes (the "**Applicable Rate**"), the Issuer will pay such additional amounts to the extent required as will result in receipt by the Noteholders and Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required. In the event that the Issuer is required to make a deduction or withholding (i) by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax in excess of the Applicable Rate; or (ii) by or within a Tax Jurisdiction (other than the PRC), the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in

	receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note or Coupon in the circumstances as set out in Condition 13(c) (*Additional Tax Amounts*).
"**Redemption**"......................................	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
"**Optional Redemption**"......................	Notes may be redeemed before their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement as described in Condition 10(c) (*Redemption at the option of the Issuer*) and/or the Noteholders to the extent if at all) specified in Condition 10(e) (*Redemption at the option of Noteholders*).
"**Tax Redemption**"	Early redemption for tax reasons will only be permitted as described in Condition 10(b) (*Redemption for tax reasons*).
"**Listing and Trading**".........................	Application has been made to the HKSE for the listing of the Programme on the HKSE under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the HKSE. Separate application may be made for the listing of the Notes on the HKSE. Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies). Unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the HKSE or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
"**Governing Law**"	The Notes, the Deed of Covenant and the Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes, the Deed of Covenant and the Agency Agreement are governed by English law.
"**Arrangers and Dealers**"....................	CEB International Capital Corporation Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, Citigroup Global Markets Limited and CLSA Limited. The Bank may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. In relation to a particular Tranche of Notes, the relevant Issuer may appoint additional dealers. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers"

	are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
"Issuing and Paying Agent, Registrar and Transfer Agent"……………….	Citibank, N.A., London Branch.
"Fiscal Agent and CMU Lodging and Paying Agent"………………………	Citicorp International Limited.

SUMMARY FINANCIAL INFORMATION OF THE BANK

Financial Information as at, and for the years ended, 31 December 2018, 2019 and 2020

The summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 set forth below is derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 and should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 and the notes thereto. The Bank's audited consolidated financial statements as at and for the year ended 31 December 2019 and 2020 are included in F-pages of this Offering Circular.

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020 were prepared in accordance with IFRS and have been audited by Ernst and Young. The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II(1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for years ended 31 December 2018, 2019 and 2020

	For the year ended 31 December			
	2018	**2019**		**2020**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
		(audited)		
Interest income	185,688	210,044	221,475	33,804
Interest expense	(107,524)	(108,126)	(110,778)	(16,908)
Net interest income	78,164	101,918	110,697	16,896
Fee and commission income	22,431	25,977	27,005	4,122
Fee and commission expense	(2,658)	(2,808)	(2,682)	(409)
Net fee and commission income	19,773	23,169	24,323	3,713
Net trading gains	1,071	585	484	74
Dividend income	8	42	15	2
Net gains arising from investment securities	9,862	4,878	5,203	794
Net gains on derecognition of financial assets measured at amortised cost	N/A	22	591	90
Net foreign exchange gains	724	1,339	310	47
Other net operating income	784	986	1,082	165
Operating income	110,386	132,939	142,705	21,781
Operating expenses	(33,706)	(38,429)	(40,271)	(6,147)
Operating profit before impairment	76,680	94,510	102,434	15,634
Credit impairment losses	(35,744)	(48,965)	(56,733)	(8,659)
Other impairment losses	(84)	(382)	(199)	(30)
Impairment losses on assets[(1)]	(35,828)	(49,347)	(56,932)	(8,689)
Losses on investment of joint ventures	-	-	(5)	-
Profit before tax	40,852	45,163	45,497	6,944

	For the year ended 31 December			
	2018	**2019**		**2020**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
		(audited)		
Income tax	(7,131)	(7,722)	(7,592)	(1,159)
Net profit	33,721	37,441	37,905	5,785
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
– Remeasurement of supplementary retirement benefits	(102)	(180)	22	3
– Equity instruments at fair value through other comprehensive income				
– Net change in fair value	3	6	2	–
– Related income tax effect.......................................	(1)	(2)	–	–
Items that will be reclassified to profit or loss:				
– Debt instruments at fair value through other comprehensive income				
– Net Change in fair value	2,982	3,158	(636)	(97)
– Changes in allowance for expected credit losses.....	(311)	409	(219)	(33)
– Reclassified to the profit or loss upon disposal	1,095	(1,982)	(774)	(118)
– Related income tax effect.......................................	(957)	(374)	406	62
– Exchange differences on translation of financial statements	67	48	(148)	(23)
Subtotal...	2,876	1,259	(1,371)	(209)
Other comprehensive income, net of tax...................	2,776	1,083	(1,347)	(206)
Total comprehensive income	36,497	38,524	36,558	5,580
Net profit attributable to:				
Equity shareholders of the Bank	33,659	37,354	37,824	5,773
Non-controlling interests	62	87	81	12
	33,721	37,441	37,905	5,785
Total comprehensive income attributable to:				
Equity shareholders of the Bank	36,434	38,436	36,480	5,568
Non-controlling interests	63	88	78	12
	36,497	38,524	36,558	5,580
Basic earnings per share (in RMB/Share)	0.61	0.68	0.68	–
Diluted earnings per share (in RMB/Share)	0.55	0.62	0.61	–

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

Consolidated Statement of Financial Position as at 31 December 2018, 2019 and 2020

	As at 31 December			
	2018	2019		2020
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]
		(audited)		
Assets				
Cash and deposits with the central bank	366,575	364,340	360,287	54,991
Deposits with banks and other financial institutions ..	41,005	31,358	46,059	7,030
Precious metals	23,628	10,826	9,353	1,428
Placements with banks and other financial institutions	96,685	60,270	69,290	10,576
Derivative financial assets	15,212	13,805	25,264	3,856
Financial assets held under resale agreements	37,773	6,835	43,592	6,653
Loans and advances to customers	2,361,278	2,644,136	2,942,435	449,103
Finance lease receivables	63,333	83,723	100,788	15,383
Financial investments	1,301,080	1,433,546	1,670,415	254,955
Financial assets at fair value through profit or loss	222,737	211,406	304,908	46,538
Debt instruments at fair value through other comprehensive income	153,987	180,005	222,807	34,007
Equity instruments at fair value through other comprehensive income	367	623	875	134
Financial investments measured at amortised cost	923,989	1,041,512	1,141,825	174,277
Investment in joint ventures	–	–	257	39
Property, plant and equipment	18,241	19,342	23,301	3,556
Right-of-use assets	–	11,684	11,137	1,700
Goodwill	1,281	1,281	1,281	196
Deferred tax assets	10,794	16,306	19,587	2,989
Other assets	20,447	35,979	45,064	6,878
Total assets	4,357,332	4,733,431	5,368,110	819,334

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

	As at 31 December			
	2018	2019		2020
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]
		(audited)		
Liabilities and equity				
Liabilities				
Due to the central bank	267,193	224,838	241,110	36,801
Deposits from banks and other financial institutions .	490,091	444,320	469,345	71,636
Placements from banks and other financial institutions	152,037	166,225	161,879	24,708

	As at 31 December			
	2018	2019		2020
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
		(audited)		
Financial liabilities at fair value through profit or loss	354	100	4	1
Derivative financial liabilities	14,349	13,893	25,778	3,934
Financial assets sold under repurchase agreements	40,411	25,603	14,182	2,165
Deposits from customers	2,571,961	3,017,888	3,480,667	531,254
Accrued staff costs	8,028	13,667	15,169	2,315
Taxes payable	5,666	9,322	8,772	1,339
Lease liabilities	N/A	11,069	10,762	1,643
Debt securities issued	440,449	371,904	440,870	67,290
Other liabilities	44,320	48,548	44,574	6,803
Total liabilities	4,034,859	4,347,377	4,913,112	749,887
Equity				
Share capital	52,489	52,489	54,032	8,247
Other equity instrument	35,108	70,067	109,062	16,646
– Preference shares	29,947	64,906	64,906	9,907
– Perpetual bonds	–	–	39,993	6,104
Capital reserve	53,533	53,533	58,434	8,919
Other comprehensive income	1,655	2,737	1,393	213
Surplus reserve	24,371	26,245	26,245	4,006
General reserve	54,036	59,417	67,702	10,334
Retained earnings	100,296	120,494	136,581	20,846
Total equity attributable to equity shareholders of the Bank	321,488	384,982	453,449	69,211
Non-controlling interests	985	1,072	1,549	236
Total equity	322,473	386,054	454,998	69,447
Total liabilities and equity	4,357,332	4,733,431	5,368,110	819,334

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

Financial Information as at and for the three months ended 31 March 2020 and 2021

The selected unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2020 and 2021 is extracted from the 2021 First Quarterly Financial Statements, included in the quarterly reports of the Bank published on 28 April 2021.

The Bank has also adopted new standards namely IFRS 16 – Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases and recognise depreciation and interest expense respectively. According to the transitional regulations, enterprises are not subject to restating comparable figures for previous periods. Therefore, the Bank has disclosed its accounting statements in accordance with IFRS 16 without restating the comparable figures for the end of 2018. Its implementation has no material impact on the financial report of the Bank.

The 2021 First Quarterly Financial Statements (which include the comparative financial information as at and for the three months ended 31 March 2020) included in this Offering Circular have neither been audited nor reviewed. The 2021 First Quarterly Financial Statements only contain the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of financial position and the consolidated cash flow statement of the Bank and does not contain any financial notes. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review.

None of the relevant Issuer, the Bank, the Group, the Arrangers and the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2020 and 2021, in respect of any financial year for an assessment of the Bank's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2020 and 2021, in respect of any financial year should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2021.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's unaudited and unreviewed consolidated financial statements as at and for the three months ended 31 March 2020 and 2021, which are included in the F-pages of this Offering Circular.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2020 and 2021

	For the three months ended 31 March		
	2020		**2021**
	(RMB in millions)	*(RMB in millions)*	*(U.S.$ in millions)*
	(Unaudited and unreviewed)	*(Unaudited and unreviewed)*	*(Unaudited and unreviewed)*
Interest income	54,772	55,977	8,544
Interest expense	(27,626)	(28,101)	(4,289)
Net interest income	27,146	27,876	4,255
Fee and commission income	7,916	8,465	1,292
Fee and commission expense	(580)	(641)	(98)
Net fee and commission income	7,336	7,824	1,194

	For the three months ended 31 March		
	2020		2021
	(RMB in millions)	*(RMB in millions)*	*(U.S.$ in millions)*
	(Unaudited and unreviewed)	*(Unaudited and unreviewed)*	*(Unaudited and unreviewed)*
Net trading gains	234	450	69
Dividend income	–	–	–
Net gains arising from investment securities	2,383	2,140	326
Net gains on derecognition of financial assets measured at amortised cost	12	214	33
Net foreign exchange (losses)/gains	(15)	11	2
Other net operating income	228	252	38
Operating income	37,324	38,767	5,917
Operating expenses	(9,694)	(10,252)	(1,565)
Operating profit before impairment	27,630	28,515	4, 352
Credit impairment losses	(14,514)	(13,957)	(2,130)
Other impairment losses	(19)	31	4
Losses on investment of joint ventures	-	(28)	(4)
Profit before tax	13,097	14,561	2,222
Income tax	(2,224)	(3,001)	(458)
Net profit	10,873	11,560	1,764
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits			
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value	(2)	–	–
– Related income tax effect	–	–	–
Subtotal	(2)	–	–
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net Change in fair value	2,520	(628)	(96)
– Changes in allowance for expected credit losses	314	164	25
– Reclassified to the profit or loss upon disposal	(146)	(13)	(2)
– Related income tax effect	(684)	99	15
– Exchange differences on translation of financial statements	56	(1)	0
Subtotal	2,060	(379)	(58)
Other comprehensive income, net of tax	2,058	(379)	(58)
Total comprehensive income	12,931	11,181	1,707

	For the three months ended 31 March		
	2020		2021
	(RMB in millions)	*(RMB in millions)*	*(U.S.$ in millions)*
	(Unaudited and unreviewed)	*(Unaudited and unreviewed)*	*(Unaudited and unreviewed)*
Net profit attributable to:			
Equity shareholders of the Bank	10,831	11,515	1,758
Non-controlling interests	42	45	7
	10,873	11,560	1,764
Total comprehensive income attributable to:			
Equity shareholders of the Bank	12,887	11,136	1,700
Non-controlling interests	44	45	7
	12,931	11,181	1,707
Basic earnings per share (in RMB/Share)	0.19	0.18	–
Diluted earnings per share (in RMB/Share)	0.17	0.17	–

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

Consolidated Statement of Financial Position as at 31 March 2020 and 2021

	As at 31 March	
	2021	
	(RMB in millions)	*(U.S.$ in millions)*[(1)]
	(unaudited and unreviewed)	
Assets		
Cash and deposits with the central bank	365,519	55,789
Deposits with banks and other financial institutions	31,999	4,884
Precious metals	9,506	1,451
Placements with banks and other financial institutions	67,037	10,232
Derivative financial assets	19,063	2,909
Financial assets held under resale agreements	28,332	4,324
Loans and advances to customers	3,089,231	471,509
Finance lease receivables	106,530	16,260
Financial investments	1,757,059	268,180
Financial assets at fair value through profit or loss	352,121	53,744
Debt instruments at fair value through other comprehensive income	281,313	42,937
Equity instruments at fair value through other comprehensive income	875	134
Financial investments measured at amortised cost	1,122,750	171,365
Investment in joint ventures	327	50
Property, plant and equipment	23,162	3,535
Right-of-use assets	10,974	1,675
Goodwill	1,281	195
Deferred tax assets	19,735	3,012
Other assets	51,936	7,927
Total assets	5,581,691	851,932

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

	As at 31 March	
	2021	
	(RMB in millions)	*(U.S.$ in millions)*[(1)]
	(unaudited and unreviewed)	
Liabilities and equity		
Liabilities		
Due to the central bank	229,486	35,026
Deposits from banks and other financial institutions	444,286	67,811
Placements from banks and other financial institutions	183,152	27,954
Financial liabilities at fair value through profit or loss	1,273	194
Derivative financial liabilities	18,841	2,876
Financial assets sold under repurchase agreements	38,473	5,872
Deposits from customers	3,585,545	547,261
Accrued staff costs	14,266	2,178
Taxes payable	10,651	1,626
Lease liabilities	10,502	1,603
Debt securities issued	532,364	81,255
Other liabilities	48,373	7,383
Total liabilities	5,117,212	781,039
Equity		
Share capital	54,032	8,247
Other equity instrument	109,062	16,646
– Preference shares	64,906	9,907
– Perpetual bonds	39,993	6,104
Capital reserve	58,434	8,919
Other comprehensive income	1,014	155
Surplus reserve	26,245	4,006
General reserve	67,742	10,339
Retained earnings	146,376	22,341
Total equity attributable to equity shareholders of the Bank	462,905	70,653
Non-controlling interests	1,574	240
Total equity	464,479	70,893
Total liabilities and equity	5,581,691	851,932

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

RISK FACTORS

Investors should carefully consider, together with all other information contained in this Offering Circular, the risks and uncertainties described below. The business, financial condition or results of operations of the Bank may be materially and adversely affected by any of these risks. The Bank believes the risks described below represent the principal risks inherent when considering an investment in the Notes. The risks described below are not the only ones relevant to the relevant Issuer, the Bank or the Notes. Additional risks and uncertainties not presently known to the Bank, or which the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors.

RISKS RELATING TO THE BANK'S LOAN PORTFOLIO

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

The Bank's results of operations may be negatively impacted by its non-performing loans ("**NPL**"). As at 31 December 2018, 2019 and 2020, the Bank's non-performing loan ratio ("**NPL ratio**") was 1.59 per cent.,1.56 per cent. and 1.38 per cent. respectively, and the Bank's total NPL was RMB38,421 million, RMB42,212 million and RMB41,666 million, respectively. The Bank could experience upward pressure resulting from a number of factors including a downturn in the economic cycle or economic volatility and disruptions. Hence, there can be no assurance that the Bank will be able to maintain the Bank's NPL ratio at the current relatively low level in the future or that the quality of the Bank's existing or future loans and advances to customers will not deteriorate. The Bank's NPL ratios as at the above-mentioned dates may not fully reflect the actual changes to the Bank's asset quality due to the Bank's collective disposal of NPL.

The quality of the Bank's loan portfolio may deteriorate due to various reasons, most of which are beyond the Bank's control, such as slower than expected recoveries of the PRC or global economies, deterioration of the global credit environment, other adverse macroeconomic trends in the PRC or globally and the occurrence of natural disasters or other catastrophes, all of which could adversely impact the Bank's borrowers' businesses, financial conditions or liquidity and in turn impair their repayment abilities. The actual or perceived deterioration in creditworthiness of the Bank's borrowers, decline in real property prices, increases in unemployment rate and decreases in profitability of the Bank's borrowers may also have an adverse impact on the Bank's asset quality and may lead to significant increases in the provision made for the Bank's impaired loans, as well as impairment loss on loan. As at 31 December 2020, the impairment loss on loan and advances to customers increased from RMB47,786 million to RMB53,353 million. If any of the Bank's NPL or the provision made for the Bank's impaired loans or the impairment loss on loan significantly increases in the future, the Bank's results of operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its abilities to effectively manage its credit risk and to maintain or improve the quality of its loan portfolio. There can be no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from any deficiencies or are adequate to manage all credit risks faced by the Bank. Failure of the Bank's credit risk management policies, procedures, or systems may lead to an increase in the Bank's NPL and adversely affect the quality of the Bank's loan portfolio.

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

As at 31 December 2018, 2019 and 2020, the coverage ratio of the Bank's provisions for NPL to total NPL was 176.16 per cent., 181.62 per cent. and 182.71 per cent., respectively, which is consistently above the standard provision coverage ratio of 150 per cent. as prescribed under the Administrative Measures for the Loan Loss Reserves of Commercial Banks (商業銀行貸款損失準備管理辦法) issued by China Banking Regulatory

Commission (the "**CBRC**", which later merged with the China Insurance Regulatory Commission into China Banking and Insurance Regulatory Commission (the "**CBIRC**"), which shall be responsible for the duties previously performed by the CBRC) (the "**Rules**"). As at 31 December 2020, the provision coverage ratio reached 182.71 per cent., up by 1.09 percentage points as compared to 31 December 2019. The Rules provide that the standard provision coverage ratio may be adjusted by CBIRC in response to the prevailing macroeconomic environment or individually adjusted and applied to a relevant bank depending on such bank's operating conditions. In accordance with the Rules, a warning would be issued by CBIRC to a relevant bank if such provision coverage ratio was below the applicable level for three consecutive months, requesting for such bank's rectification; if such event subsists for at least six consecutive months, CBIRC may impose on the relevant bank administrative and regulatory measures as provided under the Banking Industry Supervision and Administration Law of the PRC (中華人民共和國銀行業監督管理法). CBIRC may adjust the coverage ratio for NPL from time to time. There can be no assurance that the Bank's provision coverage ratio will not fall below the ratio prescribed by CBIRC.

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

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

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

The Bank's loans and advances to customers have grown significantly in the past few years, increasing from RMB2,361,278 million as at 31 December 2018 to RMB2,942,435 million as at 31 December 2020. The growth of the Bank's loan portfolio may be affected by various factors, such as the PRC's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow, or the balance of the Bank's loan portfolio may even decline. In addition, in response to constraints on the Bank's regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby materially and adversely affect the Bank's business, financial condition and results of operations.

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

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

For example, on 26 February 2013, the PRC State Council (the "**State Council**") promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market （國務院辦公廳關於繼續做好房地產市場調控工作的通知）, which requires banking institutions to implement differentiated housing credit policies, further implement the policy of down payment ratio and mortgage rate for first-time house buyers and tighten the credit policies for buyers of second or additional homes, and the said regulation also imposes a personal income tax on the profit generated from sale of residential property. Such measures may slow down the development of the residential real estate market in the PRC, hinder an increase in residential mortgages and reduce the average amount of residential mortgages, and thus have a material adverse impact on the Bank's retail banking business. However, such policies are subject to further change and implementation by banks in the PRC. On 1 February 2016, the People's Bank of China ("**PBOC**") and CBRC issued a notice regarding purchase of second residential property and first ordinary owner-occupied residential property. Such notice requires that for a household owning one residential property with outstanding housing loans on that property and applying for housing loans for the purchase of a second ordinary owner-occupied residential property for the purpose of improving housing conditions, the minimum down payment ratio of the loan shall be not less than 30 per cent. The notice also requires that in the cities where no residential property purchase restriction policies are implemented, for households purchasing their first ordinary owner-occupied residential property, the minimum down payment ratio of the loan shall be not less than 25 per cent. in principal, but may be decreased by 5 per cent. at the discretion of the local authorities. On December 28, 2020, the PBOC and the CBIRC promulgated the Notice on Establishing the Regulatory Mechanism on the Concentration Ratio of Real Estate Loans for Banking Financial Institutions (關於建立銀行業金融機構房地產貸款集中度管理制度的通知), which requires that the percentage of 1) the balance of real estate loans of a banking financial institution to its balance of RMB loans; and 2) the balance of personal residential loans of such banking financial institution to its balance of RMB loans shall not exceed the caps prescribed by the PBOC and CBIRC. Banking financial institutions shall adjust their business within the transitional period of two years (for those not exceeding 2 per cent. of the prescribed caps) or four years (for those exceeding 2 per cent. of the prescribed caps).

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

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

As at 31 December 2018, 2019 and 2020, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which, in aggregate, represented 38.19 per cent., 37.85 per cent. and 38.21 per cent. of the balance of the Bank's total loans and advances, respectively. If any of the industries which dominates a relatively large portion of the Bank's loans experiences a slowdown in the future, the Bank's NPL may increase and the extension of the Bank's new loans may be negatively affected. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As mentioned above, the Bank is exposed to risks relating to the real estate market through its personal residential housing mortgage loans and other loans secured by real estate collateral. As at 31 December 2020, the Bank's personal residential housing mortgage loans represented 38.37 per cent. of the Bank's total personal loans and advances. In recent years, the PRC government has been imposing and may continue to impose various macroeconomic measures with an aim of cooling the overheated real estate market in the PRC, such as setting minimum down payment requirements and minimum mortgage rates on residential housing purchases, imposing value-added taxes on the transfer of certain residential properties and levying mandatory personal income tax for second home sales. Such measures may adversely affect the growth and quality of the Bank's personal residential housing mortgage loans and loans to the real estate industry. In addition, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and the Bank's ability to generate new loans and recover on its loans in the event of default, which in turn could have a material adverse effect on the Bank's business, financial condition and results of operations.

As at 31 December 2020, loans provided by the Bank to its top ten customers totalled RMB46,811 million, which represented 1.56 per cent. of the Bank's total loans and advances and 8.77 per cent. of the Bank's net capital. However, if the quality of any of the loans to the above or other single-borrowers or group-borrowers with large borrowing amounts deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Moreover, the Bank also provides loans to small-and medium-sized enterprises ("**SMEs**"). The Bank's loans to SMEs are generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. SMEs may also be more likely to suffer from inadequate or ineffective internal control or risk management systems and may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In addition, PBOC has implemented a variety of measures to reduce the cost of borrowing for companies that have been hit hard by the outbreak of Coronavirus Disease 2019 ("**COVID-19**"), including lowering the loan interest rates. In February 2020, PBOC reduced the one-year loan prime rate from 4.15 per cent. to 4.05 per cent., and the five-year rate from 4.80 per cent. to 4.75 per cent. which was the first reduction since November 2019. One-year and five-year loan prime rates were further reduced to 3.85 per cent. and 4.65 per cent. respectively in June 2020 and remain at that level as at April 2021. There can be no assurance that the risk management measures adopted by the Bank for the loans to SMEs will effectively reduce or eliminate the risks relating to such customers. If the quality of the Bank's loans to SMEs deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank provides a majority of its corporate loans to customers in certain regions or industries. If these regions or industries encounter operational or cash flow problems due to the economic cycle or economic transformations, the Bank's NPL associated with such regions or industries could experience upward pressure. As at 31 December 2020, approximately 65.41 per cent. of the Bank's total loans and advances to customers were generated from the Bank's branches located in the Yangtze River Delta, Central China, Pearl River Delta and Bohai Rim regions in aggregate. If the economies in those regions experience a slowdown or deteriorate or face local, regional or systemic risks, or if the Bank's credit risk assessments of the borrowers who are located at or conduct substantial business activities in those areas are inaccurate, the Bank's NPL may increase. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

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

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

In recent years, with the aim of reinforcing the risk management of loans to LGFVs, the State Council, CBIRC and PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to LGFVs. In September 2014, the State Council released the Opinion on Enhancing the Administration of Fiscal Debts of Local Governments (關於加強地方政府性債務管理的意見) ("**Circular 43**"), pursuant to which LGFVs shall no longer serve the fiscal financing functions nor incur new government debts. In addition, Circular 43 sets forth the general principles of dealing with existing debts of LGFVs. Based on the audit results of such debts run by the local governments, LGFVs' existing debts that should be repaid by the local governments shall be identified, reported to the State Council for approval, and then included in the budget plan of local governments. If the local government or the State Council does not approve all or any portion of such debts to be repaid with local government public funds, the LGFVs' financial condition and debt-repayment ability may be materially adversely affected. In addition, media publications have continued to express concerns about LGFV debt levels. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to LGFVs and enhancing the mortgages and guarantees on such loans, any unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments, or other factors may adversely affect the debt repayment abilities of these LGFVs and other government-related entities, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations. For the Bank's risk management measures relating to the Bank's loans to LGFVs, see "*Risk Management − Credit Risk Management − Management of Credit Risk Associated with Corporate Credit Business*".

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

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

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

A significant portion of the Bank's loan portfolio is secured by collateral or guarantees. As at 31 December 2020, 33.83 per cent., 11.28 per cent. and 23.62 per cent. of the Bank's total loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing the Bank's loans primarily comprised of real estate properties and other assets located in the PRC. The value of the collateral securing the Bank's loans is usually higher than the amount of the corresponding loans but such value may significantly decline due to factors beyond the Bank's control, such as a slowdown in the PRC economic growth or a downturn of the PRC's real estate market. A slump in the PRC's real estate market may result in a decline in the value of the real estate properties securing the Bank's loans to a level below the outstanding balances of the principal and interest of such loans. Any such decline may reduce the amount the Bank may be able to recover from such collateral and, as a result, increase the Bank's impairment losses.

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

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

In the PRC, the procedures for liquidating or otherwise realising the value of collateral may be protracted and it may be difficult in practice to enforce claims on such collateral. For example, pursuant to the Directive on Foreclosure of Mortgages on Residential Properties issued by the Supreme Court of the PRC (最高人民法院關於人民法院執行設定抵押的房屋的規定), effective from 21 December 2005 and further amended in December 2008, a PRC court may not enforce the eviction of an enforcee and his or her dependents from the mortgaged principal residence within six months after it has rendered its judgment on the auction, sale or liquidation of such property for repayment purpose. Such directive has been abolished on 1 January 2021 while there is no replacing rules specifying whether such grace period is still applicable or not, As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing its NPL.

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

RISKS RELATING TO THE BANK'S BUSINESS

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

The Bank's business is inherently subject to global capital market fluctuations and general economic conditions. Global market factors, including economic growth rates, inflation, deflation, interest rates, credit spreads, equity prices, real estate markets, energy prices, foreign currency exchange rates, consumer spending, business investment, government spending and the volatility and strength of the capital markets all affect the business and economic environment and, ultimately, the amount and profitability of the Bank's business. In particular, uncertain economic conditions, volatility and disruptions in global capital markets, such as those that occurred in late 2008 and 2009 during the global financial crisis and in 2020 and 2021 due to outbreak and spread of COVID-19, can have a material adverse effect on the Bank.

The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product ("**GDP**") in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally. In 2018, the PRC Government reported a GDP of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a GDP of RMB98.6515 trillion, representing year-on-year growth of 6.0 per cent. In 2020, the PRC Government reported a GDP of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. Although the PRC Government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. Furthermore, the sustained tension between the United States and China over trade policies could undermine the stability of the global economy. The United States and China have been involved in disputes over trade barriers that have escalated into a trade war between the two countries. Both countries have implemented tariffs on certain imported products from the other, casting uncertainty over tariffs and barrier to entry for products on both sides. The two governments have entered into an initial phase one agreement to resolve the disputes on 15 January 2020. However, there are uncertainties as to when and whether the phase two negotiations will begin and whether the two governments will fulfil their respective obligations under the phase one agreement. There are also uncertainties between the United States and China given the newly elected administration of President Joseph R. Biden, whose policy and strategy remain to be seen.

In addition, on 31 January 2020, the United Kingdom officially exited the European Union ("EU") following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which was rectified in April 2021 by the European Parliament and the Council of the EU. Given the lack of precedent, it is unclear how Brexit and the implementation of the EU-UK Trade and Cooperation Agreement would affect the fiscal, monetary and regulatory landscape within the UK, the EU and globally. Moreover, there are ongoing concerns about European sovereign debt levels, negative interest rate and the consequences for economic growth and investor confidence in the Eurozone, political gridlock in the United States over government spending, debt levels and civil rights issues and the consequences for economic growth and investor confidence in the United States, and the uncertainty around the Federal Reserve's future monetary policies. All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies, which may have a material adverse impact to the Bank's business, prospects, financial conditions and results of operations.

On 12 March 2020, the World Health Organisation declared COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in many countries, including China, India, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic has significantly disrupted the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. In early 2021, vaccination programmes have been rolled out in various countries, including the United States, China, the EU and UK. However, the effect of the vaccination programmes on the COVID-19 pandemic remains uncertain, and many countries, including India, are experiencing another wave of the COVID-19 pandemic. As the COVID-19 pandemic, and in some cases new variants of COVID-19 that could be more contagious, continues to adversely affect business activities globally, governments and central banks across the world have introduced or are planning fiscal and monetary stimulus measures including direct subsidies, tax cuts, interest rates cuts, quantitative easing programmes and suspension or relaxation of prudential bank capital requirements. These measures aim to contain the economic impact of the COVID-19 pandemic, stabilise the capital markets and provide liquidity easing to the markets. In addition, the PRC regulators have promulgated a series of measures to encourage PRC financial institutions to increase financial support to business and consumers to combat the challenges arising from the COVID-19 pandemic. Coupled with the impact of global COVID-19 pandemic, China was faced with decline in domestic consumption, investment, imports and exports in 2020, as well as employment pressure. China has since made great progress in pandemic management and control and domestic work and production have generally resumed. China's economic growth remains resilient, and the fundamentals of China's long-term economic growth have not changed.

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

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of NPL, allowances for impairment losses and write-offs;
- the increased regulation and supervision by the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs;
- the value of the Bank's investments in the equity and debt securities issued by overseas governments and financial institutions may significantly decline;
- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and
- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

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

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

As with most PRC commercial banks, the Bank's results of operations depend to a large extent on the Bank's net interest income. For the years ended 31 December 2018, 2019 and 2020, the Bank's net interest income represented 70.81 per cent., 76.67 per cent. and 77.57 per cent., respectively, of the Bank's operating income. Increasing competition in the banking industry and further liberalisation of the PRC interest rate regime may affect the volatility of interest rates. Changes in the PBOC benchmark interest rates or volatility in market interest rates may adversely affect the Bank's net interest income, which may adversely affect the Bank's business, financial condition and results of operations.

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

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

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

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

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

On 7 June 2012, CBRC promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (the "**Capital Management Rules**", which superseded the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) and became effective on 1 January 2013. According to the Capital Management Rules, the minimum capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. A commercial bank is also subject to the capital conservation buffer over and above the minimum capital requirement at 2.5 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital, and under certain circumstances, a countercyclical buffer of between 0 and 2.5 per cent. of total risk weighted assets comprised of core tier-1 capital, and if a commercial bank is designated as a domestic systematically important commercial bank by the CBIRC, such bank is subject to requirement of additional 1 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital. The overall capital adequacy ratio requirements (not counting countercyclical buffer or any other prudential requirements as may be imposed by CBIRC from time to time) are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. The Bank issued RMB40 billion undated tier-1 capital bonds in September 2020. As at 31 December 2020, the Bank's common equity tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio were 9.02 per cent., 11.75 per cent. and 13.90 per cent., respectively. Although these capital adequacy ratios were in compliance with the relevant PRC laws and regulations, certain developments could affect the Bank's ability to satisfy the capital adequacy requirements in the future, including but not limited to:

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

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

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

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

Furthermore, CBIRC may increase the minimum capital adequacy ratios requirements or change the methodology for calculating net capital or capital adequacy ratios or the Bank may otherwise be subject to new capital adequacy requirements. For example, PBOC and CBIRC released the Assessment Measures for Systematically Important Banks (系統重要性銀行評估辦法) (the "**D-SIB Assessment Measures**") on 3 December 2020. According to the D-SIB Assessment Measures, domestic banks with asset balance ranked as top 30 will be assessed to determine whether they are to be designated as domestic systemically important banks ("**D-SIB**"). As at the date of this Offering Circular, no official list of D-SIBs has been published. Banks that are designated as D-SIBs will be subject to more specific and tighter regulations, in particular higher capital requirement, which aim to strengthen banks' risk prevention and absorption capacity, such as those proposed under the Ancillary Regulatory Provision for Systematically Important Banks (Trial) (Exposure Draft) (系統重要性銀行附加監管規定（試行）（征求意見稿）) which was released on 2 April 2021 for public comments.

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

The Bank is subject to currency risk.

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

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

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

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

Deposits from customers are the Bank's primary source of funding. From 31 December 2018 to 31 December 2020, the Bank's total deposits from customers (including accrued interest) grew from RMB2,571,961 million to RMB3,480,667 million. However, there are many factors that may affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of other investment channels and retail customers' changing perceptions toward savings.

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

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

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

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

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

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

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

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

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

In recent years, the Bank has taken actions to expand its operations outside Mainland China. As at 31 December 2020, it had five overseas institutions outside Mainland China, with branches in Hong Kong, Seoul, Luxembourg and Sydney and a representative office in Tokyo. The application for establishing the Bank's Macau Branch was approved by CBIRC in November 2020.

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

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

In recent years, with the slowdown in the growth of deposits in the PRC banking industry as a whole, competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including the Bank, have been expanding their offering of wealth management products and services to customers. In September 2019, CBIRC approved the establishment of Everbright Wealth Management Co., Ltd. as China's first wealth management subsidiary under a joint-stock commercial bank, driving the Bank's initiative of "building a first-class wealth management bank". The Bank's wealth management service fees amounted to RMB876 million, RMB634 million and RMB2,518 million, respectively, for the years ended 31 December 2018, 2019 and 2020.

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

In addition, the tenors of wealth management products issued by the Bank are often shorter than those of the underlying assets. This mismatch subjects the Bank to liquidity risk and requires the Bank to issue new wealth management products, sell the underlying assets or otherwise address the funding gap when existing wealth management products mature. PRC regulatory authorities have introduced regulatory policies to restrict the scale of PRC commercial banks' investments in non-standard debt-based assets with funds raised from wealth management products. In addition, the newly approved wealth management subsidiary is also under constant regulation under PRC regulatory authorities, such as Administration Measures of Wealth Management Subsidiary of Commercial Banks (商業銀行理財子公司管理辦法) and Administrative Measures on Net Capital of Wealth Management Subsidiary of Commercial Banks (Trial) (商業銀行理財子公司淨資本管理辦法（試行）). Furthermore, PRC regulatory authorities issued Opinions on Financial Support for the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area in April 2020, contemplating a cross-border Wealth Management Connect scheme, enabling individual investors on either side to directly invest in each other's stocks, bonds or wealth management products. If PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, it could materially and adversely affect the Bank's business, financial condition and results of operations.

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

In the Bank's ordinary course of business, the Bank provides its customers with credit commitments and guarantees, including commitments and guarantees not reflected on the Bank's balance sheet under the relevant accounting principles, such as bank acceptance bills, letters of guarantee, letters of credit and other credit commitments to guarantee the performance of the Bank's customers. The Bank may be exposed to credit risk relating to its credit commitments and guarantees because these may need to be fulfilled by the Bank in certain circumstances. If the Bank is unable to receive repayment from its customers in respect of the commitments and guarantees that the Bank is called upon to fulfil, the Bank's financial condition and results of prospects could be materially and adversely affected.

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

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

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

Apart from the Bank's businesses of taking deposits, providing loans and credit and providing fee-and commission-based products and services, the Bank also engages in a range of investment activities. As at 31 December 2020, financial investments measured at amortised costs were the largest component of the Bank's total investment in securities and other financial assets. The Bank's returns on investment and its profitability may be materially and adversely affected by the foreign exchange rate, credit and liquidity conditions, the performance and volatility of capital markets, asset values and macroeconomic and geopolitical conditions. Any adverse changes in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment portfolio and could have a material and adverse effect on the Bank's business, financial condition and results of operations.

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

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

In recent years, the Bank has made substantial investments in debt securities classified as receivables, which include investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions. Due to the adoption of IFRS 9, debt securities classified as receivables has been reclassified, which has resulted in adjustments to the other line items recognised under total investment in securities and other financial assets. As at 31 December 2020, the Bank's investments in securities and other financial assets (which includes financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income, financial investments measured at amortised cost and derivative financial assets) amounted to RMB1,695,679 million.

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

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

The Bank has previously recorded net cash outflows and there can be no assurance that the Bank will not record net cash outflow positions in the future.

The Bank recorded net cash inflows of RMB39,757 million and RMB30,355 million for the years ended 31 December 2018 and 2020. For the year ended 31 December 2019, the Bank recorded net cash outflows of RMB70,181 million, which were primarily due to net cash outflows from investing activities of RMB74,423 million and net cash outflows from financing activities of RMB61,453 million, and were partially offset by net cash inflows from operating activities of RMB65,100 million. The Bank's net cash outflows from investing activities were primarily due to acquisition of investment, and net cash outflows from financing activities were primarily due to payment of debt principal. There can be no assurance that the Bank will not record net cash outflow positions in the future due to other reasons, including the risk factors disclosed herein. If the Bank has net cash outflow positions in the future, the Bank's working capital may be constrained and the Bank may be forced to seek additional external funding at a cost higher than the Bank's existing financial arrangements. Any such development could materially and adversely affect the Bank's liquidity condition and results of operations.

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

The Bank is subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities.

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

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

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

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

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

In July 2020, Central Huijin Investment Ltd. ("**Huijin**") completed the transfer of 19.53 per cent. of the Bank's total issued ordinary shares to China Everbright Group Ltd.

In addition, on 14 October 2020, China Everbright Group Ltd. increased its holding of 1,542,553,191 A shares of the Bank through the conversion of convertible bonds. Before the conversion, China Everbright Group Ltd. directly and indirectly held 25,472,743,396 ordinary shares of the Bank, accounting for 48.53 per cent. of the total equity. After the conversion, China Everbright Group Ltd. directly and indirectly held 27,015,296,587 ordinary shares of the Bank, accounting for 49.999 per cent. of the total equity.

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

- the Bank's business strategies and policies;
- the timing for the distribution of dividends and the amount of dividends;
- the issuance of new securities;
- the nomination and election of the Bank's directors and supervisors;
- the composition of the Bank's management, especially the senior management;
- any plans relating to mergers, acquisitions, joint ventures, investments, changes of business scope or sale of investment;
- amendments to the Bank's articles of association; and
- increase or reduction of the Bank's registered capital.

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

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

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

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

The Bank's risk management capabilities and ability to effectively monitor credit risk and other risks are restricted by the information, tools, models and technologies available to the Bank. Moreover, the Bank's employees will require time to adjust to these policies and procedures and there can be no assurance that the Bank's employees will be able to consistently comply with or accurately apply them. If the Bank's risk management and internal control policies, procedures and systems fail to be implemented effectively, or if the intended results of such policies, procedures or systems are not achieved in a timely manner (including the Bank's ability to maintain an effective internal control system to monitor the Bank's financial obligations as they become due), the Bank's asset quality, business, financial condition, results of operations and reputation may be materially and adversely affected.

The Bank is subject to operational risks.

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

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

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

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

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

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

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

The Bank relies on independent contract workers.

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

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

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

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

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

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

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

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

In addition, the Bank's staff may commit errors or take improper actions, resulting in the risk that the Bank could be liable for economic compensation, or be subject to regulatory actions, litigation or other legal proceedings. As at 31 December 2020, the Bank had 39 tier-one branches, 115 tier-two branches, 1,142 outlets, and 495 community banks in the PRC and 46,316 employees. As at 31 December 2020, the Bank had five overseas institutions outside Mainland China, with branches in Hong Kong, Seoul, Luxembourg and Sydney and a representative office in Tokyo. There can be no assurance that all of the Bank's staff will comply with the Bank's risk management and internal control policies and procedures. There can be no assurance that the Bank can adequately detect and prevent the Bank's staff and any other third-party from engaging in fraudulent acts or any other misconduct. Any fraudulent acts or other misconduct, whether involving an act in the past that has not been detected or an act in the future, may have a material adverse effect on the Bank's reputation, results of operations and business prospects.

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

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

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

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

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

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

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

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

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

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

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

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

The Bank may not manage risks associated with the replacement of benchmark indices effectively.

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets. In response, regulators and central banks in various jurisdictions have convened national working groups ("**NWGs**") to identify alternative replacement 'risk-free' rates ("**RFRs**") for these interbank offered rates ("**IBORs**") and, where appropriate, to make recommendations that would facilitate an orderly transition to these RFRs.

Following an announcement on 27 July 2017 where the United Kingdom Financial Conduct Authority (the "**FCA**") announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021, the NWGs for the impacted currencies were tasked with providing guidance and support to financial and non-financial firms to help them facilitate an orderly transition of the relevant LIBORs to their chosen RFRs.

The expected discontinuation of certain key IBORs such as LIBOR, the adoption of RFRs by the market, and the development of RFR products by the Bank, introduce a number of risks for the Bank, its clients, and the financial services industry more widely. These include, but are not limited to:

- regulatory compliance, legal and conduct risk, arising from both the continued sale of products referencing IBORs, sales of products referencing RFRs and the transition of legacy contracts to alternative rates. There is a risk that the Bank is unable to meet regulatory milestones associated with the discontinuance of sale of certain IBOR products, which may result in regulatory investigations or reviews being conducted into the Bank's preparation and readiness for the replacement of IBORs with alternative reference rates. Additionally, if the Bank's sales processes are not appropriately adapted to account for the additional complexity of new products, or new RFR market conventions, additional conduct risks and regulatory actions may result and there may be a heightened risk of disputes;
- legal risks associated with the enforceability of fall-back provisions in IBOR contracts. There is a risk that some contracts will not be transitioned before the relevant IBOR is discontinued and the parties will need to rely on the "fall-back" provisions of those contracts. As these fall-back provisions do not always contemplate the permanent cessation of the relevant IBOR, there is a risk that the provisions may not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. This may lead to complaints, litigation and/or regulatory action. While legislative solutions have been proposed in the UK, U.S. and EU, market participants will need to consider the impact of any proposals ultimately adopted; and

- financial risks resulting from the discontinuation of IBORs and the development of RFR market liquidity will affect the Bank throughout transition. The differences in IBOR and RFR interest rate levels will create a basis risk that the Bank will need to actively manage through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively.

If any of these risks materialise, it could have a material adverse effect on the Bank's business, financial condition, results of operations, prospects and customers.The Bank may enter into transactions subject ***to the European Market Infrastructure Regulation.***

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

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

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

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has exchange rate contracts, interest rate contracts and commodity derivatives contracts with a number of domestic and international banks, financial institutions and other entities. As a result, the Bank is subject to credit risk from its various counterparties. As at 31 December 2020, the notional amount of the Bank's outstanding derivative financial instruments amounted to RMB2,210,297 million, and the fair value of the Bank's outstanding derivative assets and liabilities amounted to RMB25,264 million and RMB25,778 million, respectively. Although the Bank cautiously evaluates the credit risks from its counterparties in its derivative transactions and believe that the overall credit quality of the Bank's counterparties is adequate, there can be no assurance that parties with significant risk exposure will not have difficulty in fulfilling derivative contracts that may cause losses for the Bank.

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

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

RISKS RELATING TO THE PRC BANKING INDUSTRY

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

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

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

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

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

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

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

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

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

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

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

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

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

RISKS RELATING TO THE PRC

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

A substantial part of the Bank's revenue is derived from the PRC. The Bank relies, to a significant degree, on its domestic operations to achieve revenue growth. Domestic demand for banking services is materially affected by growth of private consumption and overall economic growth in the PRC. The global crisis in financial services and credit markets in 2008 caused a slowdown in the economic growth in many countries, including the PRC. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally, the trade war between the United States and PRC and COVID-19 spreading globally. In 2018, the PRC government reported a GDP of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a GDP of RMB98.6515 trillion, representing year-on-year growth of 6.0 per cent. In 2020, the PRC Government reported a GDP of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. Although the PRC government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. There are uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact on the Bank's business, prospects, financial conditions and results of operations. See also "*Risk Factors - Risks Relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations*".

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

The availability of credit to entities operating within emerging markets, including the Bank, is significantly influenced by levels of investor confidence in such markets as a whole. Any factors that may affect market confidence could affect the costs or availability of funding for entities within emerging markets. Historically, challenging market conditions in emerging markets have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. On 31 January 2020, the United Kingdom officially exited the EU following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which was rectified in April 2021 by the European Parliament and the Council of the EU and legal revision before it formally comes into effect. Given the lack of precedent, it is unclear how Brexit and the implementation of the EU-UK Trade and Cooperation Agreement would result in volatility in the global financial market, and the mid- to long-term economic uncertainty to the economy in the United Kingdom, the EU and globally. In the United States, the current administration policies have created uncertainty for the global economy and financial markets. Due to the outbreak of COVID-19 in early 2020, the global economy was thrown into a recession with increased unemployment rates across developed and emerging market economies and increased volatility in global financial markets and commodity prices. To control the spread of COVID-19 pandemic, governments around the globe implemented significant monetary and fiscal easing policies. Such government support has helped global markets and major asset classes to rebound, but uncertainty remains. In addition, COVID-19 has caused significant disruptions to global supply chains and has resulted in global shortages in key raw materials and components for many of the Bank's customers across different industries, which has adversely affected their business. As the Bank holds significant amount of assets in the form of investments in securities and other financial assets, significant fluctuations in these financial markets and economic activity could cause substantial adverse effects on the Bank's business operations and investments as a whole.

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

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

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

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

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

The PRC government has the power to implement macroeconomic controls affecting the PRC's economy. The government has implemented various measures in an effort to control the growth rate of certain industries and restrain inflation. As measured by GDP, the PRC has been one of the world's fastest growing economies in recent years. The PRC's real GDP growth was 6.6 per cent., 6.0 per cent. and 2.3 per cent. in 2018, 2019 and 2020, respectively. However, the PRC may not be able to sustain such a growth rate. During the recent global financial crisis and economic slowdown, the growth of the PRC's GDP slowed. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's business, financial condition and results of operations may be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The PRC Labour Contract Law (中華人民共和國勞動合同法) became effective on 1 January 2008, and it was amended on 28 December 2012, which has taken effect on 1 July 2013. The current PRC Labour Contract Law has imposed greater liabilities on employers and significantly increased the cost of an employer's decision to reduce its workforce. Further it requires certain terminations to be based upon seniority instead of merit. In the event that the Group decides to significantly change or decrease the Group's workforce within the PRC, the PRC Labour Contract Law could adversely affect the Group's financial condition and results of operations. In addition, the PRC government has continued to introduce various new labour-related regulations after the promulgation of the PRC Labour Contract Law. Among other things, the Paid Annual Leave Provisions (職工帶薪年休假條例),

which became effective on 1 January 2008, require that paid annual leaves ranging from five to fifteen days be available to nearly all employees and further require that employers compensate an employee for any annual leave days the employee is unable to take in the amount of three times of such employee's daily salary, subject to certain exceptions.

On 28 October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law (中華人民共和國社會保險法) which has taken effect on 1 July 2011 and was amended on 29 December 2018. According to the PRC Social Insurance Law, employees will participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay for the social insurance premiums for such employees.

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

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

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

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

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

The exchange rate of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's, as well as international, political and economic conditions and the PRC government's fiscal and currency policies. Starting from 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, was based on rates set daily by PBOC based on the previous business day's inter-bank foreign exchange market rates and the current exchange rates on the world financial markets. For more than 10 years, the official exchange rate for conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2 per cent. against U.S. dollar. In July 2008, the PRC government announced that its exchange rate regime would change to a managed floating mechanism based on market supply and demand. Given domestic and overseas economic developments, PBOC decided to further adjust the Renminbi exchange rate regime in April 2012 to enhance the flexibility of the RMB exchange rate. On 17 March 2014, PBOC continued to expand the floating range of Renminbi against U.S. dollar. PBOC surprised markets in August 2015 by devaluing Renminbi several times, lowering its daily mid-point trading price significantly against U.S. dollar. The currency devaluation of Renminbi was intended to bring it more in line with the market by taking market signals into account, but also boosts the competitiveness of PRC's exports. The PRC government may make further adjustments to the exchange rate system in the future. There can be no assurance that Renminbi will not experience significant appreciation or depreciation against U.S. dollar in the future. Any significant increase or decrease in the value of Renminbi against U.S. dollar could affect the value of the Group's financial instrument and financing cost and may materially and adversely affect the financial condition and results of operation of the Group.

There is foreign exchange control in the PRC.

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

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

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

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

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

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

RISKS RELATING TO FINANCIAL INFORMATION

The unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2020 and 2021 included in this Offering Circular has not been audited or reviewed by a certified public accountant.

The unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2020 and 2021 in respect of any financial year included in this Offering Circular has not been audited or reviewed by a certified public accountant, and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit and/or a review. None of the Issuer, the Bank, the Group, the Arrangers, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited and unreviewed consolidated quarterly financial information for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Bank's financial condition and results of operations. In addition, the unaudited and unreviewed consolidated financial information of the Bank as at and for the three months ended 31 March in respect of any financial year should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year ending 31 December of the same financial year.

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

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

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

The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II (1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank has also adopted new standards, namely IFRS 16 – Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases (except short-term leases and low-value assets leases elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. According to the transitional regulations, enterprises are not subject to restating comparable figures for previous periods. Therefore, the Bank has disclosed its accounting statements in accordance with IFRS 16 without restating the comparable figures for the end of 2018. Its implementation has no material impact on the financial report of the Bank. Investors must therefore exercise caution when making such comparisons and when evaluating the Bank's financial condition, results of operations and results.

RISKS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME

If the Bank fails to complete the post-issuance report to the NDRC in connection with the Notes, NDRC may impose penalties or other administrative procedures on the Bank.

On 14 September 2015, the NDRC issued the NDRC Circular, which came into effect on the same date. According to the NDRC Circular, domestic enterprises and/or their overseas controlled entities shall procure the registration of any issue of debt securities outside the PRC with the NDRC prior to such issue, and notify the particulars of such issue within the prescribed timeframe after such issue. The NDRC Circular also indicates that several provinces and large banks with strong comprehensive economic strength and sound risk prevention and control mechanisms will be selected by the NDRC to expand the pilot reform of managing the amount of foreign debt by segment（外債規模切塊管理）, under which the NDRC will, based on the actual need of each of such pilot regions and enterprises, verify and determine its yearly maximum quota of foreign debt at one time.

On 18 December 2015, the NDRC published the Guideline on the Issuance of Foreign Debt by Corporates（企業境外發行債券指引）(the "NDRC Guideline"), which further clarifies certain issues in the NDRC Circular. According to the NDRC Guideline, the entities subject to the filing requirements in the NDRC Circular include onshore enterprises (including financial entities) and their controlled offshore enterprises or branches; and the "foreign debts" under the NDRC Circular include but are not limited to ordinary notes, senior notes, financial notes, perpetual notes, convertible notes, preferred shares and other offshore debt financing tools. In addition, the NDRC Guideline further requires the onshore entities which failed to submit to the NDRC the relevant information in relation to the issuance of the offshore notes should complete the submission as soon as practicable. Furthermore, according to the NDRC Guideline, entities or intermediaries which fail to complete the registration or filing as required, maliciously report the amount of foreign debt or have provided false information in their registration or filing with the NDRC will be listed in a "black list" and a credit information exchange platform to record the credit information for those entities or intermediaries, and will impose punishment with other government authorities on such entities.

While the NDRC Circular does not expressly state the legal consequences of non-compliance with such post-issue report requirements, the NDRC Guideline has indicated that issuers, underwriters, counsels and other parties involved in the transaction may be blacklisted and punished for non-compliance with the NDRC Circular requirements. After the issuance of such relevant Series of Notes, the relevant Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes in the Terms and Conditions of the Notes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota.

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

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which may include the Bank's Hong Kong branch. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, 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 issued by Hong Kong branch or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of such Notes, all of which may adversely affect the value of such Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes issued by Hong Kong branch may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

Potential investors should not place undue reliance on the unaudited but reviewed or unaudited and unreviewed financial information included elsewhere in this Offering Circular and the financial information incorporated by reference that is not audited.

The section headed "*Summary Financial Information of the Bank*" incorporates the most recently published unaudited but reviewed consolidated semi-annual financial information and the unaudited and unreviewed consolidated quarterly interim financial information of the Bank. This Offering Circular also incorporates the most recently published unaudited but reviewed and unaudited and unreviewed interim consolidated financial information of the Bank published from time to time after the date of this Offering Circular in each case together with any review reports prepared in connection therewith, as well as the most recently published unaudited and unreviewed consolidated quarterly interim reports, published subsequent to the most recently published audited consolidated financial information of the Bank. The Bank publishes its consolidated semi-annual interim reports in respect of the six months ended 30 June of each financial year on the official website of the Shanghai Stock Exchange, and its consolidated quarterly interim reports in respect of periods ended 31 March and 30 September of each financial year on the official website of the Shanghai Stock Exchange.

The semi-annual interim reports have not been and will not be audited by the Bank's auditors and were and will be prepared under IAS 34. The semi-annual interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. The quarterly interim reports have not been and will not be audited or reviewed by the Bank's auditors and were and will be prepared under PRC GAAP. The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an auditor or review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The semi-annual interim reports or, as the case may be, the quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

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:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

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

The Terms and Conditions of the Notes 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.

Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.

The Terms and Conditions of the Notes and the Programme documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and the Hong Kong SAR, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area.

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

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes or Global Certificates will be deposited with a common depositary for Euroclear and Clearstream, or lodged with a sub-custodian for the CMU (each of Euroclear, Clearstream, and the CMU, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note or Global 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 Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, or, as the case may be, to the relevant paying agent, in the case of the CMU, for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates. Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

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

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note or a Global Certificate and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued if (a) the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business; or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

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

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementation rules, as amended from time to time, any gain realised on the transfer of the Notes by non-PRC resident enterprises or individual holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. While the PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the gains derived by such non-PRC resident enterprise Noteholders from the transfer of the Notes, its implementation rules have reduced the enterprise income tax rate to 10 per cent. In accordance with the PRC Individual Income Tax Law and its implementation rules (as amended from time to time), any gain realised by a non-PRC resident individual Noteholder from the transfer of the Notes may be regarded as being sourced from the PRC and thus be subject to IIT at a rate of 20 per cent. of the gains derived by such non-PRC resident individual Noteholder from the transfer of the Notes. However, there remains uncertainty as to whether the gain realised from the transfer of the Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and their respective implementation rules. If such gains are determined as income sourced in the PRC by the relevant PRC tax authorities, (i) the non-PRC resident enterprise Noteholders may be subject to EIT at the rate of 10 per cent. of the gains derived by such non-PRC resident enterprise Noteholders and (ii) the non-PRC resident individual Noteholders may be subject to IIT at the rate of 20 per cent. of the gains derived by such non-PRC resident individual Noteholders, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC resident enterprise or individual resident holders of the Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in the Notes may be materially and adversely affected.

United States' Foreign Account Tax Compliance Act Tax Provisions.

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 relevant Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the British Virgin Islands, Hong Kong and the PRC) 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 and the Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes and the Securities, 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 and the Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Instruments. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Instruments, no person will be required to pay additional amounts as a result of the withholding.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

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 obliged 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, the PRC, the jurisdiction where the relevant Issuer is located or any political subdivision thereof or any authority therein or thereof having power to tax, the relevant Issuer may redeem all outstanding Notes in accordance with the Conditions. 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.

An optional redemption feature is likely to limit the market value of Notes. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such 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.

Index Linked Notes and Dual Currency Notes.

Notes may be issued with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, Notes may be issued with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

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

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

Certain benchmark rates, including LIBOR and EURIBOR, may be discontinued or reformed in the future - including phasing-out of certain LIBOR rates after 31 December 2021 or 30 June 2023.

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

Regulation (EU) No. 2016/1011 (the "**EU Benchmarks Regulation**") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. Regulation (EU) No. 2016/1011 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the UK. The EU Benchmarks Regulation or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to LIBOR, EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the EU Benchmark Regulation or UK Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, 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. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks," trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

As an example of such benchmark reforms, the FCA announced on 27 July 2017 that it would no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and confirmed on 5 March 2021 that most LIBOR benchmark tenors would cease or cease to be representative benchmarks from 31 December 2021 or (in the case of certain tenors of USD LIBOR only) from 30 June 2023. On 5 March 2021, the administrator for LIBOR (the ICE Benchmark Administration or IBA) similarly announced that it would cease the publication of the relevant LIBOR settings on 31 December 2021 or 30 June 2023, unless the FCA exercises its proposed new powers (which are included in the current UK Financial Services Bill as proposed amendments to the UK Benchmarks Regulation) to require the IBA to continue publishing such LIBOR settings using a changed methodology (also known as a "synthetic" basis). Such announcements indicate that LIBOR will not continue in its current form and the UK Financial Conduct Authority announcement of 5 March 2021 indicated that it is currently contemplating that any "synthetic" basis, if adopted, would be limited to a small number of currencies and settings. 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 had 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 elimination of LIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(k) (*Benchmark Discontinuation*), or result in adverse consequences to holders 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). 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.

The "Terms and Conditions of the Notes" provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, unlawful or unrepresentative, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback 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. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms or possible cessation or reform of certain reference rates 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 those features.

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

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

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

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

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

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

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

Credit ratings may not reflect all risks.

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.

RISKS RELATING TO THE MARKET GENERALLY

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

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Series, such Series is to be consolidated with and form a single series with a Series of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. If the Notes are traded at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the HKSE for the Programme to be admitted to listing on the HKSE in respect of the listing of the Programme, there is no assurance that such application will be accepted, that any particular Series of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade securities has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Series of Notes.

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

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

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

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

A description of risks which may be relevant to an investor in Notes denominated in Renminbi ("**Renminbi Notes**") are set out below.

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

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement 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 and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being developed.

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 schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the relevant Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

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

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

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

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

Investment in Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The relevant Issuer will make all payments of interest and principal with respect to Renminbi Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. In August 2015, the PBOC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of Renminbi Notes in that foreign currency will decline.

Investment in Renminbi Notes is subject to interest rate risks.

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

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

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

All payments to investors in respect of Renminbi Notes will be made solely (i) for so long as Renminbi Notes are represented by global certificates held with the common depositary for Clearstream and Euroclear or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong, (ii) for so long as Renminbi Notes are represented by global certificates lodged with a sub- custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or (iii) for so long as Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The relevant Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

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

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

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

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

TERMS AND CONDITIONS OF THE NOTES

The following (including the Annexes hereto) is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme.

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

1. Introduction

(a) *Programme*: China Everbright Bank Company Limited (the "**Bank**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$ 5,000,000,000 in aggregate principal amount of notes (the "**Notes**"). Notes under the Programme may be issued by the Bank, or any branch of the Bank located outside of the PRC, as specified as issuer in the relevant Pricing Supplement (each such branch of the Bank, a "**Branch Issuer**" and, together with the Bank, each an "**Issuer**").

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

(c) *Agency Agreement*: The Notes are the subject of a fiscal agency agreement dated 12 August 2021 and otherwise as amended and/or supplemented from time to time (the "**Agency Agreement**") between (i) the Bank (on behalf of itself and each Branch Issuer), (ii) Citicorp International Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), (iii) Citicorp International Limited as CMU lodging and paying agent, transfer agent and registrar in respect of Notes cleared or to be cleared through the CMU (in such capacities, the "**CMU Lodging and Paying Agent**", the "**CMU Transfer Agent**" and the "**CMU Registrar**"), which expressions include any successor CMU lodging and paying agent, transfer agent and registrar appointed from time to time in connection with such Notes), (iv) Citibank, N.A., London Branch as issuing and paying agent in respect of Notes cleared through Euroclear Bank SA/NV and/or Clearstream Banking S.A. (the "**Issuing and Paying Agent**"); and (v) Citibank, N.A., London Branch as transfer agent and registrar in respect of Notes cleared through Euroclear Bank SA/NV and/or Clearstream Banking S.A. (in such capacities, the "**Principal Transfer Agent**" and the "**Principal Registrar**", which expression includes any successor or additional transfer agent and registrar appointed from time to time in connection with such Notes), the paying agents named therein (together with the Fiscal Agent and the CMU Lodging and Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein. In these Conditions references to the "**Registrars**" are to the Principal Registrar and the CMU Registrar and any reference to a "**Registrar**" is to any one of them; references to the "**Transfer Agents**", are to the Principal Transfer Agent and the CMU Transfer Agent and any reference to a "**Transfer Agent**" is to any one of them; and references to the "**Agents**" are to the Paying Agents, the Transfer Agents and the Registrar and any reference to an "**Agent**" is to any one of them.

(d) *Deed of Covenant*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 12 August 2021 and otherwise as amended and/or restated from time to time (the "**Deed of Covenant**") entered into by the Bank (on behalf of itself and each Branch Issuer).

(e) *The Notes*: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for inspection upon request by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents.

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

2. Interpretation

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

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

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

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

"**Additional Tax Amounts**" has the meaning given in Condition 13 (*Taxation*);

"**Business Day**" means:

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

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

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

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

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

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

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

(d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing

Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

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

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

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

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

"**Calculation Agent**" means the Issuing and Paying Agent as appointed by the Issuer in respect of a Series of Notes pursuant to the terms of the Agency Agreement or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

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

"**CBIRC**" means China Banking and Insurance Regulatory Commission or its local counterparts;

"**Clearstream** " means Clearstream Banking S.A.;

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

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

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

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

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

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

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

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

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

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

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

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

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

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

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

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

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

where:

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

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

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

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

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

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

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

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

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

"**Euroclear**" means Euroclear Bank SA/NV;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Issuer**" means in respect of any Tranche of Notes, the Bank or a Branch Issuer as specified in the relevant Pricing Supplement;

"**Macau**" means the Macau Special Administrative Region of the PRC;

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

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

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

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

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

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

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

"**NDRC Quota**" means the requisite approval obtained by the Bank on an annual basis or otherwise to issue the Notes within the quota provided by the NDRC to the Bank;

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

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

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

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

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

"**Payment Business Day**" means:

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

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

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

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

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

(ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**PBOC**" means the People's Bank of China of the PRC;

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

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

"**PRC Business Day**" means a day on which commercial banks are open for business in the Beijing;

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

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

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

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

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

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

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

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

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

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

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

"**Reference Rate**" means CNH HIBOR, EURIBOR, HIBOR, LIBOR or such other rate as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement;

"**Regular Period**" means:

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

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

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

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

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

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

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

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

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

"**SAFE**" means the State Administration of Foreign Exchange or its local counterparts;

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

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

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

"**Specified Office**" has the meaning given in the Agency Agreement;

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

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

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

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

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

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

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

"**Tax Jurisdiction**" means (a) the PRC and, as applicable, (b) where the Issuer is a Branch Issuer, the jurisdiction where such Branch Issuer is located, or in each case any political subdivision therein or any authority therein or thereof having power to tax; and

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

(b) *Interpretation*: In these Conditions:

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

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

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

(iv) any reference to principal shall be deemed to include the Redemption Amount, any Additional Tax Amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any Additional Tax Amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

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

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

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

(ix) any reference (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent, and all such references shall be construed accordingly.

3. Form, Denomination, Title and Transfer

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

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

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

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

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

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

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

(h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer, any Registrar or any Transfer Agent but against such indemnity as such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

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

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

(ii) during the period of 15 days ending on any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 10(b) (*Redemption for tax reasons*) or Condition 10(c) *(Redemption at the option of the Issuer*); and

(iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 10(e) (*Redemption at the option of Noteholders*).

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

4. Status of the Notes

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

5. Covenants

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

(b) *Reporting to the NDRC*: Where the NDRC Circular applies to the Tranche of Notes to be issued in accordance with these Conditions and the Agency Agreement, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank undertakes to:

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

(ii) within ten PRC Business Days after submission of such NDRC Post-issue Information Report set out in Condition 5(b) (*Reporting to the NDRC*) above, provide a notice confirming the due filing of the NDRC Post-issue Information Report for dissemination to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

(c) *Notification and Reporting to PBOC or CBIRC*: Where applicable, the Bank undertakes to (i) duly obtain or complete any approval from, submission, filing or reporting to PBOC or CBIRC in accordance with all applicable PRC laws and regulatory requirements and (ii) provide a notice confirming the same for dissemination to Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

6. Fixed Rate Note Provisions

(a) *Application*: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent or the CMU Lodging and Paying Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

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

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

So long as the Notes are represented by a Global Note or Global Certificate, interest shall be calculated in respect of any period by applying the Rate of Interest to the total aggregate outstanding nominal amount of the Notes represented by such Global Note or Global Certificate.

7. Floating Rate Note Provisions and Index-Linked Interest Note Provisions

(a) *Application*: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent or the CMU Lodging and Paying Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

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

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

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

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

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

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

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

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

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

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

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

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

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

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

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

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

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

(f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified. If the relevant Pricing Supplement does not specify any Minimum Rate of Interest and the Rate of Interest as determined by the Calculation Agent according to this Condition 7 is a negative value, the Rate of Interest shall be zero per cent. per annum.

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

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

(i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer and the Issuing and Paying Agent as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given by the Issuer to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall notify the Issuer and the Paying Agents only of the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 by the Calculation Agent will (in the absence of manifest error) be binding on the Bank, the Branch Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

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

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

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

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

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

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

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

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

(vii) the Issuer shall promptly following the determination of any Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page and Adjustment Spread give notice thereof and of any Benchmark Amendments pursuant to sub-paragraph (vi) above to the Calculation Agent, the Fiscal Agent and the Noteholders in accordance with Condition 20 (*Notices*); and

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

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

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

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

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

"**Benchmark Event**" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Zero Coupon Note Provisions

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

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

(i) the Reference Price; and

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

9. Dual Currency Note Provisions

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

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

10. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable), on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay Additional Tax Amounts as provided for or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 13 (*Taxation*)) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided, however, that no such notice of redemption shall be given earlier than:

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

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the Interest Payment Date occurring immediately before the earliest

date on which the Issuer would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (A) a certificate signed by a duly authorised officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, (or such other period(s) as may be specified in the relevant Pricing Supplement) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed . If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Pricing Supplement), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *No other redemption*: Neither the Issuer nor the Bank shall be entitled to redeem the Notes otherwise than as provided in Conditions 10(a) (*Scheduled redemption*) to 10(c) (*Redemption at the option of the Issuer*) above.

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

(i) the Reference Price; and

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

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase*: The Branch Issuer, the Bank or any of its Subsidiaries or branches may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith. The Notes so purchased, while held by or on behalf of the Bank or any such branch or Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 18 (*Meetings of Noteholders; Modification and Waiver*).

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

11. Payments – Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

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

(b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto.

(e) *No commissions chargeable*: No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

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

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

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

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

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

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

(g) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 11(g) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(e) (*Redemption at the option of Noteholders*), Condition 10(c) (*Redemption at the option of the Issuer*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

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

(i) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(j) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(k) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Payments – Registered Notes

This Condition 12 is only applicable to Registered Notes.

(a) *Principal*: Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the 15th day before the due date for any such payment, by transfer to an account denominated in that currency and maintained by the payee with, a bank in the Principal Financial Centre of that currency or, in the case of euro, in a city in which banks have access to the TARGET2, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the 15th day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*), any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifth Business Day (in the case of Renminbi) and the 15th day (in the case of a currency other than Renminbi, whether or not such 15th day is a Business Day) before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

*So long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

13. Taxation

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

(b) *Withholding for PRC enterprise income tax*: Where such withholding or deduction is made by the Issuer as a result of the Issuer being deemed to be a PRC tax resident by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax at the rate applicable in the PRC on the date of issue of the first Tranche of the Notes (the "**Applicable Rate**"), the Issuer will pay such additional amounts to the extent required as will result in receipt by the Noteholders and Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.

(c) *Additional Tax Amounts*: In the event that the Issuer is required to make a deduction or withholding (i) by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax in excess of the Applicable Rate; or (ii) by or within a Tax Jurisdiction (other than the PRC), the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note or Coupon:

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

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

(iii) to, or to a third party on behalf of a holder 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 within any applicable period prescribed by such relevant tax authority.

(d) *Taxing jurisdiction*: If any Issuer becomes subject at any time to any taxing jurisdiction other than the Tax Jurisdiction(s), references in these Conditions to the Tax Jurisdiction(s) shall be construed as references to the Tax Jurisdiction(s) and/or such other jurisdiction.

14. Events of Default

If any of the following events occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Agency Agreement and such default is incapable of remedy, or if capable of remedy, remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-acceleration of Bank, Issuer or Subsidiary*:

(i) any Relevant Indebtedness of the Bank or any of its Subsidiaries or of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any Relevant Indebtedness becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described) in respect of the terms thereof; or

(iii) the Bank or any of its Subsidiaries or the Issuer fails to pay when due (or (as the case may be) within any originally applicable grace period) any amount payable by it under any guarantee or indemnity of any Relevant Indebtedness,

provided that the amount of the Relevant Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above, individually or in the aggregate (without duplication), exceeds U.S.$25,000,000 (or its equivalent in any other currency or currencies); or

(d) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a material part of the undertaking, assets and revenues of the Bank, or any of its Material Subsidiary or the Issuer and such action is not discharged or stayed within 45 days; or

(e) *Insolvency etc*: (i) the Bank or any of its Material Subsidiaries or the Issuer becomes insolvent or is unable to pay all or a material part of its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Bank or any of its Material Subsidiaries or the Issuer or the whole or a material part of the undertaking, assets and revenues of the Bank or any of its Material Subsidiaries or the Issuer, (iii) the Bank or any of its Material Subsidiaries or the Issuer takes any action for a readjustment or deferment of all or a material part of its debts or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of all or a material part of its indebtedness or any guarantee or indemnity of all or a material part of indebtedness given by it or (iv) the Bank or any of its Material Subsidiaries or the Issuer ceases or threatens to cease to carry on all or a material part of its business,except (x) in the case of any Material Subsidiary of the Bank, where the cessation is for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Bank and/or another Material Subsidiary,or (y) on terms approved by an Extraordinary Resolution of the Noteholders; or

(f) *Winding up etc*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Bank or any of its Material Subsidiaries or the Issuer except for (A) the purpose of and followed by a solvent winding-up, dissolution, a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of any Material Subsidiary, whereby all or substantially all the undertaking, assets and revenues of such Material Subsidiary are transferred or otherwise vested in the Issuer or any of the Bank's Subsidiaries; or (B) a solvent winding up of any Material Subsidiary; or (C) a disposal of or by a Material Subsidiary on an arm's length basis where the assets (whether in cash or otherwise) from such disposal shall be transferred to or otherwise vested in the Issuer or any of the Bank's Subsidiaries; or

(g) *Analogous event*: any event occurs which under the laws of the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Security enforced*) to (f) (*Winding up, etc*) above; or

(h) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Deed of Covenant,

then any Noteholder may, by written demand given to the Issuer and delivered to the Fiscal Agent at the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest without further action or formality unless prior to receipt of such demand, all such events or defaults have been cured. The Issuer shall notify Noteholders and the Fiscal Agent promptly upon becoming aware of the occurrence of any Event of Default.

In these Conditions:

"**Material Subsidiary**" means any Subsidiary of the Bank:

(i) whose gross revenue (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries), whose gross assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose net profit (consolidated in the case of Subsidiary which itself has consolidated Subsidiaries) represent not less than 5 per cent. of the consolidated gross revenue, the consolidated gross assets, or, as the case may be, the consolidated net profit of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Bank, *provided that*:

(A) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Bank relate for the purpose of applying each of the foregoing tests, the reference to the Bank's latest audited or reviewed consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Bank;

(B) if at any relevant time in relation to the Bank or any Subsidiary no financial statements are prepared and audited, its gross revenue, gross assets and net profit (consolidated, if applicable) shall be determined on the basis of pro forma consolidated financial statements (consolidated, if applicable) prepared for this purpose; and

(C) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (A) above) are not consolidated with those of the Bank, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Bank; or

(ii) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (i) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (ii) the transferee Subsidiary shall immediately become a Material Subsidiary, *provided that* on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (i) above.

A certificate signed by an authorised signatory of the Issuer on behalf of the Bank that in his/her opinion (making such adjustments (if any) as he/she shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Bank, the Issuer and the Noteholders.

15. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the relevant Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Fiscal Agent, CMU Lodging and Paying Agent, Issuing and Paying Agent, Principal Transfer Agent, Principal Registrar, CMU Registrar or Calculation Agent and additional or successor Paying Agents; provided, however, that:

(a) the Issuer shall at all times maintain a Fiscal Agent, Issuing and Paying Agent and a Principal Registrar;

(b) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent;

(c) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU; and

(d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing a clear majority of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than 75 per cent. or, at any adjourned meeting, not less than 25 per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of holders of not less than 90 per cent. in aggregate principal amount of the Notes outstanding who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: Notwithstanding Condition 18(a) (*Meetings of Noteholders*) the Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless (i) it is of a formal, minor or technical nature, (ii) it is made to correct a manifest error or (iii) it is a modification which neither contradicts these Conditions nor is reasonably expected to be materially prejudicial to the interests of the Noteholders.

19. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and, if applicable, the timing for notification or, as the case may be, reporting to the NDRC, the PBOC, SAFE, CBIRC and/or such other applicable competent authority) so as to form a single series with the Notes. However, such further securities may only be issued if (i) the Rating Agency which has provided credit ratings in respect of the Notes has been informed of such issue and (ii) such issue will not result in any adverse change in the then credit rating of the Notes.

20. Notices

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in English in the South China Morning Post or, if such publication is not practicable, in an English 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 first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices to the Holders of Registered Notes shall be valid if published in English in the South China Morning Post or, if such publication is not practicable, in an English 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 first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers).

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 (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Issue Position Report issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear, Clearstream, the CMU and/or the alternative clearing system, as the case may be.

21. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. Governing Law and Jurisdiction

(a) *Governing law*: The Notes and all non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *Jurisdiction*: The Issuer has in the Deed of Covenant and the Agency Agreement (i) agreed that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Deed of Covenant and the Agency Agreement and the Notes (including any non-contractual obligation arising out of or in connection with the Notes); and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.

(c) *Service of process*: The Issuer agrees that the documents which start any proceedings relating to a Dispute ("**Proceedings**") and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the principal place of business of China Everbright Bank Co., Ltd., Hong Kong Branch at 23/F, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong, or to such other person with an address in Hong Kong and/or at such other address in Hong Kong as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

(d) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Bank believes to be reliable, but none of the Bank nor any Dealer or the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Bank nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, amongst other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of Exchange Fund Bills and Notes Clearing and Settlement Service securities and capital markets instruments (together, "**CMU Instruments**") which are specified in the CMU Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all financial institutions regulated by the Hong Kong Monetary Authority, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU's custodial services, please refer to the CMU Manual.

The CMU has an income distribution service which is a service offered by the CMU to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the "**income proceeds**") by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system. Furthermore, the CMU has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Manual.

An investor holding an interest through an account with either Euroclear or Clearstream, in any Notes held in the CMU, will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

Book-Entry Ownership

Bearer Notes

The Bank has made applications to Euroclear and Clearstream for acceptance in their respective book- entry systems in respect of any Series of Bearer Notes. The Bank may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream.

Registered Notes

The Bank may make applications to Euroclear and Clearstream for acceptance in their respective book- entry systems in respect of the Notes to be represented by a Global Certificate. The Bank may also apply to have Registered Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Subscription and Sale*".

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**") (each a "**Global Note**"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**") and/or a sub-custodian for the CMU and/or any other relevant clearing system.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

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

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

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

(ii) receipt by the Fiscal Agent or the CMU Lodging and Paying Agent of a certificate or certificates of non-U.S. beneficial ownership.

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

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (Local Time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

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

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (Local Time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

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

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

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

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

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

(ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

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

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Local Time) on the 30th day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

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

(c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment, then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (Local Time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

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

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

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

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Local Time) on the 30th day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

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

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

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

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

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

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

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

    (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

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

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Local Time) on the 30th day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

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

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

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

Terms and Conditions applicable to the Notes

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

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

Legend concerning United States persons

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

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

Registered Notes

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

Each Note represented by a Global Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream and/or, in respect of CMU Notes, a sub- custodian for the CMU and/or any other relevant clearing system, and the relevant Global Certificate will be deposited on or about the issue date with the common depositary for Euroclear and/or Clearstream and/or, in respect of CMU Notes, or a sub-custodian for the CMU and/or any other relevant clearing system.

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

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

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

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

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Certificate", then; or

(d) if either of the following events occurs:

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

    (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

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

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

If:

(a) Individual Certificates have not been delivered by 5.00 p.m. (Local Time) on the 30th day after they are due to be issued and delivered in accordance with the terms of the Global Certificate; or

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

then, at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date (in the case of (b) above) each person shown in the records of Euroclear and/or Clearstream and/or CMU (or any other relevant clearing system) as being entitled to interest in the Notes (each an "**Accountholder**") shall acquire under the Deed of Covenant rights of enforcement against the relevant Issuer ("**Direct Rights**") to compel the relevant Issuer to perform its obligations to the Holder of the Global Certificate in respect of the Notes represented by the Global Certificate, including the obligation of the relevant Issuer to make all payments when due at any time in respect of such Notes in accordance with the Conditions as if such Notes had (where required by the Conditions) been duly presented and surrendered on the due date in accordance with the Conditions.

The Direct Rights shall be without prejudice to the rights which the Holder of the Global Certificate may have under the Global Certificate or otherwise. Payment to the Holder of the Global Certificate in respect of any Notes represented by the Global Certificate shall constitute a discharge of the relevant Issuer's obligations under the Notes and the Deed of Covenant to the extent of any such payment and nothing in the Deed of Covenant shall oblige the relevant Issuer to make any payment under the Notes to or to the order of any person other than the Holder of the Global Certificate.

As a condition of any exercise of Direct Rights by an Accountholder, such Accountholder shall, as soon as practicable, give notice of such exercise to the Holders of the Notes of the same Series in the manner provided for in the Conditions or the Global Certificate for notices to be given by the relevant Issuer to Noteholders.

Terms and Conditions applicable to the Notes

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

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

Summary of Provisions relating to the Notes while in Global Form

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be that depositary, common depositary or sub-custodian, as the case may be.

In relation to any Tranche of Notes represented by a Global Certificate, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Certificate is for the time being registered in the Register which, for so long as the Global Certificate is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be such depositary or common depositary (or a nominee for such depositary or common depositary) or the Hong Kong Monetary Authority as the operator of the CMU, as the case may be.

Each of the persons shown in the records of Euroclear and/or Clearstream and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the relevant Issuer to the holder of such Global Note or Global Certificate and in relation to all other rights arising under such Global Note or Global Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Certificate, Accountholders shall have no claim directly against the relevant Issuer in respect of payments due under the Notes and such obligations of the relevant Issuer will be discharged by payment to the holder of such Global Note or Global Certificate. If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules at the relevant time shall be the only person(s) entitled (or, in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global 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 in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU for his share of each payment so made by the relevant Issuer in respect of such Global Note or Global Certificate.

Conditions applicable to Global Notes

Each Global Note and Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the relevant Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the relevant Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, or a Global Certificate, the applicable Payment Business Day shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*), the bearer of the Temporary Global Note or Permanent Global Note or the holder of a Global Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and the Put Option Notice, give written notice of such exercise to the Fiscal Agent or (as the case may be) the CMU Lodging and Paying Agent specifying the principal amount of Notes in respect of which the relevant put option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption and Purchase – Redemption at the option of the Issuer*) in relation to some only of the Notes, where such Notes are held with Euroclear and/or Clearstream or the CMU, the Temporary Global Note or Permanent Global Note or Global Certificate may be redeemed in part in the principal amount specified by the relevant Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream or the CMU (as the case may be) (to be reflected in the records of Euroclear and Clearstream or the CMU (as the case may be) as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Certificate is, (i) deposited with a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system (other than the CMU, in respect of which see (ii) below), notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (Notices) on the second day after the date of delivery to Euroclear and/or Clearstream and/or any other relevant clearing system or (ii) deposited with the CMU, notices to the holders of Notes of the relevant Series may be given by delivery of the relevant notice to the CMU 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 have been given to the Noteholders on the second day after the date on which such notice is delivered to the CMU.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

[PROHIBITION OF SALES TO EEA 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 (the "**EEA**"). 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, "**EU MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, 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 "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.]

[PROHIBITION OF SALES TO 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 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[***Consider if any of the Issuer/ Managers are "MiFID II entities" and are "manufacturers" for the purposes of MiFID II***]

[EU 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, "**EU MiFID II**")] [EU MiFID II]; or (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate.

[Consider any negative market.] 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 EU 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.]

[***Consider if any of the Issuer / Managers are "UK MiFIR entities" and are "manufacturers" for the purposes of UK MiFIR***]

[UK MiFIR 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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate [Consider any negative target market]. 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") 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.]

[(Include when the Notes are to be listed on the Hong Kong Stock Exchange)

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") ("**Professional Investors**")) only.

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

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

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

[Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018.]

Pricing Supplement dated [•]

CHINA EVERBRIGHT BANK COMPANY LIMITED
[specify relevant branch]

Issue of *[Aggregate Nominal Amount of Tranche]* *[Title of Notes]* [due [•]]

under the U.S.$5,000,000,000 Medium Term Note 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 of the Notes (the "**Conditions**") set forth in the Offering Circular dated [•] 2021. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular and the documents incorporated by reference thereto [and the Offering Circular dated [*date*]].

1.	Issuer		China Everbright Bank Company Limited/ *[specify relevant branch as Issuer]* (Legal Entity Identifier: [•])
2.	[(i)	Series Number:]	[•]
	(ii)	Tranche Number:	[•]
	(iii)	Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [[•]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as

			referred to in paragraph 26 below [which is expected to occur on or about [•]].]
3.	Specified Currency or Currencies:		[•]
4.	Aggregate Nominal Amount:		[•]
	(i)]	[Series]:	[•]
	(ii)	Tranche:	[•]]
5.	(i)	Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	(ii)	Net Proceeds:	[•] [(Required only for listed issues)]
6.	(i)	Specified Denominations [1] [2] [3]	[•]
	(ii)	Calculation Amount:	[•]
7.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[*Specify/Issue* Date/Not Applicable]
8.	Maturity Date:		[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][4] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.*]
9.	Interest Basis:		[[•] per cent. Fixed Rate][[*Specify reference rate*] +/- [•] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] (further particulars specified below)
10.	Redemption/Payment Basis:		[Redemption at par][Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*Specify*)]
11.	Change of Interest or Redemption/ Payment Basis:		[*Specify details of any provision for convertibility of the Notes into another interest or redemption/payment basis*]
12.	Put/Call Options:		[Investor Put][Issuer Call] [(further particulars specified below)]
13.	[Date [Board] approval for issuance of Notes obtained]		[•]

1 *Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).*

2 *If the specified denomination is expressed to be EUR100,000 or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR199,000]. In relation to any issue of the Notes which are a "**Global Note exchangeable for Definitive Notes**"* in circumstances other than "in the limited circumstances specified in the Global Notes", such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

3 *For so long as any Notes are listed on The Stock Exchange of Hong Kong Limited (the "**HKSE**"*) and the rules of the HKSE so require, such Notes will be traded on the HKSE in a minimum board lot size of not less than HK$500,000 (or its equivalent in other currencies).

4 *Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.*

		(*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
14.	Listing:	[The Stock Exchange of Hong Kong Limited ("**HKSE**")/ None] (For Notes to be listed on the HKSE, insert the expected effective listing date of the Notes)
15.	Method of distribution:	[Syndicated/Non-syndicated]
16.	[Date of regulatory approval for issuance of Notes obtained:	Pre-issuance registration certificate/NDRC approval dated [•] from the NDRC/*any other applicable regulatory approval to be set out*]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
	(ii) Interest Payment Date(s):	[•] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of* "***Business Day***"]/not adjusted][1]
	(iii) Fixed Coupon Amount[(s)]:	[•] per Calculation Amount[2]
	(iv) Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
	(v) Day Count Fraction:	[30E/360/30/360/Actual/Actual (ICMA/ISDA)/Actual/365 (Fixed)/other]
	(vi) Determination Dates:	[[•] in each year (*insert regular interest payment dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
18.	**Floating Rate Note Provisions:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Interest Period(s):	[•]
	(ii) Specified Period:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable*")
	(iii) Specified Interest Payment Dates:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable*")
	(iv) First Interest Payment Date:	[•]

1 *Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to adjustment in accordance with the Modified Following Business Day Convention.*

2 *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 RMB0.01, RMB0.005 for the case of Renminbi-denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.*

	(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vi)	Additional Business Centre(s):	[Not Applicable/*give details*]
	(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[[*Name*] shall be the Calculation Agent (*no need to specify if the Issuing and Paying Agent is to perform this function*)]
	(ix)	Screen Rate Determination:	
		Reference Rate:	[*For example, LIBOR, EURIBOR or SOFR*]
		Interest Determination Date(s):	[•]
		Relevant Screen Page:	[*For example, Reuters LIBOR 01/EURIBOR 01*]
		Relevant Time:	[*For example, 11.00 a.m. London time/Brussels time*]
		Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*]
	(x)	ISDA Determination:	
		Floating Rate Option:	[•]
		Designated Maturity:	[•]
		Reset Date:	[•]
	(xi)	Margin(s):	[+/-] [•] per cent. per annum
	(xii)	Minimum Rate of Interest:	[•] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[•] per cent. per annum
	(xiv)	Day Count Fraction:	[•]
	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]
19.	**Zero Coupon Note Provisions:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Accrual Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
	(iii)	Day Count Fraction in relation to Early Redemption Amount:	[30E/360/30/360/Actual/Actual (ICMA/ISDA)/other]
	(iv)	Any other formula/basis of determining amount payable:	[*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(g)*]
20.	**Index-Linked Interest Note/other variable-linked interest Note Provisions:**		[Applicable/Not Applicable](*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula/other variable:	[give or annex details]
	(ii)	Calculation Agent responsible for calculating the interest due:	[•]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv)	Interest Determination Date(s):	[•]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•]
	(vi)	Interest or calculation period(s):	[•]
	(vii)	Specified Period:	[•]

		(*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert* "*Not Applicable*")
	(viii) Specified Interest Payment Dates:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert* "*Not Applicable*")
	(ix) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(x) Additional Business Centre(s):	[•]
	(xi) Minimum Rate/Amount of Interest:	[•] per cent. per annum
	(xii) Maximum Rate/Amount of Interest:	[•] per cent. per annum
	(xiii) Day Count Fraction:	[•]
21.	**Dual Currency Note Provisions:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[•]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[•]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[•]

PROVISIONS RELATING TO REDEMPTION

22.	**Call Option**:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[•] per Calculation Amount
	(b) Maximum Redemption Amount:	[•] per Calculation Amount
	(iv) Notice period:	[•]
23.	**Put Option**:	[Applicable/Not Applicable] (If *not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii) Notice period:	[•]
24.	**Final Redemption Amount of each Note:**	[•] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	
	(i) Index/Formula/variable:	[*give or annex details*]

	(ii)	Calculation Agent responsible for calculating the Final Redemption Amount:	[•]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv)	Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[•]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•]
	(vi)	[Payment Date]:	[•]
	(vii)	Minimum Final Redemption Amount:	[•] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[•] per Calculation Amount
25.	**Early Redemption Amount**		
	(i)	Early Redemption Amount (Tax) per Calculation Amount payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable (*if the Early Redemption Amount is the principal amount of the Notes)/specify the Early Redemption Amount if different from the principal amount of the Notes or specify its method of calculation*]
	(ii)	Early Termination Amount per Calculation Amount payable on mandatory redemption 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):	[Not Applicable (*if the Early Termination Amount is the principal amount of the Notes)/specify the Early Termination Amount if different from the principal amount of the Notes or specify its method of calculation*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	**Form of Notes:**	Bearer Notes:[1] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice][2] [Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note][3] Registered Notes: [Global Certificate exchangeable for Individual Note Certificates on [•] days' notice/at any time/in the limited circumstances described in the Global Certificate][4]

1 *Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.*

2 *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [•] days notice.*

3 *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [•] days notice.*

4 *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Global Certificate shall not be exchangeable on [•] days notice.*

27.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details.*] *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 18(vi) and 20(x) relate*] [*Also ensure London is a Financial Centre for all Notes in which Citibank N.A., London Branch acts as Issuing and Paying Agent*]
28.	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.*]
29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*]
30.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
31.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32.	Consolidation provisions:	The provisions in Condition 19 (*Further Issues*)] [annexed to this Pricing Supplement] apply]
33.	Any applicable currency disruption/ fallback provisions:	[Not Applicable/*give details*]
34.	Other terms or special conditions:	[Not Applicable/*give details*]
DISTRIBUTION		
35.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
36.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
37.	Total commission and concession:	[•] per cent. of the Aggregate Nominal Amount
38.	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
39.	U.S. Selling Restrictions:	Reg. S Category [1/2] (In *the case of Bearer Notes*) – [C RULES/D RULES/ TEFRA not applicable] (In *the case of Registered Notes*) – Not Applicable[1]
40.	Prohibition of Sales to EEA Retail Investors:	[Not Applicable/*give details*]
41.	Prohibition of Sales to UK Retail Investors:	[Not Applicable/*give details*]
42.	Additional selling restrictions:	[Not Applicable/*give details*]
OPERATIONAL INFORMATION		
43.	ISIN Code:	[•]
44.	Common Code:	[•]
45.	CMU Instrument Number:	[•]
46.	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
47.	Delivery:	Delivery [against/free of] payment
48.	Additional Paying Agent(s) (if any):	[•]
GENERAL		
49.	The aggregate principal amount of the Notes issued has been translated into United States	[Not Applicable/U.S.$]

[1] *TEFRA not applicable may only be used for Registered Notes, or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU must be issued in compliance with the C Rules, unless at the time of issuance the CMU, the CMU Lodging and Paying Agent has procedures in place so as to enable compliance with the certification requirements under the D Rules.*

	dollars at the rate of [•], producing a sum of (for Notes not denominated in United States dollars):	
50.	Ratings:	The Notes to be issued have [not] been rated: [S&P: [•]]; [Moody s: [•]]; [Fitch: [•]]; [[Other: [•]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

[USE OF PROCEEDS

Give details if different from the "*Use of Proceeds*" *section in the Offering Circular.*]

[STABILISATION

In connection with the issue of any Tranche of the Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) 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 for a limited period after the closing date in respect of that Tranche of the Notes. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.]

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 [•] Medium Term Note Programme of China Everbright Bank Company Limited.

RESPONSIBILITY

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

Signed on behalf of:
[SPECIFY ISSUER]

By: ....
Duly authorised

Name:

Title:

CAPITALISATION AND INDEBTEDNESS

As at 31 December 2020, the Bank had an issued share capital of RMB54,032 million divided into approximately 12,679 million H shares of RMB1.00 each and approximately 41,353 million A shares of RMB1.00 each.

This table should be read in conjunction with the audited consolidated financial statements of the Bank and related notes thereto included elsewhere in this Offering Circular:

	As at 31 December 2020	
	(RMB in millions)	*(U.S.$ in millions)*(1)
Debt		
Debt securities issued(2)	440,870	67,290
Shareholders' Equity		
Share capital	54,032	8,247
Other equity instrument	109,062	16,646
Capital reserve	58,434	8,919
Other comprehensive income	1,393	213
Surplus reserve	26,245	4,006
General reserve	67,702	10,333
Retained earnings	136,581	20,846
Total equity attributable to equity shareholders of the Bank	453,449	69,210
Non-controlling interests	1,549	236
Total equity	454,998	69,446
Total capitalisation(3)	5,368,110	819,334

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

(2) The Hong Kong Branch of the Bank issued U.S.$550,000,000 0.929 per cent. notes due 2024 in March 2021 and U.S.$600,000,000 0.839 per cent. notes due 2024 in June 2021, respectively.

(3) Total capitalisation equals the sum of debt and total equity.

Except as disclosed above, there has been no material adverse change to the capitalisation or indebtedness of the Bank since 31 December 2020.

USE OF PROCEEDS

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

DESCRIPTION OF THE BANK

The Bank is a national joint stock commercial bank committed to establishing itself as one of the most innovative commercial banks in the PRC. The A shares of the Bank have been listed on the Shanghai Stock Exchange (Stock Code: 601818) since August 2010 and the H shares of the Bank have been listed on the Hong Kong Stock Exchange (Stock Code: 6818) since December 2013. Since its operations commenced on 18 August 1992, the Bank has provided comprehensive and competitive financial products and services to a wide range of customers primarily in the PRC, including retail customers, corporate customers, government agencies and financial institutions, and has conducted a proprietary trading business and other trading operations for the Bank's clients. Because of its outstanding performance in business, the Bank has won many awards and was ranked 35th in "Top 1000 World Banks" in 2020. To adapt to changing market trends and the development of the macro-economy and the banking sector in the PRC, the Bank will continue to intensify its business transformation efforts, diligently develop its capital-efficient operations, build a diversified financial services platform, support the development of the PRC economy and promote technological innovation. The Bank believes that these core initiatives will facilitate the growth of its business.

The Bank's principal business segments are corporate banking, retail banking and financial market. The Bank's corporate banking business consists primarily of corporate loans, SME loans, trade finance, discounted bills and corporate deposits, as well as fee-and commission-based products and services. The Bank's retail banking business consists primarily of personal loans, bank cards, personal deposits and fee-and commission-based products and services. The Bank's financial market business primarily covers inter-bank money market transactions, repurchases transactions and inter-bank investments. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts.

In recent years, the Bank's business scale and customer base have continued to expand. The Bank's total assets, total loans and advances to customers and deposits from customers grew from RMB4,357,332 million, RMB2,361,278 million and RMB2,571,961 million, respectively, as at 31 December 2018, to RMB4,733,431million, RMB2,644,136 million and RMB3,017,888 million, respectively, as at 31 December 2019, and further grew to RMB5,368,110 million, RMB2,942,435 million and RMB3,480,667 million, respectively, as at 31 December 2020. The Bank's net profit grew from RMB33,721 million for the year ended 31 December 2018 to RMB37,441 million for the year ended 31 December 2019, and further grew to RMB37,905 million for the year ended 31 December 2020.

The Bank also strives to provide comprehensive financial services to its customers, which further enhances the Bank's net fee and commission income and net profit. The Bank's net fee and commission income continues to grow from RMB19,773 million for the year ended 31 December 2018 to RMB23,169 million for the year ended 31 December 2019, and further to RMB24,323 million for the year ended 31 December 2020. The Bank's impairment losses on assets grew from RMB35,828 million for the year ended 31 December 2018 to RMB49,347 million for the year ended 31 December 2019, and further grew to RMB56,932 million for the year ended 31 December 2020, while the NPL remained stable at 1.59 per cent.,1.56 per cent. and 1.38 per cent, respectively. As at 31 December 2020, the Bank's liquidity coverage ratio was 150.47 per cent.

The Bank's head office is located in Beijing and the Bank has a nationwide branch network. The Bank's branch network further expanded to the international market by establishing its first overseas branch in Hong Kong in December 2012. The Bank has a strategic focus on the PRC's more economically developed regions, such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta and has supported the One Belt One Road, and free trade zones in the PRC.

The following chart sets out a simplified corporate structure of the Bank which shows, among other things, the direct shareholding in the Bank of certain shareholders as at the date of this Offering Circular:

RECENT DEVELOPMENTS OF THE BANK

Impact of the COVID-19 Pandemic

The outbreak of the COVID-19 pandemic aggravated and complicated the operational environment in the banking industry. The Bank took multiple measures to cope with COVID-19, including allocating special limits, delegating approval and pricing authority, opening green channels for approval and improving assessment. For example, the Bank suspended some prerequisite procedures required for the approvals of projects previously, delegated the approval authorisation for special projects, simplified the face-to-face process for lending, and supported the credit on "daily necessities" and "medical supplies" for the purpose of epidemic prevention and control. Moreover, it adopted a targeted support program for enterprises that played a crucial role in fighting against COVID-19 and maintained a list of more than 1,900 of such enterprises. For certain risks that the COVID-19 pandemic poses on the Bank, see "*Risk factors – Risks Relating to the Bank's Business - The Bank's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC*" and "*Risk factors – Risks relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations*"

2021 First Quarter Financial Results

On 28 April 2021, the 2021 First Quarter Financial Report was published on the website of the Hong Kong Stock Exchange. The Group's total assets for the three months ended 31 March 2021 increased to RMB5,581,691 million, representing an increase of 3.98 per cent., as compared with that as at 31 December 2020. The total liabilities registered RMB5,117,212 million, representing an increase of 4.15 per cent., as compared with that as at 31 December 2020. The balance of deposits was reported RMB3,585,545 million, up by 3.01 per cent., as compared with that as at 31 December 2020. Total loans and advances to customers stood at RMB3,158,860 million, representing an increase of 4.96 per cent. over the end of the previous year.

During the three months ended 31 March 2021, the Group realised a net profit of RMB11,560 million, representing a year-on-year increase of 6.32 per cent. Its operating income was RMB38,767 million, representing a year-on-year increase of 3.87 per cent. The Group's net interest income realised for the three months ended 31 March 2021 was RMB27,876 million, representing a year-on-year increase of 2.69 per cent., as compared with the corresponding period in 2020 and accounting for 71.91 per cent. of the total operating income of the Group.

During the three months ended 31 March 2021, the Group's net fee and commission income was RMB7,824 million, representing a year-on-year increase of 6.65 per cent, as compared with the corresponding period in the 2020 and accounting for 20.18 per cent. of the total operating income.

During the three months ended 31 March 2021, the Group incurred operating expenses of RMB10,252 million, representing a year-on-year increase of 5.76 per cent. Its credit impairment losses were RMB13,957 million, representing a year-on-year decrease of 3.84 per cent.

As at the end of the three months ended 31 March 2021, the non-performing loans of the Group totalled RMB43,229 million, representing an increase of RMB1,563 million, as compared with 31 December 2020. Its non-performing loan ratio was 1.37 per cent., decreased by 0.01 per cent. as compared with 31 December 2020. Its provision coverage ratio was 183.87 per cent, representing an increase of 1.16 percentage point as compared with 31 December 2020. As at the end of the three months ended 31 March 2021, the Group recorded a liquidity coverage ratio of 130.24 per cent., against a liquidity coverage ratio of 150.47 per cent. as compared with 31 December 2020.

As at the end of the three months ended 31 March 2021, the Group's capital adequacy ratio reached 13.74 per cent. Its tier-1 capital adequacy ratio was reported 11.65 per cent., while its common equity tier-1 capital adequacy ratio was reported 9.00 per cent., all of which met the regulatory requirements. As at the end of three months ended 31 March 2021, the leverage ratio of the Group was 7.03 per cent., the same as compared with 31 December 2020.

The summary consolidated statement of profit or loss and other comprehensive income of the Group for the three months ended 31 March 2020 and 2021 and the summary consolidated statement of the Group's financial position as at 31 March 2021 as included in this Offering Circular are derived from the Group's "2021 First Quarter Financial Report" filed with the Hong Kong Stock Exchange on 28 April 2021, which was prepared in accordance with IFRS. These results have not been audited or reviewed by the Bank's independent auditors.

None of the relevant Issuer, the Bank, the Group, the Arrangers and the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2020 and 2021 for an assessment of the Bank's financial condition and results of operations. Such unaudited and unreviewed consolidated financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2021 should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2021.

Progress in Issuance of Tier-2 Capital Bonds

The 24th meeting of the Eighth Session of the Board of Directors held on 26 March 2021 considered and approved the *Proposal on Issuance of Tier-2 Capital Bonds* and planned to issue tier-2 capital bonds of no more than RMB60 billion or equivalent in foreign currencies. This issuance is intended to be submitted to the shareholders' general meeting for review.

Connected Transaction in relation to Entering into the Aircraft Sale and Purchase Agreement with Connected Person

On 9 April 2021, a subsidiary of the Bank, Everbright Financial Leasing Co., Ltd. (through its subsidiaries) (as the "**Purchaser**") entered into an aircraft sale and purchase agreements with China Aircraft Leasing Group Holdings Limited (through its subsidiaries) (as the "**Vendor**"), pursuant to which, the Vendor agreed to transfer the ownership of two Airbus A320 aircraft together with relevant leasing rights and obligations to the Purchaser. The Vendor is a connected person (as defined in the Listing Rules) of the Bank. The full-life base value of the aircraft obtained from an independent appraiser is approximately U.S.$102.4 million.

The Change of Registered Capital and the Amendments to The Articles of Association of The Bank

The Bank publicly issued A share convertible corporate bonds in the total amount of RMB30 billion in March 2017, with a maturity period of 6 years. As at 31 December 2020, the number of accumulated converted shares of such A share convertible corporate bonds is 1,542,813,979 shares, an increase of 1,542,781,841 shares from the end of 2017. In addition, the Bank non-publicly issued preference shares in the total amount of RMB35 billion in July 2019, an increase of 350,000,000 shares from the end of 2017.

As at 31 December 2020, upon the conversion of A share convertible corporate bonds and the issuance of preferred shares, the share structure of the Bank is: 54,031,908,979 ordinary shares, of which 41,353,173,479 A shares and 12,678,735,500 H shares; the number of preferred shares is 650,000,000.

According to the above changes in shares and the relevant procedural requirement of the domestic local industrial and commercial registration authority, on 29 January 2021, the Board of Directors of the Bank resolved to change the registered capital of the Bank to RMB54,031,908,979, and make corresponding adjustments to the relevant terms of registered capital in the articles of association of the Bank. The above matters are subject to the approval by the general meeting of the Bank and the CBIRC. The amended articles of association will take effect from the date of approval by the CBIRC.

Appointment of the President and Change of Role of Director

As at the date of this Offering Circular, the Board of Directors consists of thirteen members, including four Non-executive Directors, three Executive Directors and six Independent Non-executive Directors. At the twenty-fifth meeting of the Eighth Session of the Board of Directors convened on 28 April 2021, Mr. FU Wanjun was appointed as the President of the Bank. In June 2021, the Bank received the "Approval by China Banking and Insurance Regulatory Commission of Appointment Qualification of Fu Wanjun of China Everbright Bank (《中國銀保監會關於光大銀行付萬軍任職資格的批復》)" (Yin Bao Jian Fu [2021] No. 426), pursuant to which the appointment qualification of Mr. Fu Wanjun as the President of the Bank was approved. The term of office of Mr. Fu Wanjun as the President of the Bank commenced on 1 June 2021.

Pursuant to the relevant requirements of CBIRC, directors holding senior operation and management positions in commercial banks shall be executive directors. Mr. Fu Wanjun, holding office as the President of the Bank, shall be the Executive Director with effect from 1 June 2021 until the expiry of the term of the current Board. See "*Directors, Supervisors and Senior Management*" in this Offering Circular for details of the senior management of the Bank as at the date of this Offering Circular.

Approval of Qualification of Director by the CBIRC

In May 2021, the Bank received the "Approval by China Banking and Insurance Regulatory Commission of Appointment Qualifications of Han Fuling of China Everbright Bank (《中國銀保監會關於光大銀行韓復齡任職資格的批復》) (Yin Bao Jian Fu [2021] No. 396), pursuant to which the appointment qualification of Mr. HAN Fuling as the Independent Non-executive Director of the Bank was approved. The term of office of Mr. HAN Fuling as the Independent Non-executive Director of the Bank commenced on 25 May 2021. See "*Directors, Supervisors and Senior Management*" in this Offering Circular for details of the senior management of the Bank as at the date of this Offering Circular.

Change of Members of the Board Committee

On 28 April 2021, the Board of Directors approved the appointment of Mr. FU Wanjun as the Chairman of the Risk Management Committee, Chairman of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of the Strategy Committee of the Eighth Session of the Board of the Bank, and the cease of Mr. FU Wanjun as a member of the Audit Committee; the appointment of Mr. HAN Fuling as a member of the Remuneration Committee, Nomination Committee, Related Party Transactions Control Committee and Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The above appointment of Mr. FU Wanjun and Mr. HAN Fuling became effective on 28 April 2021 and 25 May 2021, respectively. See "*Directors, Supervisors and Senior Management*" in this Offering Circular for details of the senior management of the Bank as at the date of this Offering Circular.

Appointment of Chairman of the Board of Supervisors

On 26 March 2021, Mr. LU Hong was elected the chairman of the board of supervisors and the member of the nomination committee of the board of supervisors of the Bank. The term of office of Mr. LU Hong as the chairman of the eighth session of the board of supervisors of the Bank is effective on 26 March 2021. See "*Directors, Supervisors and Senior Management*" in this Offering Circular for details of the senior management of the Bank as at the date of this Offering Circular.

Resignation of Executive Director and President

Mr. LIU Jin, the Executive Director and President of the Bank, has tendered his resignation to the Board of Directors on 16 March 2021 due to job adjustment, resigning from the positions as the Executive Director, chairman and member of the Risk Management Committee, chairman and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of the Strategy Committee of the Board of Directors and the President of the Bank. Mr. LIU Jin's resignation became effective upon the submission of his resignation letter to the Board of Directors.

Resignation of Non-Executive Director

Ms. YU Chunling, the Non-executive Director of the Bank, has tendered her resignation to the Board of Directors on 10 May 2021 due to job adjustment, resigning from the positions as the Non-executive Director, member of the Risk Management Committee, and member of the Related Party Transactions Control Committee of the Board of Directors. Ms. YU Chunling's resignation became effective upon the submission of her resignation letter to the Board of Directors.

Resignation of Independent Non-Executive Director

Pursuant to the relevant requirements of laws and regulations and the articles of association of the Bank, due to the expiry of term of office, Mr. FENG Lun ceased to be the Independent Non-executive Director of the Bank, and ceased to act as the member of the Remuneration Committee and the Related Party Transactions Control Committee of the Board of the Bank at the same time. Mr. FENG Lun's resignation became effective from 25 May 2021.

Proposed Appointment of Non-Executive Director

The Board of Directors of the Bank announced that at the 27th meeting of the eighth session of the Board convened on 10 June 2021, the Board of Directors has considered and resolved unanimously the resolution regarding the nomination of Mr. LI Wei as candidate for the position of Non-executive Director of the eighth session of the Board of Directors. His appointment is subject to the consideration and approval at the shareholders' general meeting of the Bank, as well as the approval by the CBIRC. His term of office will come to effect on the date when the approval of the CBIRC is obtained.

Resignation of Vice President

Mr. YAO Zhongyou, the Executive Director and the Vice President of the Bank, has tendered his resignation to the Board of Directors of the Bank on 18 June 2021 due to job adjustment, resigning from the position as the Vice President of the Bank. Mr. YAO Zhongyou will continue to perform his duties as the Non-executive Director of the Bank. Pursuant to the Company Law of the People's Republic of China and other relevant laws and regulations and the articles of association of the Bank. Mr. YAO Zhongyou's resignation from the position as the Vice President became effective upon the submission of his resignation letter to the Board of Directors of the Bank.

COMPETITIVE STRENGTHS

The Bank's principal competitive strengths include:

Distinctive model-based operations and strong focus on strategic and emerging industries

The Bank's model-based operations provide customised financing solutions to satisfy industry-specific demands and diversified customer needs. The Bank efficiently replicates and applies these financing solutions to customers in the same industry or with similar demands. The Group focuses on its strategic customers, listed companies and other quality large and medium-sized enterprises. The Bank also selects upstream and downstream SME customers according to supply-chain financing needs. The Bank has also created cooperative platforms to provide competitive small and micro-products to cater for differentiated financing services of small and micro enterprises and enhanced the scope of services to small and micro-sized enterprises. Tapping on technology, the Bank has also sought to strengthen its investment in financial technology, strengthen the application of big data in the financial field and promote the intelligent and online application in marketing, approval process and post-loan services for small and micro-sized customers.

The Bank's SME business has leveraged on the risk mitigation function of the Bank's model-based operations and adopted on-site inspections and customised assessments to effectively reduce the Bank's risk exposure.

In addition, the Bank places a strong focus on supporting strategic and emerging industries in the PRC. The Bank actively supports the development of "green financing" in the PRC. Embracing the trend of developing an energy efficient economy, the Bank launched a low-carbon financial service package, "Guang He Dong Li" (光合動力), to meet the needs of enterprises seeking financing for their low-carbon projects. The Bank's "Guang He Dong Li" (光合動力) low-carbon financial product has won many awards.

The Bank also focuses on financing for high-tech companies. It provides strong financial support to enterprises in strategic and emerging industries of the PRC that possess core technology and strong research and development capabilities.

In addition, the Bank actively supports government procurement financing. It launched "Government Procurement Financing Loans" (政採融易貸), a financial product offered to SME suppliers whose target customers are government agencies.

Supported by the strength of China Everbright Group Ltd., the Bank also enjoys substantial cross-selling and collaboration opportunities from effective customer resources sharing. For example, on 13 January 2017, the Bank announced that it had entered into an agreement with China Everbright Group Ltd., under which China Everbright Group Ltd. had proposed to subscribe to no more than RMB8.8 billion of domestic convertible bonds to be issued by the Bank, and in September 2019, China Everbright Group Ltd. entered into an agreement with the Bank, under which the Bank would provide bond underwriting services for two years for an annual total value of RMB5 billion of bonds to be issued by China Everbright Group Ltd., subject to an annual fee cap of RMB90 million.

The Bank believes that its strong focus on strategic and emerging industries in the PRC will enable the Bank to continue expanding its business in the PRC.

Effective capital management and operation

The Bank focuses on capital management in its business operations. It promotes the use of economic metrics such as EVA (Economic Value Added) as key performance indicators and has transformed the Bank's performance evaluation system by adopting a system that evaluates operational performance on a risk adjusted basis as opposed to using financial indicators.

The Bank has established a capital-efficient business model focusing on SMEs and micro enterprises, electronic banking and wealth management businesses. The Bank's overall credit structure improved over the years, with balances of personal loans as a percentage of total loans and advances changing from 43.50 per cent. as at 31 December 2018 to 42.68 per cent. as at 31 December 2019, and to 42.64 per cent. as at 31 December 2020.

In addition, the Bank's cost-to-income ratio[1] decreased from 29.48 per cent. for the year ended 31 December 2018 to 27.85 per cent. for the year ended 31 December 2019, and further decreased to 27.18 per cent. for the year ended 31 December 2020. The Bank's return on average total assets increased from 0.80 per cent. for the year ended 31 December 2018 to 0.82 per cent. for the year ended 31 December 2019, and slightly decrease to 0.75 per cent. for the year ended 31 December 2020. The Bank's return on weighted average net assets amounted was 11.77 per cent. for the year ended 31 December 2019 and decreased to 10.71 per cents for the year ended 31 December 2020.

Fast growing retail banking business

By implementing a differentiated and comprehensive retail banking strategy, the Bank has identified its wealth management, micro enterprise financial services and credit card businesses as key growth drivers. The Bank

1 Excluding business tax and surcharges.

targets mid-to high-end customers and is committed to providing comprehensive financial services by (i) promoting cross-selling among various business lines and (ii) effectively leveraging the Bank's products, brands and channel resources. For the years ended 31 December 2018, 2019 and 2020, the Bank's retail banking business generated operating income of RMB46,518 million, RMB54,683 million and RMB58,678 million, respectively, representing 42.14 per cent., 41.13 per cent. and 41.12 per cent. of the Bank's total operating income, respectively.

The Bank's credit card business grew as a result of effective marketing and continuous innovation. Supported by the Bank's advanced IT platform, the Bank has issued different customised credit card products, which have been well received by customers. Currently the main credit card products of the Bank included four series products namely "Cute Series (萌系列)", "UP Series (UP 系列)", "Big Trip (大出行)" and "Big Health (大健康)", which target to the young customers and high-net-worth customers; and among others, the predecessor of "Big Trip" is the "Big Travel (大旅遊)". "Big Health (大健康)" is aiming to satisfy customers' demand on health and sports after the outbreak of COVID-19 by providing relevant service products such as "Filial Peity Card (孝心卡)" and "MIGU Run Co-branded Card (咪咕善跑聯名卡)" etc.

In adherence to its founding mission of "serving the people and solving their difficulties", the Bank set up the E-Cloud Banking Services Department to take charge of the business development of China's largest convenient bill payment platform and put the inclusive finance strategy into practice. The Bank continued to increase the types of bills that can be paid on the platform, facilitated the online collection of non-tax government revenues and promoted platform exports. The E-Cloud Banking Services were launched across the board to additionally incorporate non-tax cloud, social security cloud, property management cloud, healthcare cloud and education cloud. The Cloud Fee Payment client launched eight life modules, namely, insurance, security, going abroad, tourism, medical treatment, housekeeper, handing cards and wealth management.

Through adopting efficient management plans, the Bank has improved service efficiency, further streamlined the operational processes of the Bank's credit card business and enhanced the Bank's management quality at various stages. Furthermore, the outsourcing of the Bank's standardised businesses has effectively reduced the Bank's operating costs. The Bank has also adopted a refined marketing strategy based on customer segmentation which enabled the Bank to achieve a manageable cost-to-income ratio for the Bank's credit card business.

The Bank believes that its comprehensive retail banking strategy and its well-established credit card business gives it a competitive advantage over other industry players and enables the Bank to maintain its industry-leading position.

Distinguished shareholders engaged in diversified financial fields.

The shareholders of the Bank are distinguished financial institutions engaged in diversified operation and coordinated development of both finance and industry with a full range of financial licences. China Everbright Group is a large financial holding group directly under the administration of the central government of China, and also one of the Fortune Global 500 companies. Its business scope encompasses financial services and non-financial industries including environment, tourism, health and high-tech. With a global presence, especially in Hong Kong and PRC, relying on the platform of China Everbright Group, the Bank could provide a full package of financial services and promote the coordinated development of finance and industry.

Outstanding innovative DNA

The Bank has an outstanding innovative gene. The Bank was established in the trends of competitive financial market in China, and grew stronger through exploration and innovation. Inspired by innovation awareness, it became the first bank that launched the RMB wealth management products, the first to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks obtaining dual qualifications as both enterprise annuity fund custodian and account manager in China. Besides that, it has forged China's largest open-ended payment platform, Cloud Fee Payment, endeavoured to build Wealth E-SBU, and achieved remarkable innovation results.

The Bank stepped up the top-level design, built the fintech innovation system in a scientific, systematic and comprehensive way, and sharpened its core competitiveness. It also established a special funds mechanism for fintech innovation with a budget of RMB500 million to support the rapid incubation, implementation and promotion of new technologies, new businesses and new models as at 31 December 2020. With the establishment of Everbright Digital Finance Academy, the Bank advanced talent cultivation, project incubation and the establishment of innovation ecosphere. As a move to integrate the innovation management functions of the whole bank, the fintech segment was responsible for planning and promoting bank-wide innovation. In addition, the

Bank also set up the review and management mechanism for hit digital products, thus connecting the fintech innovation and incubation system with the review mechanism of hit digital products.

For the year ended 31 December 2020, key projects supported by the special funds for fintech innovation, such as smart transportation, industry chain financing, sunshine logistics, e-commerce, and public resources, had made profits. The Logistics Express (Wu Liu Tong) stepped into the stage of fast development, the Everbright Dual Chain (Blockchain-powered supply chain finance) was launched on a pilot basis, and the Mobile Banking V8.0 rolled out the "AI Digital Human", an intelligent customer service.

Leading roles in wealth management businesses

Devoting itself to building a first-class wealth management bank, the Bank has obtained comparative advantages in wealth management business. Its investment banking business as the pioneer in the industry is able to provide corporate customers with comprehensive investment banking services. Its digital banking business has focused on building an open service system by opening its platforms, which has developed into an industry-leading business model. In addition, the Bank keeps improving its capabilities for value creation and high-quality development in retail business, which makes positive contributions to the stable and sustainable development of the Bank.

Prudent risk management

The Bank proactively implements comprehensive and effective risk management measures. Based on the Basel III framework, the Bank established a comprehensive risk management system covering various aspects of its businesses, adopted an internal ratings system with high sensitivity, improved risk assessment and risk-adjusted pricing ability and increased capital efficiency of its operations.

The Bank has an independent and professional risk management organisation structure. The Bank has established risk management teams to key business lines and branch outlets and has strengthened the Bank's risk management and control efforts in its major business areas. As a result, the Bank improved the professional standards and independence of its risk management team and has aligned its risk management practices more closely with the market.

The Bank has always upheld prudent risk management philosophy, insisted in stable business development strategies and taken compliant operating measures. The comprehensive risk management methods and techniques are increasingly diversified to ensure effective control of asset quality. The management system is continuously improved to make risk management more proactive, forward-looking and predictable. As at 31 December 2018, 2019 and 2020, the Bank's NPL ratio was 1.59 per cent., 1.56 per cent. and 1.38 per cent., respectively.

The continued improvement of the Bank's risk management capability has enabled the Bank to effectively handle the challenges brought by the recent economic downturn and manage its overall risks. The Bank had firmly safeguarded the Bank's risk management bottom-line across the board and strengthened the credit risk management.

In addition, the Bank's cost-to-income ratio[2] decreased from 29.48 per cent. for the year ended 31 December 2018 to 27.85 per cent. for the year ended 31 December 2019, and further decreased to 27.18 per cent. for the year ended 31 December 2020. The Bank's return on average total assets increased from 0.80 per cent. for the year ended 31 December 2018 to 0.82 per cent. for the year ended 31 December 2019, and slightly decrease to 0.75 per cent. for the year ended 31 December 2020. The Bank's return on weighted average net assets amounted was 11.77 per cent. for the year ended 31 December 2019 and decreased to 10.71 per cents for the year ended 31 December 2020.

Advanced IT platform and industry-leading digital banking innovation

The Bank promotes development driven by technological innovation. The Bank continues to build the "123+N" digital Everbright development system, which namely includes "one smart brain, two technological platforms, three service capabilities and N digital products". "One smart brain" focuses on data mining, machine learning, biometrics, voice recognition and natural language processing. "Two technological platforms" entail development cloud computing and big data technology platforms. "Three service capabilities" call for transformation to open, mobile and integrated servicing capabilities. "N digital products" is a manifestation of the Bank's dedication to

[2] Excluding business tax and surcharges.

leverage technological advancement in order to increase and diversify its offering of digitalised products, such as Cloud Fee Payment.

In the first half of 2020, the Bank renamed and upgraded the Electronic Banking Department to the Digital Banking Department in an effort to further advance its digital transformation. The Bank capitalised on the agile advantage of digital banking, rolled out non-contact financial services to help with the fight against COVID-19, and went digital at a faster speed. As at 31 December 2020, 98.69 per cent. of counter transactions were handled through electronic channels, 0.21 percentage point higher than the previous year. The Bank continued to expand the coverage of the Wealth E-SBU (which stands for “Ecosystem, Electronic and Everbright Strategic Business Unit”) platform and accelerated the building of a “mega-wealth” ecosphere. Mobile banking (V8.0) was launched, and the “Wealth +” brand was upgraded. The number of monthly active users of mobile banking reached 13,402,400, an increase of 33.08 per cent. year on year. The Bank granted RMB1.27 trillion of “Sunshine Digital Loan”, with a loan balance of RMB106,842 million, up RMB28,900 million over the end of the year ended 31 December 2019. It completed the first asset securitisation program based on online leading, and rolled out a unified payment system for Cloud Fee Payment, with the transaction volume reaching RMB11.21 trillion, up 7.04 per cent. year on year.

Unified Sunshine brand

The Bank has advantages in its unified Sunshine brand. Upholding the business philosophy of "Sharing Sunshine, Innovating Life", the Bank has stepped up its efforts to build the "Sunshine" brand series and develop hit products, leveraging on modern technologies and digital means. As at 31 December 2020, it recorded more than 30 hit products including Sunshine Wealth Management, Cloud Fee Payment, Sunshine Inclusive Finance, Auto Full Pass, Forfaiting Blockchain and Sunshine E-loan.

Experienced management team

The Bank’s senior management team has extensive experience in the banking and financial industry in the PRC. The key members of the Bank’s senior management have an average of more than 20 years of management experience related to the financial industry. The Bank’s chairman and president have held various major leadership positions in the financial industry. The Bank’s senior management led the implementation of the Bank’s business transformation and the optimisation of the Bank’s organisation and have achieved remarkable results in recent years.

The Bank’s experienced management team has a successful track record of implementing a series of transformational initiatives, including the Bank’s financial restructuring and the improvement of the Bank’s corporate governance and risk management structures. Under the leadership of its management team, the Bank has significantly improved its operations and financial results, and is moving toward its goal of becoming a world-class commercial bank.

STRATEGIES

The Bank is committed to creating greater value for shareholders, customers, employees and the society, and the Bank regards “building itself into a first-class wealth management bank” as its strategic vision. Keeping itself aligned with the national strategies, the Bank focuses on serving the real economy, and leverages on China Everbright Group’s advantages in full range of financial licences, collaboration between finance and industry, and between Hong Kong SAR and Chinese mainland, to strengthen intra-group coordination and develop the Wealth E-SBU.

The Bank is striving to build an extensive, authentic and new-type of wealth management. “Extensive” refers to serving a wider range of customer base with the provision of product offerings that meet customers’ increasingly diversified demands. “Authentic” means adapting to the trends of wealth management development by combining enterprise business operations and residents’ consumption scenarios, in order to better serve real economy and people’s livelihood. “New” refers to promoting product innovation and developing business model driven by fintech, so as to provide customers with better-quality services and experience.

Implement the strategy of “building a first-class wealth management bank” and transformation of wealth management.

Focused on the strategic vision of building a first-class wealth management bank, the Bank resolutely pursues transformation of wealth management. By carrying out the “Leap Development Plan”, the Bank endeavours to make breakthroughs in five aspects including profitability, operation scale, wealth management, customer base and risk control, achieving high-quality development in the next two years.

The Bank will review the Wealth E-SBU Development Plan and has devised new objectives, strategies and mechanisms. The coordination scale, operating income and fee-based income reached all-time highs, with the total value of collaborative business standing at RMB1.66 trillion for the year ended 31 December 2020, up 34.20 per cent. year on year. For the year ended 31 December 2020, the cross-selling exceeded RMB67.5 billion; the coordination operating income reached RMB8.25 billion, up 69.60 per cent. year on year; and the coordination fee-based income totalled RMB2.53 billion, up 57.20 per cent. year on year. Among the customers introduced through collaboration efforts, there were 3,100 corporate customers and 1.45 million retail customers (including 1,176 high-net-worth individuals), contributing RMB17.42 billion of AUM, as at 31 December 2020.

Enhance the Bank's capabilities for providing comprehensive financial services.

The Bank aims to comprehensively improve development quality and promote integration of traditional credit business and other businesses such as asset management, investment banking, fund transaction, transaction banking and financial leasing through its corporate banking sector, in order to build the Bank into a leading comprehensive financial service provider.

For the year ended 31 December 2020, the Bank recorded RMB24.323 billion of net income from fee-based business, a year-on-year increase of 4.98 per cent., accounting for 17.04 per cent. of operating income for the same year. The fee-based income became more diverse, with a surge in income from wealth management, Cloud Fee Payment, transaction banking, retail agency, custody and investment banking. The fee-based income structure was improved, with fee-based income excluding credit card business accounted for 54.66 per cent. of total fee-based income for the year ended 31 December 2020, up 9.18 per cent. from the previous year.

Improve the operational efficiency and operating income of the Bank's retail businesses.

The Bank's retail banking sector focuses on three strategic businesses including wealth management, retail credit and credit card businesses. The Bank will continue to focus on wealth management characteristics, intensify efforts in transformation, and continuously improve both operational efficiency and operating income proportion of retail businesses.

For the year ended 31 December 2020, the operating income of retail banking reached RMB58,678 million, accounting for 41.12 per cent. of the Bank's total operating income. The customer base had a better structure and higher quality. As at 31 December 2020, the Bank had 123 million retail customers, including 950,000 wealth management customers, up 22.57 per cent. from the previous year. The number of private banking customers exceeded 40,000 as at 31 December 2020, representing an increase of 24.54 per cent. from the previous year. As at 31 December 2020, the assets under management (AUM) of retail customers of the Bank reached RMB1.92 trillion, up 12.42 per cent. from the previous year. The Bank signed Head Office-to-headquarters contracts with 52 companies for the year ended 31 December 2020, increasing the number of corporate customers to 782,900, up 15.35 per cent. from the previous year.

Enlarge scale of financial market sector and improve its competitive capabilities.

The Bank aims to increase efforts to enlarge scale, adjust structure and raise efficiency of its financial market sector, in order to comprehensively improve the competitive capabilities. Specifically, the Bank will not only moderately increase business scale, but also effectively optimise asset allocation structure by selecting more high-yield assets than low-yield assets.

In particular, the Cloud Fee Payment platform remained China's largest open-ended platform for fee payment, covering over 10,000 fee payment as at 31 December 2020, up 39.39 per cent. from the previous year. The "Colourful Sunshine" net-asset-value (NAV) product system was continuously diversified and improved, while Sunshine Gold and Sunshine Orange products delivered remarkable results. As at 31 December 2020, the Sunshine Supply Chain platform handled 71,000 transfers totalling RMB11.2 billion, and the Forfaiting Blockchain platform had a transaction volume of nearly RMB300 billion. "Anxinxi", a collaborative hit product of private banking, generated RMB1,354 million of initial premiums and served 28,000 customers, with the banker-insurer collaborative premiums exceeding RMB2 billion in total. The Bank became the occupational annuity custodian in 32 provinces and autonomous regions in China, the only joint-stock bank bidder awarded contracts for all these projects, and had over RMB100 billion of occupational annuities under its custody. The

"Auto Full Pass" product served 3,707 auto dealers. The "Sunshine Exchange Gain" product registered RMB122.5 billion in agency derivatives trading, up 14.00 per cent. from the previous year.

Strengthen the Bank's overall management structure and efficiency.

The Bank aims to strengthen assets and liabilities management and overall finance management, promoted refined management, and improved management efficiency. It enhances risk control, makes its overall risk management system more prudent and efficient, and strictly sticks to the bottom line of risk control. It focuses on the power of innovation by giving full play to tech empowerment. It insists on building the "123+N" digital banking system, making business, marketing and service online, mobile and open. It optimises its organisational system, establishes a market-oriented employee recruitment and selection system, and cultivates a highly competent talent team, which forms a reasonable echelon structure.

The Bank formulates the Plan for Optimisation of the Strategic Management System and proposed the "1+6" optimisation framework. "1" refers to optimising the strategic indicators system, setting relatively more proactive targets in line with the budget targets and balanced scorecard assessment, and aligning the Bank's management activities more closely with its strategic vision; "6" refers to optimising the six management systems of customers, products, channels, innovation, investor relations and international business, adjusting organisational structure and management functions with more focus placed on positioning itself as a wealth management bank.

THE BANK'S PRINCIPAL BUSINESSES

The Bank's principal business segments are corporate banking, retail banking and financial market. The following table sets forth, for the periods indicated, the Bank's operating income by business segments:

	For the year ended 31 December					
	2018		2019		2020	
	Amount *(RMB million)*	*% of total*	*Amount* *(RMB million)*	*% of total*	*Amount* *(RMB million)*	*% of total*
Corporate banking business	44,836	40.62	53,275	40.08	59,633	41.79
Retail banking business	46,518	42.14	54,683	41.13	58,678	41.12
Financial market business	18,935	17.15	24,765	18.63	24,225	16.98
Other business	97	0.09	216	0.16	169	0.11
Total	110,386	100.00	132,939	100.00	142,705	100.00

Corporate Banking Business

The Bank provides a broad range of financial products and services to government agencies, financial institutions and corporations. Corporate banking constitutes the Bank's primary source of income and consists primarily of corporate deposits and loans, inclusive finance, discounted bills, investment banking and transaction banking.

The corporate banking line of the Bank fuelled the growth of the real economy, and in particular, it supported the management, prevention and control of the COVID-19 pandemic in China. Specifically, loans to the manufacturing sector and private enterprises kept growing rapidly, and inclusive finance of the Bank fulfilled the target of "Two Increases and Two Controls" of CBIRC, which urges various financial institutions to strengthen support to SME while maintaining asset quality. The plan of "Customer Multiplication" was vigorously pushed forward, with more efforts put in the operation towards tiered customer groups to build a customer system with characteristics of a wealth management bank, leading to the result that both the number and quality of active corporate customers increased. The transformation to light capital and light assets was accelerated, technology empowerment was enhanced around the industrial chain, and online products were created and upgraded, thus raising the business value of corporate banking.

Operating income from corporate banking accounted for 40.62 per cent., 40.08 per cent., and 41.79 per cent. of the Bank's total operating income for the years ended 31 December 2018, 2019 and 2020, respectively. As at 31 December 2020, the number of corporate customers reached 782,900, an increase of 104,200 or 15.35 per cent. over the end of the previous year, where the number of active corporate customers was 325,100, up 82,100 or 33.79 per cent. over the end of the previous year.

Customer Base

The Bank has extensive customer relationships with many large Chinese business groups and leading companies, government agencies, financial institutions and SMEs which the Bank believes have strong growth potential. The Bank has provided banking services to a large number of state-owned enterprises under the direct administration of the State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**"), as well as to a large number of enterprises included in the Top 500 Enterprises of the PRC List jointly published by the PRC Enterprise Confederation and the PRC Enterprise Directors Association (中國企業聯合會及中國企業家協會). The Bank has developed relationships with more than 1,000 large business groups and leading companies in their respective industries in the PRC. The Bank believes that it is one of the few PRC commercial banks approved by MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of MOF, (ii) the authorised payment of expenditures on behalf of MOF and (iii) the non-tax revenue collection on behalf of MOF. The Bank is a leading domestic underwriter of short-term commercial paper and medium-term notes in the PRC. In addition to expanding the Bank's customer base, the Bank has also focused on optimising the Bank's customer mix.

SMEs are strategically important to the Bank's development and growth. The Bank mainly focuses on the following three types of SMEs: (i) supply chain participants who have advanced production facilities and equipment as well as advanced technologies to provide long term supporting services or supplies to large state-owned enterprises, leading companies, government agencies and other core clients; (ii) SMEs clustered in certain regions or industries who have brands with sound reputations and high market shares in these regions or industries; and (iii) high-tech SMEs which have been included in the national SME administration and service system, including technological SMEs within national-level high-tech industrial parks, software parks, industrial bases for the Torch Programme (a national programme to develop high and new technologies) and national university technology parks.

The Bank also focuses on developing long-term relationships with customers in economically more developed regions in the PRC such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, as well as in those industries which are strategically important to the PRC economy. The Bank also continued to adjust its loan portfolios. As at 31 December 2020, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which represented 10.41 per cent., 9.79 per cent., 7.46 per cent., 6.31 per cent. and 4.24 per cent. of the Bank's total loans and advances, respectively, and together represented 38.21 per cent. of the balance of the Bank's total loans and advances as at the same date.

Major Products and Services

Corporate deposits and Loans

Following the requirement of "increasing loan granting, cutting cost and providing convenience", the Bank served the economic and social development. It scaled up its credit support to key areas including advanced manufacturing, new infrastructure and new urbanisation initiatives and major transportation and water conservancy projects, medicine and health, with the loans growing at a record high speed in recent years and interest rates decreasing prominently. The Bank also expedited the integration between online and offline businesses, addressed the importance of acquiring batch customers online and propelled precipitation of settlement funds of customers by its product strengths and service capabilities. It continued to optimise its deposit structure with high-cost deposits reduced and core deposits accounting for a higher percentage. Besides that, it stuck to the risk bottom lines and enhanced risk awareness across the Bank, thus maintaining the stable quality of loans.

Inclusive Finance

While actively implementing the decisions and plans on managing COVID-19, the Bank increased credit granting and introduced innovative products and services, and earnestly carried out the policy of temporarily postponing principal and interest repayment on loans, to maximise the financial support for the work and production resumption of small and micro enterprises. The Bank continuously stepped up the support for poverty alleviation in rural areas, and carried out credit granting for poverty alleviation through authorisation delegation of pricing, preferential pricing and due diligence-based liability exemption, leading to stable growth of loans for targeted poverty alleviation. In an innovation-driven manner, the Bank made iterative updates to "Sunshine Inclusive Finance Cloud" platform, and drew up the "Chain Plan", achieving progress in "Sunshine Inclusive Finance" ecological chain business. The Bank strengthened channel building by deepening the strategic cooperation with National Financing Guarantee Fund and National Agricultural Credit Guarantee Alliance. It actively took part in E-SBU initiative of the Group, drawing on the strengths of each member of the Group. As at 31 December 2020, the Bank fulfilled the CBIRC's regulatory requirement of "Two Increases and Two Controls" for inclusive finance, making substantial contribution to the real economy in accordance with the requirement of providing customers with cheaper and convenient access to more financing. In supporting the fight against COVID-19, the Bank provided credit facilities to enterprises related to the supply of medical, hygiene and subsistence products.

Discounted Bills

Discounted bills refer to the Bank's discounted purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months (no longer than one year for electronic commercial bills). The Bank may resell these bills to PBOC or other financial institutions authorised to conduct bill discounting, which would provide the Bank with additional liquidity and net interest income.

Investment Banking

The Bank provides investment banking services and financial advisory services to its corporate customers. The Bank believes that it was among the first batch of PRC commercial banks to be qualified to underwrite short-term commercial paper when the PRC government started to permit this business in May 2005. Since then, the Bank has actively sought to develop its capabilities and has become a market leader in this product area. The Bank's main products include short-term commercial paper, medium-term notes, extra short-term commercial paper, private placement notes, SME combined notes and asset-backed notes. As at 31 December 2020, the Bank led the underwriting of RMB521,816 million of bonds, the sixth largest in the market, representing a year-on-year increase of 75.18 per cent. It issued 27 anti-pandemic bonds with the underwriting amount of RMB21,680 million, and actively promoted credit assets securitisation business with issuance of RMB12,043 million of securitisation projects.

In line with the philosophy of "combining commercial banking, investment banking and wealth management", the Bank placed emphasis upon diversified needs of customers, integrated resources from the perspective of broader investment banking based on the market-oriented business to increase the support for real economy. It made progress in the development of investment banking systems, launching an asset-based securitisation system of personal residential mortgage loan, personal consumption loan and online loan.

Transaction Banking

In 2020, the Bank set up Transaction Banking Department, providing customers with comprehensive transaction banking services covering international settlement, trade finance, supply chain finance and cash management. Taking the opportunity of digitalising the whole-process of public resource transaction, the Bank launched the comprehensive financial solution of "Sunshine E-guarantee Express" in collaboration with Public Resource Transaction Centre, upgraded the "Sunshine E-financing Chain" and "Sunshine Supply Chain Cloud Platform", fully leveraging on whole-process online business and thus innovating customer service with technology support. It officially launched the "Sunshine Wages" financial service brand, which covers such services as wages payment guarantee for migrant workers, corporate agency payroll payment account and retail agency payroll payment. Besides that, the Bank actively implemented policies to facilitate trade and investment and financing in free trade zones, properly supporting the development of real economy.

Retail Banking Business

The Bank offers its retail banking customers a wide range of products and services, including retail deposits, wealth management, private banking, retail loans, credit card business, digital banking and Cloud Fee payment. Focusing on building the digital retail banking and following the guideline of "connecting to scenarios externally, developing platforms internally, adopting data-driven approaches and pursuing integrated operations", the Bank promoted the digital transformation covering all customers, all channels and all products, and built a full digital service link of customer acquisition, marketing, exploring and access. It innovated the model of retail customer acquisition and tiered operation, which increased the total number and improved the quality of retail customers. It also intensified efforts in the structural adjustment on the liability side, resulting in the increase in retail deposits and optimisation of the retail deposit structure. To deepen the transformation of wealth management, the Bank reinforced the formation of the individual customer ecosphere of Wealth E-SBU and saw an increase in wealth management capability and value of retail channels. It advanced the transformation of retail loan business and created hit Sunshine retail loans to support the development of inclusive finance, and continuously improved the asset quality.

The Bank's retail banking business has experienced continued growth in recent years and as at 31 December 2020, it represented the second largest component of the Bank's loan portfolio. The Bank's personal loans accounted for 43.50 per cent., 42.68 per cent. and 42.64 per cent. of the Bank's total loans as at 31 December 2018, 2019 and 2020, respectively, and the Bank's personal deposits (including personal demand deposits and personal time deposits) accounted for 20.01 per cent., 22.78 per cent. and 23.13 per cent. of the Bank's total deposits from customers as at the same dates, respectively. For the years ended 31 December 2018, 2019 and 2020, the Bank's retail banking business generated operating income of RMB46,518 million, RMB54,683 million and RMB58,678 million, respectively, representing 42.14 per cent., 41.13 per cent., and 41.12 per cent. of the Bank's total operating income, respectively. Specifically, for the year ended 31 December 2020, the net interest income from retail banking was RMB42,186 million, up 9.77 per cent. from the same period of previous year, accounting for 38.11 per cent. of the total net interest income of the Bank for the same year. For the year ended 31 December 2020, the net non-interest income from retail banking reached RMB16,492 million, up 1.48 per cent. from the same period of previous year, accounting for 51.53 per cent. of the total net non-interest income of the Bank for the same year.

Major Products and Services

Retail customers and AUM

The Bank worked hard to expand the base of new customers and tap the value of existing customers towards the core objective of "a bigger, better-structured customer base". The Bank strengthened the coordinative operation of online and offline businesses through customer life-cycle management, backed by data mining models. Conducting precision marketing across different tiers and customer groups, a market-oriented and customer-centred operation system was formed, which was tiered, centralised and professionalised.

Retail deposit business

Adhering to the operating philosophy of "developing based on deposit business", the Bank implemented the regulatory requirements on standardising and reducing structural deposits, deepened customer-oriented integrated operations and promoted the structural improvement and the growth of personal deposits. It developed its batch payroll agency business by improving "Payroll Manager", a payroll-based integrated financial service platform. The Bank gave full play to the role of projects in acquiring customers in batch through deep involvement in channels and scenarios including health and medical care, social security and people's livelihood, business district management, community property, transportation, culture and education tourism, consumer payment and internet innovation platform, and launched targeted marketing to increase customers' comprehensive contribution.

Wealth management

The Bank continued to speed up the transformation of wealth management, improved its management system, built a professional wealth management team, and strengthened the tiered customer group operation, facilitating the continuous increase of scale and income of wealth management business. It actively implemented the new rules on asset management, steadily furthered the transformation of personal wealth management and perfected the "Colourful Sunshine" series wealth management product system. As at 31 December 2020, the size of transformative wealth management products grew by 40.30 per cent. over the end of the previous year. The Bank energetically promoted the development of the individual customer ecosphere of Wealth E-SBU focusing on five scenarios of "Charming Travel", "Health and Elderly Care", "One-stop Wealth Management Services", "Private Banking & Investment Banking +" and "Benefit Cloud Life", stepped up customer migration, cross selling, product innovation and integrated services based on the coordination advantages of China Everbright Group, and provided individuals with a full package of financial solutions.

Private Banking

In 2020, the Bank set up Private Banking Department to focus on high-net-worth customer segmentation and value exploration, as an important measure to build a first-class wealth management bank. It created an operation model of private banking customer groups featured with data-based customer attraction, scenario-based customer acquisition and whole-process company (DSC), upgraded the layered operation system, thus forming a "1+N" integrated service system. With the endeavour to advance the net value-based transformation of agency products with an accelerated pace the Bank realised a year-on-year increase of 219.52 per cent. in agency sales of mutual funds, and a year-on-year increase of 50.07 per cent. in agency instalment premium throughout the year. Meanwhile, the Bank strengthened its vertical management by optimising private banking organisation system consisting of three levels including the Head Office, branches and sub-branches, built up a private banking team with wealth management managers, investment consultants at the core, and established a new team working model that is systematic, professional and standardised. It also promoted the intelligent risk control system building of private banking, launched new agency system, video and audio recording system and Wealth AI+ project, and set up the AI-enabled intelligent video verification function of mobile banking, the second one in the industry. Moreover, the Bank collaborated with China Everbright Group fully in banking, securities, trust, insurance and fund businesses, and made solid efforts in scenario-based marketing and customer migration, thus further enhancing its comprehensive service capabilities. As at 31 December 2020, the Bank had 40,112 private banking customers, an increase of 7,905 or 24.54 per cent. as compared with 31 December 2019.

Retail loans

The Bank pursued digital transformation of retail loans, and continued to improve the financing experience of customers through tech empowerment and innovation in products and services and to develop Sunshine hit products of personal loans. Adhering to the business development principle of "increasing loan granting, reducing costs and providing convenience", the Bank kept lowering the financing costs of customers to support micro and small enterprises in resumption of work and production, and to boost the development of inclusive finance. It strictly implemented the real estate macro-regulation policy of the government to support the demands of housing ownership for both self-occupation and improvement. Meanwhile, the Bank put more efforts in scenario-based customer attraction and acquisition, met the reasonable needs of customers for consumer financing and facilitated the development of consumer finance. Through the accelerated upgrading and iteration of IT systems, the Bank applied technologies to enable retail loans conducted online in an intensive, standardised, intelligent, online, and agile manner, and made marketing and risk control more efficient, in a bid to achieve high-quality sustainable development.

Credit card business

The Bank accelerated online and digital transformation, and ensured delivery of financial services in the wake of the COVID-19 pandemic. It extended repayment periods and reduced or exempted fees for affected customers, and launched the “Angel Program” to repay medical workers, helping its partners resume work and production. The Bank pushed forward the development of hit products. Specifically, it issued the “Filial Piety Card” to improve the layout of high-end products; focusing on young customer groups, it deepened the operation of TikTok Card, launched the “Cool Number Card”, developed the “Online Shopping Pal”, and upgraded the “RMB10” series marketing activities. The Bank developed diversified modes to acquire customers through digital channels, scenarios, Head Office-branch coordination and corporate-private collaboration.

Digital banking

The Bank continued to advance the digital strategy of the Group, accelerated the development of digital banking, and promoted online and mobile transactions. At the early stage of the pandemic, the Bank rolled out contact-free financial services to help with the fight against COVID-19, ensured continuous operation of remote banking, and launched a green channel for anti-epidemic business on Cloud Payment. It boosted the development of the Group’s wealth ecosphere, gave full play to the Group coordination, and made remarkable achievements in bank-securities cooperation and bank-insurance-securities joint marketing. With further enhanced influence of digital finance, the Bank was awarded the “Best Digital Bank” by China Financial Certification Authority (CFCA) for seven consecutive years.

Cloud Fee Payment

The Bank continued to maintain its leading edge as China’s largest open-ended and convenient fee payment platform, extended the access to fee payment projects, and continuously increased the coverage of agency fee collection services regarding water, electricity, gas, heating, communication and cable TV. As a result, the number and amount of agency payments for government affairs rose significantly. The Bank further stepped up efforts to export platform cooperation, broaden service channels and enhance the cloud payment service capability. It continued to simplify operating procedures and optimise user experience by launching financial products such as Payment Wallet and Wealth Wallet under payment scenarios, and actively build an integrated “finance + life” ecosphere. Acting as an online convenient platform with a large number of projects and channels, Cloud Fee

Payment provides great experience to all users and made contributions to the fight against the pandemic by promoting social distancing. The brand of Cloud Fee Payment became increasingly popular due to inclusive and convenient services, and the China's Convenient Fee Payment Industry White Pages had been released for six consecutive years. Being widely approved, the platform also won the first prize of Science and Technology Development Award from PBOC and the Best Social Responsibility Case Award from China Banking Association.

Financial Market Business

The Bank's financial market business primarily covers treasury business, inter-bank money market transactions, asset management and asset custody. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts. The Bank also trades in debt securities, derivatives and foreign currency trading for its own accounts.

The Bank promoted financial market business development along with COVID-19 prevention and control, turning the pandemic crisis into an opportunity for development. It continued to firm up the investment and trading business, support the development of real economy, and innovate the Sunshine brand to improve its product value and services. In an enhanced endeavour to advance the transformation of wealth management, the Bank increased the proportion of net-asset-value (NAV) wealth management products, issued multiple featured wealth management products that were related to anti-pandemic, stock index, gold-linked, and public health safety, and went all out to strengthen the brand of its custody business, with increases in both custody scale and income, thus boosting the high-quality development of the financial market business.

For the years ended 31 December 2018, 2019 and 2020, operating income from the Bank's financial market business amounted to RMB18,935 million, RMB24,765 million and RMB24,225 million, respectively, representing 17.15 per cent., 18.63 per cent., and 16.98 per cent. of the Bank's total operating income, respectively.

Treasury Business

Constantly strengthening the research on macroeconomic situations, the Bank continued to improve the investment and trading of proprietary bonds, invested in and underwrote anti-pandemic bonds, and supported real economy with concrete efforts. The Bank carried out monetary transactions steadily, improved capital operation efficiency and ensured liquidity safety. It expanded its investment in bonds, and improved asset allocation structure by purchasing more treasury bonds, local government bonds, policy financial bonds and high-grade credit bonds. And the Bank ranked at the forefront of joint-stock commercial banks in terms of the underwriting of treasury bonds and policy financial bonds. It developed the hit product "Sunshine Exchange Gain" (Cai Hui Ying) into a complete product package composed of three types of financial derivatives including exchange rate, interest rate and credit, thus improving its capability of serving customers. The Bank also improved the comprehensive risk control system to ensure the treasury business would be conducted in an orderly and compliant way.

Inter-bank Business

The Bank stringently implemented regulatory requirements, strengthened the management of specialised interbank business, and maintained an appropriate scale of interbank business to ensure compliance and prudence in operation. It conducted market research and judgment to ride on market trends, supported the development of real economy, and improved the quality and efficiency of business allocation. It continued to pay attention to liquidity safety and fulfilled the function of bank-wide liquidity management. Adhering to the bottom line of risk management, the Bank kept business risks under strict control, stepped up early warning and monitoring of credit risks, and maintained the stability of asset quality to realise the high-quality development of the interbank business. Moreover, the Bank managed interbank customers in a coordinated manner, strengthened customer base and expanded business cooperation.

Asset Management Business

Following the regulatory guidance and relying on its wealth management subsidiary, the Bank strengthened the asset management system. In support of COVID-19 prevention and control, the Bank made active contacts with pharmaceutical, medical and public health infrastructure construction institutions in Hubei and surrounding areas to issue multiple anti-pandemic products, and invested in special bonds for pandemic control and prevention and other anti-pandemic-related projects.

With "Colourful Sunshine" product system at the core, the Bank enhanced the product diversity with the product "Sunshine Orange Gains with Absolute Profit" achieving the sales performance of RMB20 billion in one and a half days. The Bank also expanded sales channels by conducting scenario-based marketing, and cooperating with multiple agencies, to provide integrated online and offline services. It enhanced the ability of investment, extended equity investment layout, made more active equity investment of wealth management products through the launch of equity products including Sunshine Red Public Health & Safety, CSI 300 Dividend Index, and ESG Industry Selection Wealth Management, and achieved sound performance. Meanwhile, the Bank put in place a comprehensive risk management system featuring unified management of credit risk, centralised management of market risk, stratified management of operational risk and independent management of liquidity risk to stimulate the sound development of wealth management business.

As at 31 December 2020, the Bank recorded RMB836,273 million in balance of non-principal-guaranteed wealth management products, representing an increase of 7.37 per cent. from the year ended 31 December 2019. For the year ended 31 December 2020, the Bank accumulatively issued RMB3.98 trillion of non-principal-guaranteed wealth management products. All products under "Sunshine Wealth Management" brand were duly honoured at maturity.

Asset Custody Services

The Bank fully integrated with the E-SBU ecosphere of China Everbright Group, achieving fruitful results in internal and external collaboration. It scaled up efforts in marketing, developed pension finance at a fast speed, and achieved remarkable increase in income from securities investment fund custody, bank wealth management custody and pension custody. The Bank upgraded the new-generation custody system, investment supervision system and performance evaluation system, and improved its capabilities of serving customers. Moreover, the Bank took solid measures to forestall risks, refined the risk matrix model and enhance its internal control and management. For the year ended 31 December 2020, the Bank's income after tax from the custody business amounted to RMB1,445 million and its custody assets amounted to RMB6,250,833 million.

PRODUCTS AND SERVICES PRICING POLICY

The interest rates the Bank charges on its RMB-denominated loans are generally regulated by PBOC. For RMB-denominated corporate loans and personal loans (other than personal residential housing mortgage loans), there has been no lower limit on the interest rate since 20 July 2013 and no upper limit since 29 October 2004. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates with customers on such loans.

Interest rates for the Bank's RMB-denominated demand and time deposits cannot be higher than 150 per cent. of the applicable PBOC benchmark interest rate. However, the Bank is permitted to provide negotiated time deposits to insurance companies and the National Council for Social Security Fund of the PRC under certain circumstances. The Bank is also permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.$3 million or the equivalent.

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by CBIRC and the National Development and Reform Commission of the PRC.

In compliance with applicable regulatory requirements, the Bank prices its products based on criteria including the risk profile of the Bank's assets, an individual customer's contribution to the Bank's business, the Bank's costs, the expected risk- and cost-adjusted returns and the Bank's internal fund pricing benchmarks. In addition, the Bank considers general market conditions and market prices for similar products as well as services offered by its competitors.

DISTRIBUTION CHANNELS

The Bank provides its customers with services through its multi-channel distribution network. The Bank's branch network covers a large portion of the more economically developed areas in the PRC. As at 31 December 2020, the Bank had 39 tier-one branches, 115 tier-two branches, 1,142 outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking department of branches) and 495 community banks in the PRC. As at 31 December 2020, the Bank had five overseas institutions outside Mainland China, with branches in Hong Kong, Seoul, Luxembourg, Sydney and a representative office in Tokyo. The application for establishing the Bank's Macao Branch was approved by CBIRC in November 2020, and the application to overseas regulators and other preparations were in progress. The Bank's distribution network is complemented by various digital banking channels. For more information on the Bank's digital banking channels, see *"The Bank's Principal Businesses − Digital banking*". The Bank's head office is responsible for the overall decision-making and management of the Bank. The Bank's tier-one branches are generally located in the capital cities of provinces, autonomous regions or municipalities and certain other strategically important cities, while its tier-two branches are located in other cities within the PRC's provinces and autonomous regions. The tier-two branches report to the tier-one branches in their respective region and are able to establish lower-tier network outlets in the same city.

INFORMATION TECHNOLOGY

The Bank considers information technology to be one of the driving forces of the Bank's development. The Bank has constructed a multi-level structure of information technology systems covering all aspects of its business operations, including channel management, customer management, product management, transaction processing, financial management, risk management, decision-making support and sharing support. Substantially all of the Bank's business transactions are processed and maintained by its information technology system. The Bank believes that the Bank's advanced information technology system has greatly improved, and will continue to improve, the Bank's efficiency, the quality of the Bank's customer service and the Bank's risk and financial management capabilities.

In recent years, the Bank focused on using customer profiling to achieve digitalised client management and precise marketing through the application of big data and artificial intelligence technologies, promoted intelligence products such as Cloud Fee Payment, Cloud Payment, Sunshine Loan, Sunshine Blockchain, Inclusive Finance Cloud and Trade Finance Cloud to achieve innovative breakthrough and increase in scale. The Bank also promoted channel development by improving the coordination of online, offline and remote channels, establishing digitalised financial service platform with all-channel capacity in order to lay a solid foundation for the transition of digitalisation.

During 2020, the Bank launched key innovation projects on blockchain. Responding to the call for the digitalisation of industrial chain, Ant Duo-Chain (Guang Xin Tong) was launched to put forth efficient digital solutions through the blockchain platform to address the financing difficulties of micro and small enterprises, which won the Award of Honor, the best prize at the "2020 China Fintech Innovation Competition" organised by the China Financial Certification Authority (CFCA). The Bank also developed remote video services and fostered technological and talent strengths. The video function under mobile banking served customers for 730,000 times accumulatively, with the average number of uses per day at over 2,001 times and reporting customer satisfaction ratio of 99.62 per cent.

The Bank constructs its bank-wide information security system in accordance with its actual needs and by reference to international standards and norms. The Bank has adopted a variety of security measures to enhance the security of its information technology system and the reliability of its operations, including advanced firewall technologies, hacker detection systems, network monitoring and other safeguards and systems.

The Bank outsources some applications and information technology functions to independent third parties. The Bank selects suitably qualified outsourcing companies through a bidding process and conducts strict scrutiny of such third parties. Generally, the Bank enters into service contracts with outsourcing companies and then manages and supervises their daily operations. In addition, the Bank carries out inspections to assess their overall service quality and their main service personnel on a regular basis. In order to reduce the risks associated with the outsourcing, the Bank monitors the whole outsourcing process. In addition, the Bank focuses on the continued improvement of its technological capabilities throughout the outsourcing process, as well as the transfer of information.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in the PRC. The Bank currently competes primarily with large commercial banks and other national joint stock commercial banks. The Bank also faces increasing competition from other financial institutions, including commercial banks and foreign banks operating in the PRC. The Bank's competition with other commercial banks and financial institutions in the PRC primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, coverage of distribution network and brand recognition, as well as information technology capabilities. Furthermore, the Bank faces competition in the provision of financial services to its customers from non-banking institutions such as securities firms and insurance companies.

The Bank's competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its World Trade Organisation commitment, the PRC government eliminated measures restricting the geographical presence, customer base and operational licences of foreign-invested banks operating in the PRC. In addition, the PRC's Closer Economic Partnership Arrangement with Hong Kong and Macau and the subsequent supplemental agreements, as well as the Cross-Straits Economic Cooperation Framework Agreement, allow banks from Hong Kong, Macau and Taiwan to conduct certain business in the PRC, which has also increased competition in the PRC banking industry. In addition, further policies and regulations such as the Opinion on Providing Financial Supports to Guangdong-Hong Kong-Macau Greater Bay Area issued by PBOC, CBIRC, CSRC and SAFE (中國人民銀行、中國銀行保險監督管理委員會、中國證券監督管理委員會、國家外匯局關於金融支持粵港澳大灣區建設的意見） on April 24, 2020 may provide further supports for the open-up of the banking, insurance and securities industry.

See "*Risk Factors − Risks Relating to the PRC Banking Industry − The Bank faces increasingly intense competition in the PRC's banking industry and competition from other investment and financing channels*".

In response to this competitive environment, the Bank intends to continue to implement its strategies to differentiate the Bank from its competitors and to enable the Bank to continue to compete effectively in the PRC commercial banking industry.

EMPLOYEES

As at 31 December 2020, the Bank had 46,316 employees (excluding those of the Bank's subsidiaries). In terms of educational background, 5,921 incumbent employees held a junior college degree or below, accounting for 12.78 per cent. of the total employees, 32,958 incumbent employees held a bachelor's degree, accounting for 71.16 per cent. and 7,437 incumbent employees held a master's degree or above, accounting for 16.06 per cent. of the total employees.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank has established a performance-based compensation system whereby an employee's compensation is determined based on his/her position and performance review. In addition, the Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank provides its employees with training sessions in various areas, such as the international economic environment, globalisation of and competition in the finance industry, environmental-friendly finance, low-carbon economics, sustainable development, high-performance team building, banking industry innovation and service, detailed management, model-based operations, project management, corporate culture, bank development strategy, legal compliance, risk management, retail banking business, corporate banking business, financial compliance, information disclosure, electronic banking business and human resources management.

The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. The Bank has not experienced any strikes or other material labour disputes that have interfered with the Bank's operations, and the Bank believes that the relationship between the Bank's management and the labour union has been, and remains to be, good.

As at 31 December 2020, the Bank had also engaged a number of independent contract workers by signing contracting agreements with third-party human resources agencies. In accordance with the temporary supplemental or replaceable employment policy stipulated under the PRC Labour Contract Law (中華人民共和國勞動合同法), these independent contract workers generally do not hold important positions with the Bank. Such independent contract workers enter into labour contracts with the relevant third-party human resources agencies instead of with the Bank. According to the contracting agreements with the third-party human resources agencies, the Bank is obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. Although the Bank is under no statutory obligation to make social insurance contributions in relation to these independent contract workers under PRC law, if the third-party human resources agencies fail to do so, the Bank may be jointly liable for any claims brought by them. However, in such case the Bank would be entitled to seek indemnification from the third-party human resources agencies.

PROPERTIES

The Bank is headquartered in Beijing, PRC.

For some of the properties it holds and occupies in the PRC, the Bank has not obtained title certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant valid title certificates as soon as practicable. The Bank has been unable to obtain certain of these title certificates due to various title defects or for other reasons. While there may be legal impediments to its obtaining certain of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial as compared to all of the properties it owns. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing the ability to use all of such properties at one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole.

For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly served for commercial uses including outlets, offices and ATM. As the owner of the properties, the lessors are responsible for applying relevant valid title certificates or providing the Bank the consent to lease properties. In respect of this, the Bank has pro-actively procured these lessors to apply for the relevant valid title certificates or provide the Bank the consent to lease properties. The Bank is of the view that most of these leased properties occupied can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on its operations.

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

INTELLECTUAL PROPERTY

The Bank's intellectual property primarily includes trademarks, patents, domain names and copyrights. The Bank conducts business under the "China Everbright Bank," "CEB" and "中國光大銀行" brand names.

INSURANCE

The Bank maintains insurance coverage that is typical in the banking industry in the PRC and to cover amounts that the Bank believes to be adequate to its operations and circumstances.

LEGAL AND REGULATORY

Legal Proceedings

The Bank is involved in certain legal proceedings in the ordinary course of the Bank's business. Most of these proceedings involve enforcement claims initiated by the Bank to recover payments of the Bank's NPL. The legal proceedings against the Bank include actions relating to customer disputes and claims brought by the Bank's counterparties on contracts related to the Bank's banking operations.

None of the Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Bank is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

Regulatory Reviews and Proceedings

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including PBOC, CBIRC, MOF, CSRC, SAMR, SAFE, NAO and SAT, as well as their respective local offices. These audits and examinations have previously resulted in findings of non-compliance issues and the incurrence of certain penalties. Although these issues and penalties did not have any material adverse effect on the Bank's business, financial condition and result of operations, the Bank has implemented remedial and preventative measures to protect against the recurrence of such incidents. The Bank believes that, save as disclosed in this Offering Circular, there were no other material breaches and material incidents of regulatory non-compliance.

RISK MANAGEMENT

OVERVIEW

As a commercial bank, the Bank is subject to a number of risks, primarily including credit risk, market risk, operational risk, liquidity risk and compliance risk. In order to manage these risks, the Bank is committed to establishing a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting and control of such risks. The Bank has been dedicated to strengthening its risk management, with the NPL ratio of the Bank's total loans and advances to customers being 1.59 per cent., 1.56 per cent. and 1.38 per cent. as at 31 December 2018, 2019 and 2020, respectively.

The Bank's principles for risk management are to steer the optimisation of business portfolios by using the Bank's economic capital management framework and risk pricing mechanism to facilitate the match between the returns and the risks assumed, and to maintain the Bank's risk exposure within acceptable risk levels in coordination with the implementation of the Bank's overall business strategies and comprehensive risk management system. On this basis, the Bank ultimately aims to maximise returns to its shareholders by maintaining capital adequacy levels that balance the Bank's risk exposure with its strategic objectives while striving to comply with the relevant regulatory requirements.

The Bank's risk management principles are as follows:

(i) Comprehensive risk management: to establish and refine the Bank's comprehensive risk management covering various major risks;

(ii) Independent risk management: the Bank's risk management system is kept independent from the Bank's business operational system; and

(iii) "Creating value through effective risk management": the Bank creates business value by achieving a balance between risk and return and a balance between control and efficiency.

The Bank's risk management objectives are as follows:

(1) To cultivate a proactive risk management culture of "creating value through effective risk management" by:

- improving the Bank's policies and procedures, strengthening the Bank's training and implementing a position certification system to improve the quality of the Bank's business and risk management personnel;
- senior management setting an example for the Bank's staff and increasing accountability in order to raise staff's awareness of risk; and
- including risk management performance as an evaluation criterion for staff appraisal, branches, sub-branches and various departments.

(2) To formulate and adhere to proactive and prudent risk management policies by:

- applying differentiated policies at different levels, standardising the policy and management procedure through expert participation, regular reviews, and implementing the Bank's principles of fully identifying risks, accurately assessing risks, and taking reasonable risks;
- establishing regular review mechanisms and continuous optimisation of the relevant mechanisms in order to better balance the relationship between principles and flexibility, the relationship between differentiation and consistency and the relationship between economic interests and social responsibility; and
- enhancing the Bank's policy execution system.

(3) To build up a risk management organisational matrix by:

- building up the Bank's risk management organisational structure and system in accordance with the principles of vertical management for credit risk, centralised management for market risk and hierarchical management for operational and compliance risks in order to reflect the risk management needs of the Bank's business development;
- improving the Bank's risk management organisational matrix and extending such structure to tier-two branches, cross-city and county-level sub-branches;
- defining a clear allocation of functions and responsibilities among the Bank's various committees, departments, units and personnel to prevent any gap or overlap of duties and authorities, and to increase the Bank's risk management efficiency; and
- ensuring the independence and professionalism of the Bank's Risk Management Department and aligning its functions closer to market conditions and the Bank's business objectives.

(4) To ensure prudent and effective risk management processes by:

- focusing on the different characteristics of credit risk, market risk, operational risk, liquidity risk and compliance risk and building corresponding risk management processes;
- implementing a system of comprehensive early warnings, prompt risk reporting and a swift response to risks; and
- ensuring that the Board of Directors, its Risk Management Committee and senior management promptly monitor various risks and adopt effective measures to prevent and resolve such risks.

(5) To set up an appropriate and active advanced technology support system for proactive risk management by:

- following the core principles of Basel III and adopting the best practices of banks both within and outside the PRC;
- setting up a technology support system that covers effective measurement, analysis and management of credit risk, market risk, operational risk, liquidity risk and compliance risk; and
- utilising advanced technology to support more specialised and targeted risk management processes.

KEY RECENT IMPROVEMENTS IN RISK MANAGEMENT

The key risk management improvements the Bank has made in recent years are as follows:

- In January 2007, the Bank implemented a risk and control self-assessment programme across various business lines as well as in the Bank's branches and sub-branches, conducted risk investigations using process analysis methodologies by taking into consideration internal and external data relating to operational risk incidents together with findings from audit and compliance inspections, and improved the effectiveness of risk control measures.
- In November 2007, the Bank established the Operation Management Department, which is responsible for managing clearing and settlement activities within the Bank, approving the disbursement of corporate and retail credit and conducting centralised management for letters of credit, letters of guarantee and other settlement products. By standardising the Bank's operations, the Operation Management Department helped improve the standards of the Bank's centralised management and the Bank's operations, enhance risk management and improve operational efficiency.

- In February 2008, the Bank integrated the functions and personnel of the three regional credit approval centres into the credit approval department of the Bank's head office, which is responsible for approving loans falling outside the limit of authority of the branch-level Chief Risk Officers. Additional integration of resources was carried out to further standardise and regulate the credit approval process.
- In December 2009, the Bank completed and submitted a Compliance Self-assessment Report and 13 sub-reports concerning compliance guidelines to CBRC.
- In March 2010, the Bank initiated a compliance platform project to fulfil the requirements of the New Basel Capital Accord, which mainly includes compliance self-assessment, project management and the establishment of a risk-weighted assets system.
- In June 2010, the Bank implemented the Bank's operational risk management system.
- In December 2010, the Bank implemented the Bank's market risk management system.
- In November 2011, the Bank submitted an assessment application for the implementation of Basel II to CBRC.
- In January 2012, the Bank began implementing plans to consolidate the Bank's risk management functions by shifting the main reporting line of each business line's Chief Risk Officer and risk management team to the Risk Management Department in order to strengthen the independence of the Bank's risk management functions. The Bank completed such adjustments in December 2012.
- During 2012, the Bank adopted multiple measures to strengthen its risk management, including: (i) enhancing capital management by improving policies and management processes, bolstering capital deployment plans and promoting organic integration between capital management, risk management, assets and liabilities management and financial and business planning; (ii) launching a series of plans and proposals to improve risk management procedures, including an early warning platform for corporate customers, obtaining market information on risks, assessments on the impact of the Bank's debts and promoting accuracy and precision in the Bank's comprehensive risk management system; and (iii) formally commencing the Bank's risk-weighted assets system, which calculates risk-weighted assets based on four methods: initial capital method, weighted method, basic internal rating, and advanced internal rating (with the second, third and fourth methods falling under the principle of the new capital method).
- In early 2013, the Bank completed upgrades of its credit rating system for corporate customers and further improved both the stability of the Bank's credit rating model and the practical business applicability of the Bank's non-retail internal rating adjustments system.
- In May 2013, the Bank established the Credit Management Department at the head office in order to implement a risk management system that better suits the development of the SME and micro-enterprise financial services. The Credit Management Department also aims to enhance the Bank's risk management capability, strengthen the Bank's post-credit management and ensure the quality and stability of the Bank's credit assets.
- During 2014, the Bank dynamically adjusted its credit policies so as to revitalise existing lending and make good use of new credit resources. System, mechanism and procedures of the Bank were improved to enhance the effectiveness of risk management. The Bank also established an external compliance database through the consultation project of implementing internal control standards and compliance management, and the system development was completed and applied across the Bank. Besides, the Bank combined reputation risk management and its strategic development and corporate brand building efforts to further optimise and improve its warning mechanism and countermeasures for reputation risk.
- During 2015, the Bank proactively responded to new challenges in credit risk management during the macro economic downturn. It formulated the Initiative to Further the Reform in Risk Management.

Responsibilities of various functional departments involved in risk management are further clarified. The Bank also started the development and construction of a new generation of anti-money laundering system.

- During 2016, the Bank established three lines of defence in business, risk management and internal audit on the principle of "full range, whole process and all staff control", and improved credit approval efficiency by implementing a "One-stop" approval process for corporate credit business with general risks. Credit Management of the key group clients was strengthened by establishing a Strategic Corporate Banking Department at the headquarter. Credit Risk Alert System was put into operation, control over key sectors of the credit business was tightened, centralised registration of collaterals, inspection of tax receipts and signed underwriting formalities were tightened. Besides, the Bank managed to launch the Data Market of Market Risk and pushed forward the building of the Market Risk Metering Engine in the aim of enhancing its abilities of integrating market risks information and its risk measuring capabilities. The Bank continuously improved its operational risk management framework and system by establishing new operational Loss Data Collection reporting standards, re-checking history loss events, re-setting Key Risk Index and threshold value.

- During 2017, the Bank strove to optimise the credit structure, took serving the real economy as the fundamental approach to guarding against risk, actively supported enterprises in transformation and upgrading, and properly developed industrial finance in a down-to-earth manner. Based on major national strategies such as the "Three New Strategies", the construction of Xiong'an New Area and the development of "Guangdong-Hong Kong-Macau Greater Bay Area", the Bank made great efforts to develop infrastructure finance. While the deleverage initiative gained momentum day by day, the Bank upheld "daytime liquidity security and regulatory attainment" as its bottom line for risk management, in a bid to keep the bank-wide liquidity risk management indicators within a reasonable range.

- During 2018, the Bank continued to improve its comprehensive risk management system, performed its duties in relation to "three lines of defence", and strengthened the coordinated management of various risks as per the unified management of policy, approval, monitoring and resolution. the Bank comprehensively carried on centralised Anti-money Laundering operation model while setting up Anti-money Laundering centres inside branches.

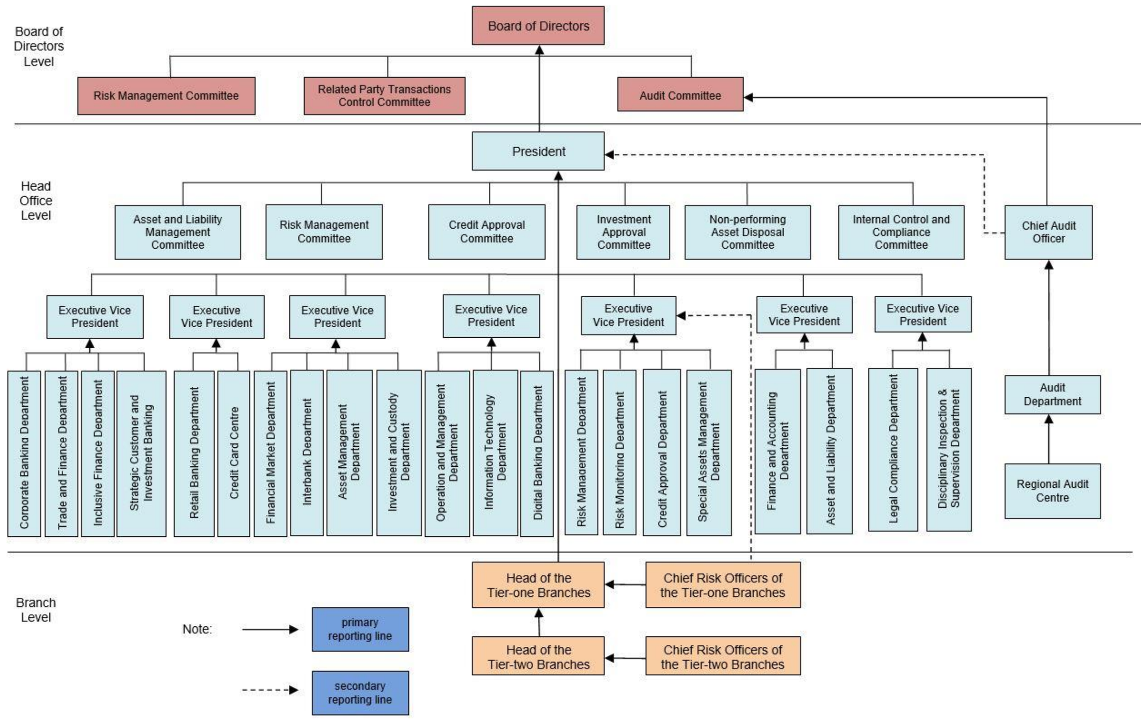
- In 2018, the Smart Risk Control Centre was established, upholding the philosophy of "tech for social good, people first and serving people", and exercising "open and shared, independent and controllable, agile and efficient development with mutual progress of man and technology". Leveraging independent algorithm capabilities and big data resources, the Centre supports multiple business scenarios of inclusive finance, provides one-stop smart risk control solutions and empowers digital transformation.

- During 2019, the Bank continued to improve its comprehensive risk management system, improved the credit structure, held a prudent and sound liquidity risk management policy, improved its market risk management system, actively established an organisational structure and management system for large exposures management, incorporated country risk into its comprehensive risk management system, continuously emphasised responsibilities of the "first line of defence" in operational risk management, strengthen the compliance risk management, established a reputational risk management mechanism applicable to the whole bank, formulated money laundering risk management policies and revised the AML internal control rules, upheld the business strategy of "aggregate management, prudent implementation, differential credit extension and strict risk control" in the real estate sector and firmly conducted the supply-side structural reform.

- The ability to manage the Bank's liquidity needs for its day-to-day operations is one of the key priorities for the Bank. In response to concerns about the tightening of liquidity in the PRC banking industry from time to time which resulted in significant temporary fluctuations in the inter-bank lending rate during certain periods, the Bank has emphasised amongst its departments the overriding importance of sound liquidity, increased its reserve level, and arranged for stronger short-term liquidity commitments, as well as implemented further upgrades to its internal controls to mitigate potential operational risk, including: (i) centralising liquidity gap solutions through inter-bank financing under the Bank's head office; (ii) enhancing the daily critical point calibration mechanism; (iii) re-evaluating the operational and liquidity risk management system and the reporting mechanism; (iv) strengthening the Bank's procedures in emergency management; and (v) controlling the scale of the Bank's inter-bank business and executing improved matching of inter-bank assets and liabilities.

RISK MANAGEMENT STRUCTURE

The chart below illustrates the Bank's risk management structure:



Board of Directors and Board Committees

The Board of Directors is the highest decision-making authority within the Bank in terms of risk management and is responsible for determining the overall risk management strategies and making important decisions for the Bank. It is also responsible for: determining the Bank's risk tolerance; examining the risk precaution measures formulated by the Bank's senior management; deciding on the fundamental management system and the establishment of the Bank's internal management organisation; appointing senior management; examining the internal control assessment reports provided by management, audit and regulatory authorities; reviewing and commenting on the effectiveness of the Bank's internal control system; and supervising senior management's continuous improvement of the Bank's internal control system. The Board of Directors performs its risk management functions through the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee.

The Risk Management Committee is responsible for formulating the Bank's risk management strategies and overall risk tolerance, and implementing such strategies and risk tolerance upon approval of the Board of Directors. It is also responsible for: supervising senior management in their management of credit, market and operational risks; assessing the Bank's risk management system and making recommendations to the Board of Directors; preparing periodical risk management reports for submission to the Board of Directors; developing management targets with respect to the Bank's capital adequacy ratio; and advising on related information disclosure.

The Audit Committee is responsible for monitoring and supervising the Bank's internal control function as well as overseeing the Bank's accounting policies and financial reporting procedures.

The Related Party Transactions Control Committee is responsible for the implementation of policies and guidelines relating to the review, approval, management and supervision of the Bank's related party transactions, as well as the assessment of the potential risks they may give rise to.

For further details of the respective responsibilities of the Bank's Board of Directors, as well as the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee, see "*Directors, Supervisors and Senior Management – Board of Directors Committees*".

Senior Management and Special Committees

Based on the risk management strategies reviewed and approved by the Board of Directors, the senior management formulates, implements and manages various policies, systems, rules and limits covering a wide range of risks during the course of their day-to-day operations and management functions in order to ensure that all types of risks are effectively managed and controlled. The Bank's senior management has established the following special committees: the Asset and Liability Management Committee, the Risk Management Committee, the Credit Approval Committee, the Non-performing Asset Disposal Committee and the Internal Control and Compliance Early Warning Committee, which coordinate, organise and supervise their respective risk management functions.

President

The Bank's President is responsible for the operation and management of the Bank, including overall risk management and implementation of decisions made by the Board of Directors. The Bank's President submits business plans to and implements such plans upon approval by, the Board of Directors. The Bank's President also formulates the Bank's internal management organisational structure, core management policies and specific rules and procedures. The President may undertake other functions and exercise other powers as conferred upon him under the articles of association or by the Board of Directors.

Executive Vice President in Charge of Risk Management

The Bank's Executive Vice President in charge of risk management reports to the Board of Directors' Risk Management Committee and the President on bank-wide risk exposure, material matters relating to risk and corresponding solutions, as well as the organisation and operation of the Bank's risk management system. The Bank's Executive Vice President in charge of risk management is also responsible for formulating and, upon obtaining the relevant approval, implementing the Bank's risk management framework, principles and strategies based on the Bank's overall development strategies. Furthermore, based on his authority, the Bank's Executive Vice President in charge of risk management: approves and supervises the implementation of risk management indicators for various business activities, bank-wide risk management policies and reporting processes; carries out assessments of the risk management system; examines and approves the detailed rules on risk management; and is responsible for tailoring the Bank's risk management system to achieve its risk management objectives. The Chief Risk Officers of tier-one branches report to the Bank's Executive Vice President in charge of risk management.

Special Committees under Senior Management

- **Risk Management Committee.** By taking into consideration the external economic environment and the Bank's business development and risk management, the Risk Management Committee reviews the Bank's risk management strategies and provides suggestions on amendments to such strategies to the Bank's President at the executive meetings. It is also responsible for: the review of the Bank's risk management policies, procedures and rules and regulations, as well as their implementation upon submission and approval in accordance with the management procedure; the review of reports on the bank-wide risk profile, material matters relating to risk and risk management, and the organisation and operation of the Bank's risk management functions; and the review of risk management issues raised by relevant departments of the Bank's head office and by the Bank's branches.

- **Asset and Liability Management Committee.** The Asset and Liability Management Committee is responsible for reviewing and providing guidance for the Bank's business development plans. It is also responsible for reviewing and determining annual targets and plans for the allocation of assets, liabilities and off-balance sheet items and making adjustments to such targets and plans in accordance with specific circumstances. Further, it regularly reviews reports on the bank-wide asset and liability status. It is also responsible for the management of bank-wide liquidity risk and the interest rate risk of banking books.

- **Credit Approval Committee.** The Credit Approval Committee is responsible for the examination and approval of credit applications that are beyond the limits of authority of the Credit Approval Department of the Bank's head office and for providing guidance on matters relating to credit examination and approval throughout the Bank.

- **Non-performing Asset Disposal Committee.** The Non-performing Asset Disposal Committee reviews and approves procedures, incentive measures and relevant policies for the disposal and recovery of non-performing assets as well as examines and approves asset disposal proposals, the repayment of debts by assets, loan foreclosure on repossessed assets, loan write offs and litigation relating to non-performing assets and risk agency matters.

- **Internal Control and Compliance Early Warning Committee.** The Internal Control and Compliance Early Warning Committee reviews early warning signal reports, approves proposals for handling early warning signals, instructs relevant departments to conduct special investigations, implements action plans in relation to early warning signals and performs other compliance functions with respect to the management of early warning signals.

Head Office Risk Management Departments

Risk Management Department

The Risk Management Department coordinates and puts in place comprehensive risk management for credit, market and operational risk. It is responsible for: formulating policies and procedures for risk management; regular review and modification according to actual circumstances, and setting out relevant implementation rules; formulating, tracking and improving the Bank's credit policies, risk management system and methods and the rules and processes of making credit-related decisions; compiling and collating various types of risk management reports and reporting to senior management, the Asset and Liability Management Committee and the Risk Management Committee of the Bank and the Risk Management Committee of the Board of Directors in a timely manner; formulating strategic plans for the Bank's credit portfolios composition; analysing the performance of the Bank's credit portfolios; and organising, developing and maintaining risk management systems and models.

Credit Approval Department

In accordance with the Bank's credit policies and procedures, the Credit Approval Department is responsible for: examining, considering and approving various types of credit business applications within their limit of authority; administering the specific delegation of credit approval authority in the Bank's credit business; formulating plans for credit approval authority delegation in the Bank's credit business; organising, monitoring, administering and appraising the bank-wide implementation of credit approval authority delegation; and periodically reviewing the credit examination and approval activities of lower-level credit approval functions.

Credit Management Department

The Credit Management Department performs three core functions: (i) data analysis and model building at the portfolio level, (ii) post-credit-granting review and management and risk warning at the business level, and (iii) key operating procedure control at the process level. The Credit Management Department is responsible for coordinating credit risk monitoring and portfolio management for large, medium, small and micro-sized credit granting operations at the Bank. Additionally, the Credit Management Department conducts industry and credit asset portfolio data analysis, formulates and maintains the Bank's post-credit-granting management system, reviews and examines credit and loans granted to corporate and retail customers, monitors and administers key credit business procedures, and monitors events associated with material risks.

Legal and Compliance Department

The Legal and Compliance Department is responsible for: coordinating and organising the management of internal control, compliance risk and legal risk within the Bank; developing the relevant compliance risk management policies and systems; providing guidance for implementing bank-wide compliance tasks; organising legal and compliance inspections for the Bank's businesses and communicating with external regulatory authorities in connection with compliance matters.

Special Loan Administration Department

The Special Loan Administration Department is responsible for: formulating implementation rules on the management of non-performing assets; managing NPL; filing claims against borrowers who become bankrupt or insolvent, or handling follow-up work against borrowers who are liquidated or dissolved; handling debt restructuring in relation to non-performing assets; assessing the rating, interest suspension, waivers of interest and other issues relating to non-performing assets and reporting to the Non-performing Asset Disposal Committee for approval; and preparing application materials relating to debt write-offs for submission to the Non-performing Asset Disposal Committee for examination and approval.

Other Departments

In addition to those set forth above, certain other departments also implement risk management policies and procedures and perform certain management functions within their scope of operation.

Risk Management Structure at the Branch and Sub-branch Levels

Tier-one Branches

The Bank has implemented a programme to assign Chief Risk Officers to tier-one branches. While Chief Risk Officers at the branch level are directly under the leadership of the Bank's head office, they also report to the local branch heads and are subject to the guidance of the Risk Management Department, Credit Approval Department, Credit Management Department, Special Loan Administration Department and Legal and Compliance Department in the Bank's head office in relation to business matters so as to maintain the independence of the risk management of tier-one branches. Chief Risk officers at the branch level supervise the Risk Management Department, Special Loan Administration Department and Legal and Compliance Department of their respective branches and are responsible for managing the credit risk of such branches and examining and approving loans within their limit of authority. They also assist the branch heads in managing operational and compliance risks.

The Head of Tier-one Branches are ultimately responsible for tier-one branch-level operational and management matters. They are in charge of the overall risk management tasks of their local branches and are responsible for creating a favourable atmosphere for risk management and for establishing an effective risk management system. Based on the principle of the hierarchical management of operational and compliance risks, branch heads are responsible for establishing branch-level operational risk and compliance risk management systems at the request of the Bank's head office and have primary responsibility for the management of such risks at the branch level. In accordance with the principle of vertical management of credit risk, branch heads support their respective branch's Chief Risk Officers in managing credit risk by examining the branch/regional marketing guidelines and by exercising the "veto right" in the dual approval process for corporate credit applications.

Tier-two Branches, Cross-city and County-level Sub-branches

In order to standardise the risk management of tier-two branches, cross-city sub-branches and county-level sub-branches and to promote the healthy and orderly development of the Bank's businesses, the Bank has begun to apply the risk management system of tier-one branches to its tier-two branches, cross-city sub-branches and county-level sub-branches.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss that the Bank may suffer from default by an obligor or counterparty of his/her obligations or commitments under a contract. The Bank is exposed to credit risk mainly in the form of loan portfolios, investment portfolios, guarantees and balance sheet and off-balance sheet credit risk exposure. To address the Bank's off-balance sheet credit risk, the Bank implemented a comprehensive risk management programme for all of its off-balance sheet businesses to prevent them from over-expanding by utilising measures such as risk quotas and economic capital evaluations. The Bank incorporated its off-balance sheet businesses into its uniform credit management system and centralised its credit risk management.

The Bank manages credit risk by adopting normalised and unified processes and standards for its credit business. The Risk Management Department of the Bank's head office, in conjunction with other relevant departments, regularly reviews and modifies the workflow and standards adopted for the Bank's credit business. Credit risk management includes corporate credit, retail credit and financial institution credit management and may be broadly divided into three segments, namely: (i) acceptance of credit applications and credit investigations; (ii) credit examination and approval; and (iii) opening of credit lines and post-disbursement management.

Management of Credit Risk Associated with Corporate Credit Business

Acceptance of Credit Applications and Credit Investigation

All applications made to the Bank for corporate credit are handled by the Bank's customer relationship managers. The Bank adheres to the "two-person investigation" principle in carrying out its credit investigations. The primary customer relationship managers and supporting customer relationship managers conduct comprehensive investigations on applicants or target customers, collect relevant information and data and thoroughly assess the credit applicant's eligibility for credit, the customer's solvency, business compliance by which the credit will be utilised and the reasonableness of credit plans. The credit investigation consists mainly of on-site investigation, which is supplemented by indirect investigations. Visits are made to the applicant's financial department, production and operation premises, key managers, clients and creditors with a view to obtaining first-hand data and gaining a comprehensive understanding of the production and operation, management, financial affairs, credit status, and industry information relating to the applicant. If necessary, the Bank may verify the authenticity of the information provided by customers through third party credit investigation agencies, relevant governmental departments, social intermediaries and other commercial banks and file such information for the Bank's records. If a customer relationship manager determines that an applicant meets the requirements of the Bank's credit policies and the basic criteria for credit, the customer relationship manager will request that the applicant submits their credit application and the relevant documents required in connection with the credit application.

The risk managers work in parallel with the customer relationship managers during the credit investigation process to uncover and assess credit risk and provide their opinions on the appropriateness of credit extension. The analysis and assessment of credit business usually include: (i) risk rating; (ii) assessment of credit business; and (iii) assessment of collateral.

(i) *Risk rating*

The Bank's rating of risks associated with the corporate loan business generally consists of borrower rating and facility rating. In general, the Bank carries out both borrower rating and facility rating for the Bank's normal risk corporate loan business and, if the loan is guaranteed, the Bank carries out guarantor rating. Borrower rating is an assessment of a borrower's willingness and ability to repay its debts in the future, based on a comprehensive analysis of the quantitative and qualitative risk factors of a borrower (or a guarantor), and the rating results are shown by credit ratings. The Bank's borrower rating system is composed of 24 different grades, with each individual grade corresponding to a probability of default (PD) in a one-year horizon. Facility rating is an assessment of the expected loss rate (ER) of specific transactions. A comprehensive consideration of borrower rating and default loss rate is shown as the product of the PD and loss given default (LGD). The assessment results are classified into 12 grades.

The Bank uses an internal rating system to rate the risks associated with the Bank's corporate credit business. The Bank's internal rating system, which was developed under the guidance of Basel II, was introduced on a bank-wide basis in 2004. On the basis of business performance indicators and data on the financial status of customers and through customer assessment models, the system measures the probability of default of customers, and, on that basis, computes the preliminary results of customer rating. The customer relationship managers are responsible for the preliminary assessment of borrower rating and risk managers are responsible for review and approval of the borrower rating. The Bank treats credit risk rating results as an important basis for decision-making for its credit business, and have established clear guidelines on thresholds based on risk ratings.

(ii) *Assessment of credit business*

The investigation and assessment of the first source of repayment is the primary part of the credit investigation. Customer relationship managers are responsible for credit analysis and assessment.

The analysis and assessment of credit risk mainly include investigation of: (i) the integrity of a borrower; (ii) authority for a borrower to borrow funds; (iii) use of loans; (iv) profitability of the borrower and the professional management capability for the operation of such borrower; (v) professional knowledge of the borrower; (vi) prospects of the industry in which the borrower operates; (vii) repayment terms; (viii) sources of repayment funds; (ix) forecast of cash flow in various business cycles; (x) current credit and financial information of the borrower and relevant members of its group company; and (xi) valuation of collateral (or pledge) and its validity as well as the ability of guarantors to repay for borrowers and the validity of the guarantee.

(iii) *Assessment of collateral*

For loans with collateral, the value of collateral is usually required to be evaluated by independent appraisers. While different loan-to-value ratios will apply to loans secured by collateral based on the type and the specific condition of such collateral, the ratio should not generally exceed the maximum loan-to-value ratio for such type of collateral. Set out below are the loan-to-value ratios for major types of collateral:

Major types of collateral	**Maximum loan-to-value ratio**
Land use right mortgage (assignment)	70%
Real estate	40%-60%
Machinery and equipment	30%-40%
Certificates of deposits, treasury bonds, financial bonds	80%-90%
Warehouse receipts, bill of lading	70%
Other rights [1]	40%-80%
Other movable assets	50%

Note:

(1) Mainly include other property rights that may be pledged pursuant to the laws and administrative regulations of the PRC, such as receivables, transferable fund shares and shareholder rights.

Where loans are to be guaranteed by a third party with joint and several liability, the Bank conducts an assessment of the guarantor's financial status, credit records and ability to repay for borrowers.

Credit Examination and Approval

Approval Authority

The Bank's Credit Approval Departments are independent from the Bank's business operation units. The examination and approval of credit follow the principles of objectivity and impartiality and opinions as to decision-making are given independently without any interference from internal or external factors. All credit projects are handled in conformity with the stipulations set by the Bank with respect to the investigation and granting of credit and the processes for examination and approval.

The Bank's normal-risk corporate loans are examined and approved by the Bank's authorised approval authorities and personnel, including the Bank's head office's Credit Approval Committee and Credit Approval Department, the Chief Risk Officer of the SME Business Department of the Bank's head office, the Chief Risk Officers of the branches, the general manager of the Risk Management Department of the branches as well as the heads of branch-level SME credit management centres and other authorised personnel, in each case according to the particular authorities granted to them. The Bank's low-risk corporate loans are examined and approved by authorised examination and approval officers in various business lines.

Examination and Approval Process

(i) Normal-risk corporate credit business

Generally, the credit approval process includes the following stages of review and approval:

(1) the customer relationship manager completes a credit investigation report and, upon approval from the persons in charge of the relevant operational units, submits the report to the branch risk manager for review and issuance of a review report;

(2) upon review by the branch-level risk manager, any matter within the authority of the general manager of the branch-level Risk Management Department will be sent to him/her for review and approval. The general manager of the branch-level Risk Management Department directly issues rejections of credit applications and sends accepted applications to the head of the branch-level corporate banking business, who holds veto power, for review and as part of the dual approval process. The head of the branch-level corporate banking business then signs his or her opinion and issues the decision;

(3) upon review by the branch-level risk manager, any matter that exceeds the authority of the general manager of the branch-level Risk Management Department must be submitted as a separate review report to the branch-level Credit Review Committee for comments (certain applications are not subject to this review process and can be directly submitted to branch-level risk officer). Credit applications not approved by the Credit Review Committee are submitted to the Chief Risk Officer, who then issues the rejections. Credit applications that have been reviewed and approved by the Credit Review Committee are submitted to the branch's Chief Risk Officer for approval within the limits of his authority as part of the dual approval process, and then submitted to the branch head, who holds veto power, for review and approval; and

(4) credit applications accepted by the Chief Risk Officer but that exceed the Chief Risk Officer's approval authority may only be submitted to the Bank's head office if the branch head signs a written consent. All credit applications submitted to the head office by the branches and relevant departments of the head office are initially examined for preliminary approval by a junior examination officer of the Credit Approval Department, and then submitted to the competent higher-level review officer or institution for final approval. In accordance with the different features of credit applications, such applications may be approved by meetings or by authorised officers of the Credit Approval Department of the Bank's head office.

(ii) Examination and approval of credit applications from SMEs

For the Bank's SME customers, the approval process generally follows the above process for credit applications. However, an SME applicant of a tier-one branch shall also undergo credit investigation by the SME credit management centre of the Risk Management Department of that branch, followed by a report issued on the investigation. Any applications approved at this stage will then be examined for approval by the head of the branch-level SME credit management centre, unless such approval would exceed his authority, in which case the application will be referred to the general manager of the branch-level Risk Management Department or the branch-level Chief Risk Officer for examination and approval within the limits of his authority. An application which has been approved by the head of the branch-level SME credit management centre within the limits of his authority will then require the issuance of a signed opinion from the general manager of the SME Business Department, who holds a veto right.

For tier-two branches, cross-city sub-branches and county-level sub-branches that have a Chief Risk Officer, an application by an SME customer must be investigated by the risk manager of the branch or sub-branch and then submitted to the Chief Risk Officer of the branch or sub-branch for examination and approval within the limits of his authority. Where the approval of an application requires higher authority, the application will be referred to the tier-one branch Chief Risk Officer for examination and approval within the limits of his authority.

Since 2012, the Bank has implemented various measures in order to proactively address potential risks in connection with the downturn in macroeconomic conditions, as well as strengthen the Bank's risk management and improve asset quality. First, the Bank implemented improved business modelling and improved risk mitigation functions. Second, the Bank strengthened its risk monitoring system and conducted real-time surveillance and on-site examinations. Third, the Bank maintained monitoring of risks associated with SMEs, enhanced monitoring of customers with NPL and increased the Bank's clearing and recovery efforts.

(iii) LGFV credit business

For the Bank's LGFV credit business, the Bank has implemented a risk management system that governs the whole process of the extension of such credit by adhering to commercial principles and by standardising the Bank's operations. In conducting risk assessments to ensure that the borrowers (particularly with respect to new loans) meet the Bank's credit standards, the Bank takes into account the overall solvency of the LGFVs and their debt servicing ability so as to prudently evaluate the risks associated with granting loans to such entities, including collateral risk and maturity risk. In the post-disbursement stage, the Bank continuously monitors factors that may affect repayment and the Bank uses a comprehensive early warning system to identify, categorise, report and address maturity risk. The Bank has developed rating tools that classify the underlying risks of loans to such entities in a more accurate and objective manner and analytical tools to strengthen maturity risk analysis and monitoring.

CBRC requires PRC banks to classify LGFV loans in accordance with the level of cash flow coverage, which refers to a borrower's cash flow divided by the total loan principal and the interest incurred. As at 31 December 2017, the cash flow of the majority of the Bank's LGFV borrowers was sufficient to cover 100 per cent. (or above) of the principal and the interest incurred. The remaining loans were secured by valid guarantees or collaterals or those originated from economically developed regions equivalent to or above the prefectural level.

(iv) Corporate real estate loan business

The Bank requires the implementation of credit life cycle process management for the Bank's corporate real estate loan business, which means that the Bank focuses on mid-to high-end customers and have put in place a specialised and centralised management system for the Bank's entire corporate real estate loan business. The Bank has established the real estate finance centre under the Corporate Banking Department of the Bank's head office, which is responsible for coordinating the Bank's corporate real estate loan operations and reviewing relevant project proposals. The Credit Approval Committee of the Bank's head office, the real estate credit approval centre of the Credit Approval Department and the Chief Risk Officers at the branch level are authorised to carry out the examination and approval of loan applications. After credit extension, the Bank requires that the utilisation of credit match the construction progress of a real estate development project. During the post-disbursement stage, the Bank requires that management, control and risk investigation for loans be strengthened by strictly monitoring the source of funds for repayment and conducting regular reappraisals of the value of collateral and pledged assets. Since 2008, the Bank has been conducting special stress tests on real estate loans and loans granted to industries related to real estate and developing risk measurement tools for loans granted to industries related to real estate.

(v) Low-risk corporate credit business

The Bank's low-risk corporate credit business is conducted through a special credit approval process, and applications are examined and approved by authorised approval officers from the corporate banking business line within the limits of their authority. Low-risk corporate credit applicants are required to fulfil the following conditions: (1) the collateral and pledged assets are cash-equivalent assets or guarantees provided by financial institutions recognised by the Bank; (2) the security provided can discharge in full the obligations relating to the Bank's creditor's rights (including principal, interest and service fees); and (3) the security is not legally defective and there is no associated policy risk.

Opening of Credit Lines and Post-disbursement Management

Opening of Credit Lines

The opening of credit lines involves fulfilling prerequisites for the granting of credit, entering into relevant contracts, loan reviews and making necessary accounting entries. After a credit application is approved, a credit line can be opened only after a disbursement approval centre at the branch level has determined upon examination that the prerequisites for the granting of credit have been fulfilled, the credit contract has been signed by an authorised person, the relevant legal procedures have been completed and the validity of any security has been confirmed. Substantially all of the Bank's credit contracts are in the standard form prescribed by the Bank's Legal and Compliance Department, and those that are not are subject to approval by the Bank's Legal and Compliance Department.

Post-disbursement Management

The Bank has established a post-disbursement management system with defined responsibilities and standardised methods to continuously monitor factors that may affect repayment. The Bank conducts off-site and on-site inspections and applies risk modelling techniques on the basis of the Bank's experience in order to detect the potential risks associated with a specific borrower, issue early warnings and adopt remedial measures. Customer relationship managers are responsible for the day-to-day credit check on the operating conditions and use of credit by their respective borrowers, so as to detect any signs of potential credit default and to adopt risk mitigation measures as soon as possible. Risk monitoring centres of the Risk Management/Credit Management Departments at the branch level are responsible for post-disbursement organisation, supervision, guidance, inspection and reporting. The Bank emphasises monitoring factors that may have a negative impact on the ability of borrowers to make repayment, mainly including (i) the operating and overall credit risk status of a borrower, including its receivables and inventory, changes in operating cash flow and unusual cash outflows; (ii) the status of projects into which loans are injected; and (iii) the condition of assets collateralised or pledged as security for credit, as well as the condition of guarantors.

Early Warning

Following the principles of prompt reporting and quick response, the Bank has established a comprehensive early warning system that sets out early warning processes, including identification, categorisation, verification, reporting, handling and cancellation. The Bank has three types of early warnings based on their degree of urgency and have designed action plans to deal with different types of early warnings so that business units are able to take the necessary measures to deal with risks promptly. The Bank's head office maintains a Risk Management Committee, and each branch has early warning committees, which coordinate the early warning work of the Bank's head office and the branches, respectively. The Bank's head office's Risk Management Committee and the branch-level early warning committees are responsible for early warning management at their respective levels and hold regular meetings to review the status of systematic risk and individual risk in order to deal with early warning signals promptly and to assess the results of response measures.

Loan Classification and Provision of Reserve

In 1999, in accordance with the requirements of regulatory authorities, the Bank started to apply a five-category loan classification system. The Bank carries out loan classification and makes provisions for losses in accordance with the relevant requirements of PRC regulations as well as the requirements of PRC and international accounting standards.

The classification of loan risks and estimation of expected losses are carried out at different levels. Customer relationship managers are responsible for the preliminary classification of risks as well as for estimating the losses of NPL, the results of both of which are then subject to review by risk managers. At the credit application stage, reports are submitted to the upper level following credit granting procedure to obtain determination from the relevant examination and approval institutions, and the scope of authority for determination is the same as the scope of authority for examination and approval. For the day-to-day management of existing credit, the Bank's head office Credit Management Departments, Chief Risk Officers at the branch level and branch risk managers make the final determination within the limits of their authority.

At the beginning of 2007, on the basis of the Bank's existing five-category classification system and internal rating-based approach, the Bank adopted a 12-category loan classification system that refined the Bank's loan classification in accordance with the default risks of a corporate borrower and facility risk arising from the loan. Based on the varying degrees of credit asset risk, the Bank's 12-category loan classification further expands the "normal" grade under the original five-category loan classification system into seven grades, which are expressed from P1 to P7. The original "special mention" class is further broken down into two grades, which are expressed by SM1 and SM2. Loans under "sub-standard", "doubtful", and "loss" classes remain unchanged and are collectively referred to as non-performing credit assets.

The following table illustrates the Bank's five-category and 12-category loan classification systems:

12-Category Loan Classification	Names under the Five Category Classification	Names under the 12-Category Loan Classification
1	Normal	Grade 1 Pass (P1)
2	Normal	Grade 2 Pass (P2)
3	Normal	Grade 3 Pass (P3)
4	Normal	Grade 4 Pass (P4)
5	Normal	Grade 5 Pass (P5)
6	Normal	Grade 6 Pass (P6)
7	Normal	Grade 7 Pass (P7)
8	Special Mention	Grade 1 Special Mention (SM1)
9	Special Mention	Grade 2 Special Mention (SM2)
10	Sub-standard	Sub-standard (SS)
11	Doubtful	Doubtful (DF)
12	Loss	Loss (LS)

Through this loan classification system, the Bank classifies corporate loans on the basis of both quantitative and qualitative factors by analysing the default risk of a corporate borrower and facility risk arising from the loan and considering the estimated impairment losses.

The Bank's loan classification system is designed to help the Bank to better monitor changes in the Bank's asset quality, detect potential credit risks and more effectively conduct post-disbursement management of the Bank's loan portfolio. The Bank believes that this system has helped the Bank strengthen its loan monitoring capabilities.

The Bank makes provision for losses arising from different types of its corporate credit assets in two ways: individually assessed provisions and collectively assessed provisions. Loss estimation is carried out on an individual basis for non-performing credit assets, whereas collective loss provisions are applied to credit assets classified as "normal" and "special mention".

Termination of loans to potential high-risk customers

The Bank has established an exit management mechanism for potential high-risk customers in order to optimise the Bank's portfolio of borrowers and prevent potential risks from materialising. Potential high-risk customers are those who are expected to suffer an adverse impact on their repayment ability or to experience adverse changes in their financial condition. For such customers, the Bank normally reduces credit limits, terminates credit lines, ceases the renewal of credit facilities and requests the provision of additional risk mitigation and other measures in accordance with the relevant provisions of their respective loan contracts.

NPL Management

The Bank proactively manages NPL to reduce the associated risks to its loan portfolio, promptly write off doubtful debts and improve its recovery on disposals.

The Non-performing Asset Disposal Committees at the Bank's head office and branch level are responsible for managing and recovering the Bank's NPL. They are also responsible for approving disposal and recovery plans for non-performing assets, including asset restructuring, settlement of loans by taking collateral, write-off of loans and other related issues. Steps taken for the recovery of NPL mainly include collection, foreclosure on collateral, legal proceedings, reduction or waiver of interest, loan restructuring, write-offs and collection by third parties.

Credit Risk Management for Retail Credit Business (Excluding Credit Cards)

Acceptance of Credit Applications and Credit Investigation

When handling a new business, a customer relationship manager of the Bank's retail credit business is required to have a face-to-face interview with the credit applicant, and all documents must be signed by the applicant in the presence of the manager. The applicant will be requested to sign an application form and provide his or her identity card, proof of income, transaction contracts, certification of ownership of assets collateralised or pledged as security, a written undertaking from the guarantor (if any) and materials proving the guarantor's creditworthiness. The Bank mainly relies on income, credit history and loan repayment ability to assess the applicant.

The Bank's retail credit business customer relationship managers are responsible for assessing retail credit applicants and completing the reporting materials required for approval. The assessment mainly focuses on the credit risk of the applicant and the valuation of the loan collateral. The Bank conducts its credit investigations through on-site investigations, telephone interview and information inquiries as well as through other channels and methods to verify the authenticity of loan-related information. For mortgage loans that are doubtful or that are particularly large, customer relationship managers may take additional verification steps by making "home visits". The appraisal of the collateral for retail loans is similar to the appraisal of the collateral for corporate loans. In the case of secured loans, the Bank usually requests an independent appraiser approved by it to appraise the security provided.

On the basis of the results of inquiries made with the personal credit database of PBOC, and in light of the results of the assessment of the applicant's risk profile and the risk mitigation factors, retail customer relationship managers will prepare reporting materials for approval.

Credit Approval

The Bank's retail credit approval is carried out by branch Chief Risk Officers or persons authorised by them within the limits of their authority, except for high-risk retail credit business applicants, which must go through panel examination and approval. The Bank's retail credit business is mainly approved by authorised individuals.

Loan Disbursement and Post-disbursement Management

After the loan applications of individual customers are approved, the authorised signatory of the Bank's business units, the borrower and the guarantor (if any), jointly enter into retail loan contracts and a disbursement will be made after the loan prerequisites are satisfied. In the Bank's retail loan monitoring, the Bank focuses on the repayment ability of the borrower and the status of assets collateralised or pledged as security and any change in their value. The Bank adopts a five-category classification for retail loans by reference to the risks associated with the loans.

Once a loan becomes overdue, the customer relationship manager or specific collectors will, in the context of the individual circumstances leading to the overdue balance and the accompanying risks, demand repayment through various actions, including the use of telephone, e-mail, letters and home visits.

Based on the actual conditions of non-performing retail loans, repayment will be demanded from the borrowers and guarantors by one or several of the following ways: collection, litigation, appointment of factoring agents or repayment of loans by assets.

Credit Card Risk Management

Identification of Credit Risk

The Credit Card Centre imposes different criteria for credit cards granted to different types of customers, making full use of risk measurement methods such as application grading models, behaviour assessment models, initial credit line models and dynamic management of credit lines so as to manage credit card risk in a quantitative manner, which enables the Bank to carry out differential management of customers with differing risk profiles and income statuses. On this basis, the Bank decides whether a card should be issued and, if so, what type of card should be issued and what credit limit should be granted. The Bank's Credit Card Centre has completed building the Internal Assessment System, and is now using the measurement methods under Basel II to monitor changes in asset quality.

The Bank's Credit Card Centre has set up a specialised risk data analysis team, which pays close attention to the macroeconomic development of the PRC as well as the development of the credit card business in the banking industry. Furthermore, based on the requirements of the Bank's business, the Bank collects information relating to credit risk control measures of other banks through a number of channels and provide such information to risk policy-makers for their reference. Based on the Bank's business planning and risk management targets, the Bank adjusts its credit card policy in line with the current forecast of the credit card business in a timely manner.

The Bank investigates and identifies potential customer credit risks through a number of channels, including making full use of internal and external credit investigation means such as the Bank's credit card blacklist system, the personal credit information database of PBOC, the identity verification system of the Ministry of Public Security, China UnionPay's risk information sharing system and the industry-wide risk information sharing system.

Credit Risk Control System

The Credit Card Centre has established the Risk Management Department, Credit Approval Department, Collection Management Department, Strategy Research Department and other departments so as to strengthen the exchange and coordination of information related to risk prevention. The Bank updates guidelines for the examination and approval of credit card applications every year. The guidelines set out the Bank's risk management guiding principles, classify the clients into different types, namely supported, restricted and prohibited, and clarify the approval process for special cases. The Bank has developed its own examination and approval management system, online credit limit adjustment system, electronic debt collection system and operational risk reporting system. In addition, the Bank has carried out operational risk and control self-assessment (RCSA) for the purpose of identifying risks and refining the Bank's internal controls. The Credit Card Centre has introduced the TRIAD customer management system which aims to improve the Bank's customer satisfaction through effective allocation of resources under the Bank's customer credit line management and behaviour management, while controlling risk.

Since 2012, the Bank has made persistent efforts to improve its risk management methods. The Bank deploys differentiated risk management strategies that account for client attributes and transaction behaviour, which allows the Bank to focus on its large number of customers while also refining its credit card risk management. Meanwhile, the Bank optimised its internal ratings system based on Basel II through the Bank's re-examination algorithms, which make adjustments for the probability of default and changes in economic conditions.

Credit Risk Management for Financial Institution Credit Business

The Bank's financial institution credit business primarily includes (i) investments in domestic financial bonds and other quoted securities, financial institution placements and borrowing, and trading of derivatives and (ii) investments in overseas negotiable instruments and overseas financial institution placements. The Bank sets up credit limits with respect to countries, regions and domestic and overseas counterparties. Such limits are subject to the approval of the Credit Approval Department and the Credit Approval Committee of the Bank's head office within their respective limits of authority.

Credit Risk Management System

The Bank's credit risk management systems include the Bank's corporate credit risk management system, retail credit risk management system and financial institution credit risk management system.

The Bank's corporate credit risk management system allows for the electronic handling and streamlining of the credit granting process, from credit application, review and approval to disbursement approval and post-disbursement management. The Bank pursues the continued development of its corporate loan risk management system to enhance its functions. In particular, by targeting credit extensions to micro-enterprises, the Bank has developed an electronic procedure and risk model catering to the characteristics of micro-enterprises in the Bank's risk management system, which provide systemic support for the whole procedure, including risk identification, measurement, monitoring, mitigation and control.

The Bank's retail credit risk management system is a comprehensive retail loan risk management system, which comprises an analysis modelling software, decision-making engines, process management and numerous relevant data sets, which are key to the establishment of a comprehensive risk management system for the Bank. The entire retail credit management process can be managed through this electronic system, which includes loan applications, on-line approval, loan disbursement and post-disbursement management.

The Bank's financial institution credit risk management system facilitates the process of information collection and credit applications, customer rating, credit approvals, disbursement and post-disbursement monitoring in relation to financial institutions.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk where although a bank is solvent, it may be unable to obtain sufficient funds in a timely manner or at a reasonable cost, to cope with asset growth or settle due and payable debts. Most of the funds held by the Bank come from the deposits of the Bank's customers. In recent years, the Bank's customers' deposits have grown in quantity and diversified in types and term length. Based on an estimation of the Bank's future cash flow, the Bank takes action to maintain an appropriate percentage of liquid assets.

The Bank's Asset and Liability Management Committee is responsible for managing the Bank's overall liquidity. The Asset and Liability Management Committee, with the Bank's President as its chairman, is responsible for formulating policies relating to liquidity based on relevant regulatory requirements and the principle of prudence. The objectives of the Bank's liquidity policies are as follows:

- to maintain the Bank's liquidity at a stable and sufficient level and to ensure that the Bank is in a position to fulfil payment obligations in a timely manner and meet its liquidity demands relating to its assets, liabilities and off-balance sheet operations, both in the case of normal business operations and in stressed circumstances, by setting up a methodical and comprehensive liquidity risk management system; and

- to make reasonable and timely adjustments to the scale and structure of the Bank's assets and liabilities based on market changes and business development and to pursue the maximisation of profits and the minimisation of costs in order to maintain an appropriate level of liquidity with an aim to ensure the "safety, liquidity and efficiency" of the Bank's capital.

The Bank's Planning and Finance Department is responsible for the daily management of the Bank's liquidity risk and for formulating and timely revising the Bank's liquidity risk management strategies. It is also responsible for the identification, measurement, monitoring and reduction of bank-wide liquidity risk. The Bank's Treasury Department is responsible for the day-to-day position management and forecasts and for maintaining the Bank's highly liquid asset portfolio at an appropriate level based on the Bank's liquidity risk management strategies. In the event of a material incident relating to payment obligations or any structural change, timely reports as well as recommendations must be given to the Asset and Liability Management Committee.

The Bank mainly adopts a liquidity gap analysis to measure liquidity risk and adopts different scenario analysis and stress tests to assess the impact created by the relevant liquidity risk. While the Bank reduces its liquidity risk by term matching, diversification of liabilities and other on-balance sheet business adjustments in light of internal transfer pricing and external pricing, the Bank also attempts to adjust for any liquidity shortfall by making use of monetary swaps and other financial derivatives.

MARKET RISK MANAGEMENT

Market risk means the risk of losses to the Bank's businesses resulting from an adverse movement of market prices, including interest rates, exchange rates, commodity prices and stock prices.

The Board of Directors bears ultimate responsibility for monitoring and managing the Bank's exposure to market risk to ensure that the Bank can effectively identify, measure, monitor and control the different types of market risk to which the Bank's businesses are exposed. The Risk Management Committee of the Board of Directors is responsible for monitoring market risk management within its limit of authority delegated by the Board of Directors and reviewing the Bank's strategies, policies and procedures relating to market risk management together with relevant proposals on the acceptable market risk level put forward by senior management. Most of the market risks to which the Bank is exposed in its business operations and development are concentrated in the Bank's treasury management, including (i) money market activities, (ii) investment portfolio management and (iii) treasury transactions on behalf of customers. The Planning and Finance Department is responsible for the day-to-day monitoring and management of the underlying interest rate risk and foreign exchange risk of banking books. The Risk Management Department is responsible for establishing and improving the Bank's market risk management system, formulating market risk management policies and identifying, monitoring and reporting the Bank's market risk exposure.

In accordance with the requirements of regulatory authorities and the general practices of the banking industry, the Bank divides its on and off-balance sheet assets into two categories: trading books and banking books. Based on the nature and characteristics of the relevant accounts, the Bank adopts methods to identify, measure, monitor and control market risk. Trading books refer to the financial instruments and commodities positions that could be traded freely. Banking books represent business other than trading books. The Bank primarily measures and monitors the market risk associated with trading books through sensitivity indicators, scenario analysis and foreign exchange exposure analysis. The Bank measures and monitors the market risk associated with banking books through sensitivity gap analysis, stress tests and effective duration analysis.

The Bank aims to effectively identify, measure and monitor factors relating to market risk. In order to ensure that the market risk the Bank assumes is within its risk tolerance, the Bank has established a tiered cap system for market risk management. The first tier sets a cap on the level of overall market risk exposure deemed acceptable to the Bank. The second tier sets exposure caps on both interest rate and exchange rate risk. Third- and fourth-tier caps are business- and product-type specific. To ensure the implementation of the Bank's tiered cap system, the Bank has implemented a suite of cap management procedures, covering application, approval, monitoring, early warning, reporting and action plans with respect to such caps.

In order to further enhance the Bank's trading and market risk management ability, the Bank has established a comprehensive market risk management system. The main functions of this system include front, middle and back-office monitoring and processing of treasury transactions. The system also provides a specialised platform for trading and market risk management. At the same time, the Bank has also introduced a Value-at-Risk (VaR) measurement model in order to enhance the Bank's ability to measure and manage market risk to prepare for the Bank's implementation of Basel II.

Interest Rate Risk Management

The Bank's interest rate risk mainly relates to the repricing risk in the Bank's commercial banking business and the risk of the Bank's treasury position. The objectives of the Bank's interest rate risk management are to develop measures to monitor and control interest rate risk, to establish proper mechanisms to measure, analyse and follow up on changes of such risk and to take appropriate steps before escalation of interest rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of interest rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations.

The Bank has adopted an interest rate risk management policy that serves as the foundation for the Bank's bank account interest rate risk management mechanisms and strategies. The Bank actively explores and improves its interest rate risk management mechanisms, and endeavours to establish an appropriate asset-liability pricing mechanism by using a fund transfer pricing system, with a focus on profit. The Bank has also improved and upgraded its assets and liabilities management system and improved the relevance of system applications towards interest rate risk management.

In the Bank's interest rate risk management, the Bank has taken steps in conducting active management of assets and liabilities, and applying the results of gap analysis of asset-liability management to the adjustment of portfolios and the control of liability costs so as to increase the Bank's bank-wide net interest margin.

The Bank assesses the interest rate risk relating to banking books mainly through repricing gap analysis and net profit and interest income simulation analysis. The Bank regularly monitors the position of the gap and conducts stress tests by using gap data. On this basis, the Bank adjusts repricing term structures of interest-earning assets and interest-bearing liabilities and uses derivatives to hedge against interest rate risk. At the same time, the Bank closely monitors the movement of interest rates of local and foreign currencies, and, in line with changes in market interest rates, adjusts the Bank's interest rates for deposits and loans denominated in both local and foreign currencies so as to mitigate interest rate risk.

With respect to the Bank's financial market business, the Bank adopts such techniques as duration and present value per basis point to measure interest rate risk, and applies stress tests and scenario analysis to monitor and control risks.

Exchange Rate Risk Management

The Bank's exchange rate risk primarily arises from the proprietary foreign currency portfolio within the Treasury Department's proprietary investments, and other foreign currency transactions. The objectives of the Bank's exchange rate risk management are to develop measures to monitor and control exchange rate risk, to establish proper mechanisms to measure, analyse and follow up on changes in such risk and to take appropriate steps before escalation of exchange rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of exchange rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations. The Bank's exchange rate risk is reflected in the mismatch of the currencies in which the Bank's assets and liabilities are denominated and the possible adverse impact of exchange rate fluctuation on the Bank's profit and capital in foreign currencies.

The Bank has adopted exchange rate risk management measures across the Bank to centralise the management of exchange risks related to the Bank's account. The Bank endeavours to match relevant foreign currency assets with liabilities and controls the exchange risks by making available and utilising various currency sources. The Bank strictly controls risk exposure in foreign exchange settlement and sales and takes measures to improve the position-closing method for foreign exchange settlement and sales. The Bank also implements a "multiple price quotations per day" mechanism to reduce exchange risk. The Bank actively researches, designs and develops various derivative financial instruments and innovative financial products, aiming at managing exchange rate risk by utilising appropriate financial instruments.

OPERATIONAL RISK MANAGEMENT

Operational risk represents the risk of loss associated with deficiencies and failures of internal processes, personnel and information systems, or external events. The operational risk that the Bank faces primarily includes, among others, internal and external fraud, damage to tangible property, disruptions to the Bank's operations or information technology system and problems associated with transaction settlement as well as business processes management. Operational risk also includes legal risk but does not include strategic or reputational risk.

The Bank's operational risk management aims to control operational risk within an acceptable range, to increase service efficiency and optimise work flow, to lower management costs and increase profitability, to reduce the impact of contingencies and to ensure the normal and continuous operation of the Bank's business.

The Bank has established a hierarchical operational risk management structure, operating under the guidance of the operational risk management policies formulated by the board and implemented by the Bank's senior management, with three lines of defence. The Board of Directors is ultimately responsible for operational risk management. The Bank's senior management actively leads the relevant initiatives; branch-level management teams are responsible for operational risk management at their respective branches, with branch heads having ultimate responsibility at branch level.

Business units and functional departments constitute the first line of defence to safeguard against operational risk, directly bearing and managing the operational risk of their own departments or lines and assuming primary responsibility for operational risk management. The Risk Management Department and Legal and Compliance Department constitute the second line of defence to safeguard against operational risk, and are responsible for establishing an operational risk management framework and guarding, supporting and monitoring the implementation of the Bank's operational risk management at all levels. The Internal Audit Departments and Discipline and Inspection Departments constitute the third line of defence against operational risk. The Internal Audit Departments are responsible for auditing the implementation of the Bank's operational risk management system across the Bank and reporting related issues to the senior management and the Audit Committee of the Board of Directors, and the Discipline and Inspection Departments carry out investigations and culpability verifications and ensure that the relevant individuals are held accountable for any operational issues identified.

The Bank has preliminarily established an operational risk identification and assessment system, which is based on operational risk and control self-assessment (RCSA), supplemented by an operational risk event reporting system and key operational risk indicators and supported by internal audit and compliance assessments. Under the hierarchical management of operational risk, different business lines or business departments are responsible for applying the relevant tools to identify, assess and control operational risk and adopt appropriate risk management measures.

The Bank has implemented the operational risk and control self-assessment (RCSA) process and has incorporated this into the daily work of the Bank's business lines, branches and sub-branches. The RCSA is implemented by the institute or department that assumes direct responsibility for operational risk for the purpose of internally assessing operational risks and effectiveness of control in accordance with the principles of operational risk management.

The Bank has established an operational risk reporting system whereby various business lines and various branches and sub-branches are required to report on operational risk events in accordance with the predetermined reporting scope, route and format. The operational risk reporting system helps to pinpoint weak links in operational risk control by identifying the spread of losses, and can be used to verify the results of operational risk control self-assessment so as to evaluate the quality of the RCSA.

The Bank has set up a key risk indicator (KRI) system for operational risk, which covers the Bank's main risk categories and key product groups. By continuously monitoring key risk indicators, the Bank aims to keep abreast of changes in its operational risk exposure and to enhance the Bank's adaptable supervision capabilities so as to actively manage operational risk and be able to issue early warnings prior to the occurrence of potential operational risk incidents.

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of legal sanctions, regulatory penalties, material financial losses, or reputational damage to a commercial bank resulting from the failure to comply with applicable laws and regulations as well as relevant industry standards. Compliance risk management is an important part of the Bank's overall risk management and the Bank has accordingly placed strong emphasis on compliance risk management throughout the Bank's internal control structure and procedures. The Board of Directors is ultimately responsible for matters relating to compliance risk and the Legal and Compliance Departments at both the Bank's head office and at the branch level take responsibility for coordinating bank-wide compliance risk management, including the implementation of an integrated and coordinated compliance risk management system and the adoption of tracking and monitoring measures. The Bank continuously provides effective guidance, monitoring, alerts, identification and assessment with respect to compliance risk, and actively promotes systematic compliance management.

CAPITAL MANAGEMENT UNDER COMPREHENSIVE RISK MANAGEMENT

The Bank believes it has an established capital management system and promotes organic integration between the Bank's capital management, risk management and assets and liabilities management units. The Bank also strengthened its valued-based portfolio management system to enhance its systematic risk management capability.

The Bank's capital management organisational structure encompasses the board, supervisory committee and senior management. The Bank emphasises efficiency in the Bank's capital management by using RAROC (Risk-Adjusted Return On Capital) /EVA (Economic Value Added) indicators as guidance. The Bank also utilised a number of tools in its capital management, such as (i) advanced audit mechanisms, (ii) a multi-tiered capital management and internal capital adequacy assessment programme (ICAAP) and (iii) a risk-weighted assets system at the accounting level (including standard and advanced methods for capital measurement).

Anti-Money Laundering

In accordance with relevant legal and regulatory requirements on anti-money laundering, the Bank has formulated rules, regulations and policies for the monitoring, reporting and managing of money laundering risk, which are reviewed on an annual basis and revised as necessary to satisfy the Bank's own risk management requirements and those of relevant regulators.

The Bank carries out anti-money laundering training by internal or third-party consultants to increase the awareness among the Bank's staff of money laundering risks. The Bank has established an anti-money laundering leading team and an anti-money laundering work office. The anti-money laundering leading team is responsible for spearheading the Bank's bank-wide anti-money laundering initiatives, formulating and overseeing the implementation of relevant laws and regulatory rules on the identification and handling of large transactions and suspicious transactions. It is comprised of the respective heads of the Legal and Compliance Department, Operation Management Department, Transaction Banking Department, Corporate Banking Department and other related departments. Each such department bears management responsibility for anti-money laundering activities in accordance with its authority. The anti-money laundering work office is within the Legal and Compliance Department, and is responsible for the day-to-day bank-wide management of money laundering risk and coordinating the reporting of anti-money laundering work of relevant departments, and the consolidation and reporting of the data of large transactions and suspicious transactions.

INTERNAL CONTROL

The Bank continues to enhance its internal control functions and its corporate governance and strives to achieve the best practice standards of the banking industry.

The Bank maintains a three-tiered internal control management system, which consists of the decision-making level, the implementation level and the supervision and evaluation level.

Decision-making Level

The Board of Directors has ultimate decision-making authority and is mainly responsible for deciding the Bank's internal control strategy and making the most significant business decisions. The Board of Directors is also responsible for reviewing the internal control reports submitted by the Bank's senior management, auditors and regulators, conducting all overall assessment of the integrity and effectiveness of the bank-wide internal control system, and supervising senior management to carry out continuous improvement and refinement of the Bank's internal control system.

Implementation Level

The Bank's senior management is supervised by the Board of Supervisors and is responsible for: (i) implementing the various strategies, policies, systems and procedures approved by the Board of Directors; (ii) establishing an organisational structure with specific authorisation and duties as well as clear reporting lines; (iii) setting up a procedure for identifying, measuring and managing risks; developing and implementing sound and effective internal control measures; and (iv) adopting measures to rectify any existing internal control deficiencies.

The special committees under senior management, including, among others, the Risk Management Committee, the Asset and Liability Management Committee and the Internal Control and Compliance Early Warning Committee, are responsible for internal control and risk management within their respective limits of authority.

Business departments in the Bank's head office are responsible for departmental internal control matters, including the implementation of internal control policies and procedures, identification and management of internal control deficiencies and timely reporting on their internal control efforts to senior management.

Management at the branch level is responsible for branch-level internal control matters, including, at the request of senior management or the business departments of the Bank's head office, the formulation of specific detailed implementation rules and business procedures and the establishment and enhancement of internal control mechanisms.

Supervision and Evaluation Level

The Board of Supervisors is responsible for supervising the Bank's compliance with the relevant laws and regulations, as well as supervising the Board of Directors and senior management in their performance of their respective duties and inspecting and supervising the Bank in connection with matters relating to internal control. The Audit Department is responsible for carrying out audits, supervision and assessment of the Bank's business operations, internal control and risk profile across the Bank.

INTERNAL AUDIT

Pursuant to the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) issued by CBRC, the Bank began to reform its internal audit system at the end of 2006. The Bank has put in place an independent vertical audit management system under which the Bank's audit functions are accountable to the Board of Directors and report to the Board of Directors, the Audit Committee of the Board of Directors and the Bank's senior management. The Bank has also implemented an internal audit organisational structure comprising the Audit Department of the Bank's head office and five audit centres. The Audit Department and the audit centres are independent of other business departments and branches.

They conduct their audit, supervision and assessment of matters relating to the business and operational management, internal control and risk profile across the Bank and supervise the audited authorities and departments to perform their duties by carrying out routine audits, special audits and audits into economic liabilities arising from existing and departing officers. The Audit Department is responsible for: (i) carrying out audits of the Bank's business operations, internal controls and risk profile across the Bank; (ii) making consistent efforts to improve review and supervision of the Bank's internal controls; and (iii) continuously strengthening the normalisation and standardisation of the Bank's internal control process, which has resulted in the quality and results of the Bank's audits improving continuously and promoted stable and healthy business operations across the Bank.

The Audit Department is responsible for auditing and assessing bank-wide operational activities, risk profile, internal control and corporate governance effectiveness; formulating the parameters for audit work and audit business systems across the Bank; formulating and organising the implementation of annual work plans; managing and giving guidance to the audit centres; and conducting audits of the line departments, key businesses of the Bank's head office and key branches.

Each regional audit centre is responsible for the implementation of annual work plans at the regional level and examining and assessing business operations, risk profile, internal control and corporate governance of branches within its region.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

Directors

The following table sets out certain information relating to the Bank's directors as at the date of this Offering Circular. The business address of the Bank's Directors are at China Everbright Center, No.25 and No.25 A Taipingqiao Avenue, Xicheng District, Beijing 100020, PRC.

Name	Age	Position	Appointment Date
Mr. LI Xiaopeng	61	Chairman of the Board of Directors, Non-executive Director and Secretary of Communist Party of China ("**CPC**") Committee	16 March 2018
Mr. WU Lijun	56	Vice Chairman, Non-executive Director	25 March 2020
Mr. YAO Zhongyou	57	Non-executive Director and Member of CPC Committee	5 February 2021
Mr. QU Liang	54	Executive Director, Executive Vice President, Member of CPC Committee and Secretary of CPC Committee and President of Beijing Branch	5 February 2021
Mr. FU Wanjun	52	Executive Director, President	28 April 2021
Mr. YAO Wei	45	Non-executive Director	5 February 2021
Mr. LIU Chong	51	Non-executive Director	26 December 2019
Mr. XU Hongcai	56	Independent Non-executive Director	11 February 2015
Mr. HAN Fuling	56	Independent Non-executive Director	25 May 2021
Mr. WANG Liguo	63	Independent Non-executive Director	10 January 2017
Mr. SHAO Ruiqing..................	63	Independent Non-executive Director	5 August 2019
Mr. HONG Yongmiao..............	57	Independent Non-executive Director	12 September 2019
Mr. LI Yinquan	66	Independent Non-executive Director	11 June 2020

Mr. LI Xiaopeng, aged 61, joined the Bank as Chairman of the Board of Directors in March 2018 and has served as Secretary of CPC Committee of the Bank since December 2017. Currently, he is also the secretary of CPC Committee and chairman of China Everbright Group Ltd., honorary principal of Party School of China Everbright Group and Everbright Academy, chairman of the Board of Directors at China Everbright Group Holdings Limited, vice chairman of China Chamber of International Commerce, and the honorary chairman of the Hong Kong Chinese Enterprises. He was member of CPC Committee and deputy general manager of Henan Provincial Branch of Industrial and Commercial Bank of China ("**ICBC**"), general manager of the Banking Department of the Head Office of ICBC, secretary of CPC Committee and general manager of Sichuan Provincial Branch of ICBC, member of CPC Committee and vice president of China Huarong Asset Management Corporation, member of CPC Committee and assistant president of the head office of ICBC, secretary of CPC Committee and general manager of Beijing Municipal Branch of ICBC, member of CPC Committee, executive director and executive vice president of ICBC, deputy secretary of Secretary of CPC Committee and chairman of the Board of Supervisors of China Investment Corporation, and deputy secretary of CPC Committee, vice chairman and general manager of China Merchants Group. He was also chairman of ICBC International Holdings Limited, chairman of ICBC Financial Leasing Co., Ltd., chairman of ICBC Credit Suisse Asset Management Co., Ltd., vice chairman of China Merchants Bank Co., Ltd., chairman of China Merchants Energy Shipping Co., Ltd., chairman of China Merchants Port Holdings Company Limited, chairman of China Merchants Huajian Highway Investment Co., Ltd., chairman of China Merchants Capital Investment Co., Ltd., chairman of China Merchants Joint Development Co., Ltd., and chairman of China Merchants Investment Development Company Limited. He is a graduate of Wuhan University with a Doctoral degree in Economics, and is a senior economist. Mr. Li is a member of the Committee for Economic Affairs of the Thirteenth Session of the CPPCC National Committee.

Mr. WU Lijun, aged 56, has served as Vice Chairman and Non-executive Director of the Bank since March 2020. He is currently Deputy Secretary of CPC Committee, Vice Chairman and General Manager of China Everbright Group Ltd. He served as the Deputy Director (Deputy Bureau Director Level) of the State Material Reserve Regulatory Centre of the Ministry of Domestic Trade, person in charge of the Information Centre, Deputy Director (Presiding) of the Training Centre, Director of the Personnel Education Department and Director of the Party Organisation Department of the China Securities Regulatory Commission. He also served as the member of the CPC Party Committee and Assistant Chairman of the China Securities Regulatory Commission, the Chairman of the Board of Directors and CPC Party Secretary (Deputy Minister Level) of the Shenzhen Stock Exchange. He obtained a doctorate degree in economics from Renmin University of China. He is a senior economist.

Mr. YAO Zhongyou, aged 57, has served as Executive Director of the Bank since February 2021, Executive Vice President of the Bank from August 2014 to June 2021, and member of CPC Committee of the Bank since May 2014. He served as the deputy manager of the International Business Department of Hebei Provincial Branch of China Construction Bank (CCB), general manager, secretary of the CPC Leading Group of the CPC Committee of CCB Chengde Branch, director of the general office, deputy general manager and member of the CPC Committee of CCB Hebei Provincial Branch, deputy general manager of Equity Management Department of China Everbright (Group) Corporation, executive director, member of CPC Committee and vice president of Everbright Financial Holding Asset Management Co., Ltd., and general manager of Financial Management Department of China Everbright (Group) Corporation. He graduated from Wuhan University majoring in finance and obtained a master’s degree in economics. He is a senior economist.

Mr. QU Liang, aged 54, has served as Executive Director of the Bank since February 2021, Executive Vice President of the Bank since March 2020, and member of CPC Committee of the Bank and Secretary of CPC Committee and general manager of Beijing Branch of the Bank since September 2018. He served as the vice general manager of the Corporate Business Department of Henan Provincial Branch of Industrial and Commercial Bank of China (ICBC); director of general office, the general manager of the Corporate Banking Department II, the general manager of the Corporate Banking Department I of Zhengzhou Branch of China Merchants Bank (CMB); the vice general manager of the corporate banking division at the CMB head office, secretary of the CPC Committee, general manager of CMB Hohhot Branch; secretary of the CPC Committee, general manager of CMB Chongqing Branch; commissioner of comprehensively deepening reform leading group office (headquarters department head level) of China Everbright Group Ltd. He graduated from Zhengzhou University with a bachelor’s degree in politics, and obtained a master’s degree in economic law, at Zhengzhou University. He is a senior economist.

Mr. FU Wanjun, aged 52, has served as Director of the Bank since February 2021, President of the Bank since June 2021, and is currently a member of the CPC Committee and vice general manager of China Everbright Group Ltd. He served as the deputy manager of the Credit and Loan Department II, deputy manager and manager of the Marketing Department II, assistant general manager, deputy general manager, member of the CPC committee of Urumqi Branch of Bank of Communications (BOCOM), secretary of the CPC Committee and general manager of Yinchuan Branch of BOCOM, secretary of the CPC Committee and general manager of Xinjiang District (Urumqi) Branch of BOCOM, secretary of the CPC Committee and general manager of Chongqing Branch of BOCOM, general manager (principal level in provincial branches) of the Corporate and Institutional Business Department of BOCOM head office, business director (in charge of corporate and institutional business segment) of BOCOM. He obtained an executive master in business administration degree from Dalian University of Technology. He is a senior economist.

Mr. YAO Wei, aged 45, has served as Director of the Bank since February 2021 and is currently a standing member of CPC Committee and chief accountant of Overseas Chinese Town Group Company Limited. He successively served as deputy director and director of asset division (fixed assets), and the head of the internal control group of account division of the Finance Department in Daya Bay Nuclear Power Operations and Management Co., Ltd.; staff, budget director, tax manager, senior manager and chief of general finance division of finance department in China General Nuclear Power Group Corporation; chief accountant of CGN Wind Energy Co., Ltd.; chief accountant of CGN Meiya Power Holdings Co., Ltd. (later renamed as CGN New Energy Holdings Co., Ltd.); vice general manager (presiding) and general manager of the Finance Department, general manager of the Finance and Asset Management Department of China General Nuclear Power Group Corporation; chief accountant of CGN Solar Energy Development Co., Ltd.; chairman of CGNPC International Limited and executive director of Shenzhen Nengzhihui Investment Co., Ltd. He graduated from Zhongnan University of Economics and Law majoring in accounting and obtained a bachelor's degree in economics. He is a certified public accountant.

Mr. LIU Chong, aged 51, has served as a Non-executive Director of the Bank since December 2019. He currently serves as Member of CPC Committee and Managing Director of COSCO Shipping Development Co., Ltd., and concurrently as non-executive director of China Cinda Asset Management Co., Ltd. He successively served as Deputy General Manager of China Shipping Investment Co., Ltd., Deputy General Manager of China Shipping Logistics Co., Ltd., chief accountant of China Shipping (Hainan) Haisheng Co., Ltd., Director of Capital Management Department of China Shipping (Group) Company, Chief Accountant of China Shipping Container Lines Co., Ltd., and general manager of China Shipping Investment Co., Ltd., and vice chairman of China International Marine Container (Group) Ltd. He graduated from Sun Yat-sen University majoring in economics and obtained a bachelor's degree in Economics. He is a senior accountant.

Mr. XU Hongcai, aged 56, has served as Independent Non-executive Director of the Bank since February 2015. He is currently Managing Director of China Association of Policy Science and deputy director of its Economic Policy Committee, deputy chairman of American Returned Association of Western Returned Scholars Association (WRSA), senior researcher of China-US Relations Research of WRSA, and part-time professor of Central University of Finance and Economics. He concurrently serves as independent director of China Life Asset Management Company Limited and independent director of Hebei Bank Co., Ltd. He successively served as clerk at the Head Office of the PBOC, deputy general manager at Shanghai Office of GF Securities, vice president at Beijing Venture Capital Co., Ltd., professor of Capital University of Economics and Business, and assistant engineer of China Petrochemical Corporation. He graduated from Renmin University of China with a master's degree in Philosophy, and then graduated from the Graduate School of Chinese Academy of Social Sciences with a Doctoral degree in Economics.

Mr. HAN Fuling, aged 56, has served as Independent Non-executive Director of the Bank since May 2021 and is currently the professor and doctoral tutor of Faculty of Finance, and president of Financial Securities Research Institute of Central University of Finance and Economics. He is a consultant of the Financial and Economic Committee of the National People's Congress of the PRC, the People's Bank of China, the China Securities Regulatory Commission, and the Ministry of Human Resources and Social Security. He is a CCTV financial commentator. He served as the deputy head of the Economics Department of University of Science and Technology Beijing, and a macro analyst and researcher of the Research and Development Department of the Stock Exchange Executive Council of China. He obtained a master's degree in business administration from University of Science and Technology Beijing, and a doctorate degree in Economics from Silesian University in Poland. He is a postdoctoral fellow at the Research Institute of Economics of the Chinese Academy of Social Sciences.

Mr. WANG Liguo, aged 63, has served as Independent Non-executive Director of the Bank since January 2017. He currently works as professor (national second class) of Dongbei University of Finance and Economics, doctoral tutor, chief expert of Major Bidding Projects of the National Social Science Fund, director of China Investment Association, executive director of Construction Economics Branch of China Construction Industry Association, vice chairman of Dalian Engineering Consulting Association and director of Dalian Yadong Investment Consulting Co., Ltd. He has served as lecturer and associate professor of Dongbei University of Finance and Economics, dean of the School of Investment Engineering Management of Dongbei University of Finance and Economics, and a member of Higher Education Engineering Management Major Evaluation Committee of Ministry of Housing and Urban-Rural Development. He graduated from Dongbei University of Finance and Economics with a bachelor's degree and a master's degree in Economics and then a doctoral degree in Industrial Economics.

Mr. SHAO Ruiqing, aged 63, has served as Independent Non-executive Director of the Bank since August 2019 and is currently a professor and doctoral tutor in accounting at Shanghai Lixin University of Accounting and Finance. He also holds positions including the vice president of China Communications Accounting Society, an executive director of Accounting Society of China, the vice president and chairman of the academic committee of Shanghai Accounting Association, an executive director of Shanghai Audit Association, a member of accounting & finance expert advisory committee of Ministry of Transport of the People's Republic of China, the consulting expert of China Accounting Standards Committee of Ministry of Finance, an independent director of China Eastern Airlines Corporation Limited, an independent director of HUAYU Automotive Systems Co., Ltd., an independent director of Tibet Urban Development and Investment Co., Ltd., an independent director of Shanghai International Port (Group) Co., Ltd. He served as a teaching assistant, lecturer and associate professor of the Economics Faculty of Department of Economics of Shanghai Maritime University (during the period of which, he received the Sino-British Friendship Scholarship for studying and research in Maritime Finance at University of Wales in the United Kingdom); associate professor and dean of Accounting Faculty of Shanghai Maritime University; professor and dean of Finance & Accounting Faculty of Shanghai Maritime University (during the period of which, he received national fund from Studying Abroad Program and was a senior visiting scholar at University of Sydney, Australia); professor and deputy dean of School of Management of Shanghai Maritime University; professor, doctoral tutor and dean of School of the Economics and Management of Shanghai Maritime University; professor, doctoral tutor and vice president of Shanghai Lixin University of Accounting; deputy to the 13^{th} Shanghai Municipal People's Congress; and external supervisor of China Merchants Bank. He respectively obtained a bachelor's degree in Economics of Shanghai Maritime University, a master's degree in Management of Shanghai University of Finance and Economics and the doctoral degree in Management of Tongji University. He is entitled to a special government allowance provided by the State Council, and is also an honorary fellow member of the Association of International Accountants.

Mr. HONG Yongmiao, aged 57, has served as Independent Non-executive Director of the Bank since September 2019, and is currently Distinguished Researcher of the Academy of Mathematics and Systems Science of Chinese Academy of Sciences, Distinguished Professor of the School of Economics and Management of University of Chinese Academy of Sciences, Member at Academy of Sciences for the Developing World, Fellow of Econometric Society, vice chairman of Economics Professional Teaching Mentoring Committee of Higher College of Ministry of Education, co-editor of *China Journal of Econometrics*. He was previously president of the Chinese Economists Society and independent non-executive director of ICBC. He respectively obtained a bachelor's degree in Science and a master's degree in Economics of Xiamen University, and a doctoral degree in Economics of University of California, San Diego in the United States.

Mr. LI Yinquan, aged 66, has served as an Independent Non-executive Director of the Bank since June 2020. He is currently the director of China Merchants Capital Investment Co., Ltd. He also served as the independent non-executive director of Genertec Universal Medical Group Company Limited, Million Cities Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited and Kimou Environmental Holding Limited, and Lizhi, Inc. He served as the assistant general manager, deputy general manager level cadre of International Business Department, head of the Preparatory Group of the New York Branch, deputy general manager of HR &and Education Department and deputy general manager of the Hong Kong Branch of the Agricultural Bank of China. He also served as the general manager of the Planning and Finance Department, chief financial officer (chief accountant), vice president of China Merchants Group Co., Ltd., as well as the general manager, CEO and chairman of China

Merchants Capital Investment Co., Ltd. and the executive director of China Merchants Holdings (International) Company Limited, the non-executive director of China Merchants Bank Co., Ltd., the executive director of China Merchants Energy Shipping Co., Ltd. and the executive director of China Merchants China Direct Investments Limited. He graduated from the Graduate School of the People's Bank of China from which he obtained a master's degree in economics. He later obtained a master's degree in finance for development in Finafrica Institute, Italy. He is a senior economist.

Supervisors

The following table sets out certain information relating to the Bank's supervisors as at the date of this Offering Circular:

Name	Age	Position	Appointment Date
Mr. LU Hong	57	Member of CPC Committee, Chairman of the Board of Supervisors, Shareholder Supervisor	26 March 2021
Mr. YIN Lianchen.................	54	Shareholder Supervisor	23 December 2014
Mr. WU Junhao.....................	55	Shareholder Supervisor	19 November 2009
Mr. WU Gaolian	68	External Supervisor	29 June 2016
Mr. WANG Zhe	60	External Supervisor	15 November 2016
Mr. QIAO Zhimin.................	68	External Supervisor	12 September 2019
Mr. XU Keshun	54	Employee Supervisor	26 July 2019
Mr. SUN Jianwei	54	Employee Supervisor	26 July 2019
Mr. SHANG Wencheng	45	Employee Supervisor	26 July 2019

Mr. LU Hong, aged 57, has served as Chairman of the Board of Supervisors and Supervisor of the Bank since March 2021, and has been Member of CPC Committee of the Bank since March 2009. He joined the Bank in 1994 and served successively as manager of Securities Affairs Department, division chief of the Office of the Board of Directors, assistant general manager of Planning and Finance Department, general manager of Planning and Finance Department of Beijing branch, deputy general manager of Financial Accounting Department of the Head Office, deputy general manager and general manager of Planning and Finance Department of the Bank. From September 2009 to March 2021, he served successively as Secretary of the Board of Directors, Executive Vice President and Executive Director of the Bank. He used to be an engineer of China Railway Economic and Planning Research Institute under the Ministry of Railways and Manager of Investment Banking Department of Huaxia Securities Co., Ltd. He graduated from Shanghai Railway Institute with a master's degree in Railway Engineering and a doctoral degree in Applied Economics from Xi'an Jiaotong University. He is a senior accountant.

Mr. YIN Lianchen, aged 54, has served as Supervisor of the Bank since December 2014. He is currently Managing Director and Chief Investment Officer of China Everbright Limited and non-executive director of Everbright Securities Co., Ltd. He successively served as General Manager of the Corporate Administration Department, Director of the Securities Brokerage Department, Director of Planning & Communication Department of China Everbright Limited, Chief Representative of Moody's KMV (China), Deputy General Manager of Beijing Yonder Investment Group, Chief of General Office of China Everbright (Group) Corporation, Assistant General Manager of China Everbright Limited, and Deputy Division Chief of Asset Management Division of Banking Regulation Department I of PBOC. He graduated from Nankai University with a master's degree in Western Financial Accounting.

Mr. WU Junhao, aged 55, has served as Supervisor of the Bank since November 2009. He is General Manager of the Financial Management Department of Shenergy (Group) Limited and concurrently serves as Director of

Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He successively served as Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., and Deputy Director, Director and Senior Director of the Asset Management Department and Deputy (Acting) Director of the Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a master's degree in Enterprise Management at East China Normal University.

Mr. WU Gaolian, aged 68, has served as External Supervisor of the Bank since June 2016. He successively served as Standing Committee Member of Party Committee, Deputy County Magistrate and Deputy Managing Magistrate of Fusong County of Jilin Province, General Manager of Jilin Tonghua Branch, Deputy General Manager of Jilin Branch, General Manager of Guangxi Branch and General Manager of Liaoning Branch of the People's Insurance Company (the People's Insurance (Property) Company of China, Ltd.), Vice President of the People's Insurance Company (Group) of China (People's Insurance Company of China Holdings Company), Director and President of China Reinsurance (Group) Corporation, Director of the Bank, and Director of China Everbright Group Ltd. He graduated from the Graduate School of Chinese Academy of Social Sciences majoring in the Economics of Money and Banking. He holds a master's degree and is a senior economist.

Mr. WANG Zhe, aged 60, has served as External Supervisor of the Bank since November 2016. He is currently Secretary General of Association of Shanghai Internet Financial Industry and serves concurrently as Vice President of Shanghai Financial Association, Independent Director of Shanghai Pudong Development Bank, and Independent Director of Boill Healthcare Holdings Limited. He successively served as Clerk of Monetary Division and Deputy Division Chief of General Office of the PBOC, Manager of China Gold Coin Shenzhen Commercial Centre, Deputy General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Centre, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman and Secretary of CPC Committee of Shanghai Gold Exchange, and Secretary of CPC Committee of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a master's degree.

Mr. QIAO Zhimin, aged 68, has served as External Supervisor of the Bank since September 2019. He is concurrently Independent Director of Wuhan Rural Commercial Bank Co., Ltd. He successively served as Deputy Division Director of the Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch and Deputy General Manager of the General Planning Department of Head Office of BOC; Deputy Director-General of the Accounting Department and Deputy Director-General of the Banking Supervision Department I of PBOC; Chief of Regulation Team (Director-General Level) for ICBC; Director of the Finance and Accounting Department of former CBRC; Vice Chairman of the Fourth Session of the Board of Supervisors and Chairman of the Fifth Session of the Board of Supervisors for China Minsheng Banking Corp., Ltd.; and Independent Non-executive Director of the Bank. He graduated from Hunan College of Finance and Economics and majored in Finance. He holds a master's degree and a certificate of senior accountant.

Mr. XU Keshun, aged 54, who has served as the Employee Supervisor of the Bank since July 2019, is currently Chief of the Office of the Board of Supervisors of the Bank (General Manager level of the Head Office). He served as the Principal Staff Member of HR Office and General Office of Henan Branch of China Construction Bank; the deputy general manager (presiding) of the HR & Education Department, the general manager of the Business Development Department of Zhengzhou Branch and the deputy general director of HR & Education Department of the head office of the China Investment Bank; the director of the Audit Division of Henan Branch of China Development Bank; a member of CPC Committee and Deputy General Manager of Zhengzhou Branch of the Bank, secretary of CPC Committee, General Manager of Yantai Branch, the secretary of CPC Committee and General Manager of Zhengzhou Branch of the Bank. He obtained a master's degree of EMBA from Guanghua School of Management of Peking University and is a senior economist.

Mr. SUN Jianwei, aged 54, who has served as the Employee Supervisor of the Bank since July 2019, is currently General Manager of the Legal & Compliance Department of the Bank. He served as the deputy manager of the Foreign Exchange and Credit Department of the International Department, assistant division chief of the Credit Review Division of the Credit Approval Department, Division Chief of the Asset Preservation Department, Division Chief of the System Collection Division, Division Chief of the System Management Division and Assistant General Manager of Asset Preservation Department of the Head Office of the Bank; a member of CPC Committee, Assistant General Manager and chief risk officer of Kunming Branch; a member of CPC Committee, Deputy General Manager, chief risk director and secretary of the Discipline Inspection Committee of Shijiazhuang Branch; the deputy secretary (presiding) of CPC Committee, Deputy General Manager (presiding), secretary of CPC Committee and General Manager of Heilongjiang Branch of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree and is an economist.

Mr. SHANG Wencheng, aged 45, who has served as the Employee Supervisor of the Bank since July 2019, is currently General Manger of the Auditing Department of the Bank. He served as the deputy chief of the Financial Management Division of the Finance and Planning Department, the accredited financial supervisor (senior manager level) of the Credit Card Centre, the accredited financial supervisor (senior manager level) of the Information Technology Department, the senior manager of the Financial Management Division, senior manager of the Management Accounting Division of Planning and Finance Department, the deputy director of Auditing Centre (East) (first assistant general manager level and then deputy general manager level of the Head Office) and deputy general manager of the Audit Department of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree, and then obtained a doctoral degree in Finance from Dongbei University of Finance and Economics. He is a senior economist, a senior accountant and a certified public accountant.

Senior Management Members

The following table sets out certain information relating to the Bank's senior management members as at the date of this Offering Circular:

Name	Age	Position
Mr. WU Chongkuan.......................	58	Member of CPC Committee (Executive Vice President Level) and Chairman of the Working Committee of the Labour Union
Mr. YAO Zhongyou.......................	57	Non-executive Director and Member of CPC Committee
Mr. DONG Tiefeng........................	53	Member of CPC Committee, Secretary of Discipline Committee (Executive Vice President level)
Mr. QU Liang	54	Executive Director, Executive Vice President, Member of CPC Committee and Secretary of CPC Committee and President of Beijing Branch
Mr. LI Jiayan	57	Member of CPC Committee (Executive Vice President level), Secretary to the Board of Director
Ms. QI Ye.......................................	51	Executive Vice President and Member of CPC Committee
Mr. YANG Bingbing......................	50	Executive Vice President and Member of CPC Committee

The biographies of the senior management personnel are as follows:

Mr. WU Chongkuan, aged 58, has served as Member of CPC Committee (Executive Vice President Level) of the Bank since April 2014. He is currently Chairman of the Labour Union Committee and Chairman of the Labour Union of the Bank, and Vice Chairman of the Labour Union Committee of China Everbright Group Ltd. He joined the Bank in May 1997 and took several positions including: Head and General Manager of the General Office, General Manager of Special Assets Management Department (during which he concurrently served as the Head of the Bank's Xi'an Group for Accepting Branches of China Investment Bank); Secretary of CPC Committee and General Manager of Heilongjiang Branch; Secretary of CPC Committee and General Manager of Shanghai Branch; and Director of the Working Committee of the Labour Union. He previously served as Division Chief of the Research & General Affairs Division of China International Staff Service Centre, Head and General Manager of the Fund Business Department of China Rural Development Trust Investment Company. Mr. Wu graduated from Northwestern Polytechnical University majoring in space engineering. He is a Bachelor of Engineering and an engineer.

Mr. YAO Zhongyou - please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*".

Mr. Dong Tiefeng, aged 53, has served as Member of CPC Committee and Secretary of Disciplinary Committee (Executive Vice President Level) since December 2020. He served as Deputy Division Chief of Chinese Bank Supervision Division, Deputy Division Chief of Foreign Bank Supervision Division II, Division Chief of Foreign Bank Supervision Division I of Supervision Department I of PBOC, Division Chief of Chinese Bank Supervision Division of Banking Supervision Department I, Deputy Director of Banking Supervision Department I, Deputy Director of Human Resources Department, Deputy Director of Party Committee Organisation Department, Inspector of Human Resources Department (also Party Committee Organisation Department) of the former CBRC, General Manager of Legal & Compliance Department of China Everbright Bank, Deputy Director-General of Party Organisation Department, Deputy Director-General of Publicity Department, Deputy Director-General of Human Resources Department (department head), Director-General of Party Committee Organisation Department, Director-General of Publicity Department, Deputy Director-General of Human Resources Department, Vice Principal of Party School of China Everbright (Group) Corporation, Director-General of Party Committee Organisation Department, Director-General of Publicity Department, Director-General of Human Resources Department, Vice Principal of Party School, Member of Discipline Inspection Committee, Member of CPC Committee of the Head Office, General Manager of Human Resource Department, Director-General of United Front Work Department of China Everbright Group Ltd. (CEG), Vice Principal of both CEG Party School and Everbright Academy. He graduated from School of Economics, Hebei University, majoring in world economics, and obtained a doctoral degree in economics. He is a senior economist.

Mr. QU Liang - please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*".

Ms. QI Ye, aged 51, has served as Vice President of the Bank since July 2020, and Member of CPC Committee of the Bank since May 2020. She joined the Bank in 1992 and was successively Clerk of the Credit Department of the Head Office, cadre of the Hainan Representative Office, Assistant General Manager and Executive Vice President of the Haikou Branch (Affiliated to the Branch), Deputy General Manager of the Personal Business Department of the Head Office (later renamed as the Retail Business Department), Risk Director of the Retail Banking Department (Deputy General Manager level of the Head Office), Accredited Retail Risk Director of the Risk Management Department (Deputy General Manager level of the Head Office), Risk Director of the Micro-financial Department (General Manager level of the Head Office), Deputy General Manager (General Manager level of the Head Office) and General Manager of the Retail Banking Department, and Chief Business Supervisor of the Bank. She graduated from the Economics Faculty of Beijing Normal University majoring in economic management, and later obtained a master's Degree of Business Administration from the International Business Administration program jointly organised by the Peking University and Fordham University. She is an economist.

Mr. YANG Bingbing, aged 50, has served as Executive Vice President of the Bank since July 2020, and Member of CPC Committee of the Bank since May 2020. He joined the Bank in 2005 and has served successively as Assistant General Manager and Deputy General Manager of the Risk Management Department of the Head Office, Deputy General Manager (presiding) and General Manager of the Information Technology Department, and General Manager of the Electronic Banking Department, General Manager of Digital Banking Department, and

Chief Business Supervisor of the Bank. He served as Deputy Principal Staff Member, and Principal Staff Member of the Unified Credit Management Division of the Risk Management Department of the Head Office (during which, he served as Deputy Director (presiding) of the Credit Management Division of the Risk Management Department of Bank of China (Hong Kong) Limited), Senior Risk Manager (in charge of Risk Management Planning) of the Risk Management Department of Bank of China Limited. He graduated from the School of Business Administration of the Hong Kong Polytechnic University with a master's Degree in Business Administration. He is a senior economist.

COMPANY SECRETARY

Mr. LI Jiayan, aged 57, has served as Secretary to the Board of Directors of the Bank since January 2018 and Member of CPC Committee (Executive Vice President Level) of the Bank since July 2019, and concurrently served as Representative of Securities Affairs of the Bank. He joined the Bank in November 2005, and successively served as Deputy General Manager of the Development Research Department, Deputy General Manager of the Strategic Management Department, Deputy Chief of the Office of the Board of Directors and Supervisors (Deputy General Manager Level), Deputy Chief of the Office of the Board of Directors (Listing Office), Representative of Securities Affairs (General Manager Level), Head of Listing Office (General Manager Level) and General Manager of the Capital and Securities Affairs Management Department. He used to work as Deputy Division Chief of the Project Approval Division of the Foreign Investment Office, Director of Complaints Centre for the Foreign Investors, and Division Chief of the Coordination and Management Division of the Foreign Investment Office under Wuhan Municipal Government, and Executive Deputy General Manager of Wuhan PKF International Investment Co., Ltd. He graduated from School of Law, Wuhan University with a bachelor's degree and a master's degree in Law. Then he went to School of Law of the University of California, Berkeley, for further study, where he obtained a master's degree and a doctoral degree in Law.

BOARD OF DIRECTORS COMMITTEES

There are seven committees under the Board of Directors, namely the Strategy Committee, Audit Committee, Risk Management Committee, Nomination Committee, Remuneration Committee, Related Party Transactions Control Committee and Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The committees operate in accordance with the terms of reference established by the Board of Directors of the Bank.

Strategy Committee

The Strategy Committee consists of five directors, namely Mr. LI Xiaopeng, Mr. WU Lijun, Mr. FU Wanjun, Mr. XU Hongcai, and Mr. HONG Yongmiao, among whom Mr. LI Xiaopeng acts as chairman of the Strategy Committee. The primary duties and responsibilities of the Strategy Committee include (i) formulating business objectives and medium and long-term development strategies, and advising the Board accordingly; (ii) reviewing plans on capital management and replenishment, and supervising and inspecting the implementation; and (iii) developing business plan, reform plan for operation and management mechanism, major external investment programs and capital operation schemes, supervising and inspecting the implementation, and advising the Board accordingly.

Audit Committee

The Audit Committee consists of five directors, namely, Mr. WANG Liguo, Mr. XU Hongcai, Mr. SHAO Ruiqing, Mr. YAO Wei and Mr. LI Yinquan among which Mr. SHAO Ruiqing acts as chairman of the Audit Committee. The Audit Committee has the appropriate accounting qualifications as required under Rule 3.10(2) of the Listing Rules. The primary duties and responsibilities of the Audit Committee include: (i) supervising and evaluating the Bank's internal control; (ii) inspecting the Bank's risks, and compliance status, accounting policies, financial reporting procedures and financial position; (iii) reviewing the Bank's financial information and its disclosure, and taking charge of the annual audit; (iv) supervising and guiding the internal audit, examining important policies and reports such as internal audit charter, and reviewing medium and long-term audit plans and annual audit plan; (v) supervising and evaluating external auditors; (vi) coordinating internal and external audits; and (vii) reviewing and supervising the mechanisms for employees of the Bank to report misconducts related to financial report, internal control, etc.

Risk Management Committee

The Risk Management Committee consists of four directors, namely, Mr. YAO Zhongyou, Mr. LIU Chong, Mr. FU Wanjun and Mr. SHAO Ruiqing among whom Mr. FU Wanjun acts as chairman of the Risk Management Committee. The primary duties and responsibilities of the Risk Management Committee include: (i) determining the risk management policies of the Bank and the overall risk tolerance; (ii) supervising the duty performance of the Senior Management of the Bank in controlling credit market, operational, liquidity, compliance and reputational risks, etc.; (iii) evaluating the basic risk policy, management situation and risk tolerance of the Bank; (iv) regularly submitting risk management reports to the Board of Directors; (v) drafting the Bank's management objective of capital adequacy ratio, and monitoring capital adequacy ratios; (vi) reviewing and approving matters related to the implementation of Basel III; and (vii) supervising the Management's performance of anti-money laundering (AML) duties, and enhancing the effectiveness of data goverance.

Nomination Committee

The Nomination Committee consists of five directors, namely, Mr. LI Xiaopeng, Mr. HONG Yongmiao, Mr. XU Hongcai, Mr. HAN Fuling and Mr. LI Yinquan among whom Mr. XU Hongcai acts as chairman of the Nomination Committee. The primary duties and responsibilities of the Nomination Committee include: (i) selecting qualified candidates for Directors and Senior Management; (ii) drafting the procedures and the selection criteria for Directors and Senior Management, preliminarily reviewing the appointment qualifications and conditions of candidates, and advising the Board accordingly; and (iii) regularly assessing the Board structure, the number of Board members and the Board composition, and offering recommendations on the proposed adjustment of the Board of Directors according to the Bank's strategy.

Remuneration Committee

The Remuneration Committee consists of six directors, namely, Mr. LI Xiaopeng, Mr. HAN Fuling, Mr. WANG Liguo, Mr. SHAO Ruiqing, Mr. HONG Yongmiao and Mr. LI Yinquan among whom Mr. HONG Yongmiao acts as chairman of the Remuneration Committee. The primary duties and responsibilites of the Remuneration Committee include: (i) drafting the remuneration plan for Directors and the Senior Management, making recommendations to the Board and overseeing the implementation of the plan; (ii) reviewing the duty performance of Directors and the Senior Management and making recommendations to the Board on the examination and evaluation of them; and (iii) reviewing the remuneration management policy and rules of the Bank, advising the Board accordingly and supervising the implementation of these policies, etc.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee consists of six members, namely Mr. XU Hongcai, Mr. HAN Fuling, Mr. WANG Liguo, Mr. SHAO Ruiqing, Mr. LI Yinquan and Mr. HONG Yongmiao, among whom Mr. LI Yinquan acts as the chairman of the Related Party Transactions Control Committee. The primary duties and responsibilities of the Related Party Transactions Control Committee include: (i) filing the common related party transactions; (ii) reviewing major related party transactions and submitting the results to the Board of Directors for consideration; (iii) providing detailed reports to the Board of Directors on the overall status, risk level and structural distribution of related party transactions conducted in the year; (iv) developing the related party transactions management measures and submitting the same to the Board of Directors for approval before implementation; and (vi) identifying the related parties of the Bank and reporting them to the Board of Directors and the Board of Supervisors, and timely announcing such related parties to relevant staff members of the Bank..

Inclusive Finance Development and Consumer Rights and Interests Protection Committee

The Inclusive Finance Development and Consumer Rights and Interests Protection Committee consists of six members, namely, Mr. FU Wanjun, Mr. QU Liang, Mr. YAO Wei, Mr. LIU Chong, Mr. HAN Fuling and Mr. WANG Liguo, among whom Mr. FU Wanjun acts as the chairman of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The primary duties and responsibilities of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee include: (i) formulating development strategy plan for the Bank's inclusive finance business; (ii) reviewing the Bank's general policy, evaluation measures and annual business plan for inclusive finance; (iii) guiding and supervising the Senior Management on the development of inclusive finance work; (iv) guiding and urging the establishment and improvement of the Bank's management policies and mechanisms for the protection of consumer rights and interests; (v) studying relevant audit reports, regulatory circulars and internal evaluation results related to the Bank's consumer rights and interests protection work, and urging timely rectification by the Senior Management supervision consumer rights and interests protection work of the Senior Management..

CHINA EVERBRIGHT GROUP LIMITED

As at the date of this Offering Circular, China Everbright Group Limited directly held 23,359,409,561 A shares and 1,782,965,000 H shares of the Bank, together representing approximately 46.53 per cent. of the Bank's total issued ordinary shares.

EXCHANGE RATES

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by 2 per cent. against U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows Renminbi to fluctuate against U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in Renminbi appreciating against U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, PBOC further widened the floating band against U.S. dollar to 2.0 per cent. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by PBOC on 11 August 2015, Renminbi depreciated significantly against U.S. dollar. In January and February 2016, Renminbi experienced further fluctuation in value against U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making Renminbi freely convertible in the future.

The following table sets forth information concerning exchange rates between Renminbi and U.S. dollar for the periods presented:

	Renminbi per U.S. dollar Noon Buying Rate (1)			
Period	**End**	**Average (2)**	**High**	**Low**
	(RMB per U.S.$1.00)			
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.8878	7.1681	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344
March	6.5518	6.5109	6.5716	6.4932
April	6.4749	6.5186	6.5649	6.4710
May	6.3674	6.4321	6.4749	6.3674
June	6.4566	6.4250	6.4811	6.3796
July	6.4609	6.4763	6.5104	6.4562

Period	Renminbi per U.S. dollar Noon Buying Rate [1] End	Average [2]	High	Low
	(RMB per U.S.$1.00)			
August (through 6th August 2021)	6.4825	6.4682	6.4825	6.4608

Notes:

(1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

HONG KONG

Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Notes can be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is required to be withheld in Hong Kong in respect of any gains arising from resale of the Notes.

Stamp Duty

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

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

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable it is payable by the relevant Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes, it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

Profits Tax

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

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum is revenue in nature and has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the Enterprise Income Tax Law promulgated on 16 March 2007 and recently amended on 29 December 2018 and the PRC Individual Income Tax Law, as amended on 31 August 2018, and their implementation regulations, an income tax is imposed on payment of interest in respect of debt securities which are issued by enterprises established within the territory of PRC to non-resident Noteholders, including non-resident enterprises and non-resident individuals. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, unless otherwise provided in other preferential taxation policies under special taxation arrangements.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation ("SAT") issued the Circular of Full Implementation of Business Tax to VAT Reform（關於全面推開營業税改徵增值税試點的通知）(Caishui [2016] No. 36, "Circular 36") which confirms that business tax was replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in 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 capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the relevant Issuer.

(i) In the event that the Issuer is the Bank

In the event that the Issuer is the Bank, the Bank will be subject to withhold PRC income tax on the payment of interest of the Notes to non-resident Noteholders. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, in each case, unless a lower rate is available under an applicable tax treaty. For example, the tax so charged on interests paid on the Notes to non-resident Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between the mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to such arrangement. Further, given that the Bank is located in the PRC, in the event that the Issuer is the Bank, holders of the Notes would be regarded as providing the financial services within China and consequently, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent.. Given that the Bank pays interest income to Noteholders who are located outside of the PRC, the Bank, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC. The Bank has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "Terms and Conditions of the Notes".

(ii) In the event that the Issuer is a Branch Issuer

In the event that the Issuer is a Branch Issuer, the relevant Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non- resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the relevant Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the relevant Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Conditions. If the Bank shall perform the obligation of paying interest of the Notes in the event and only when the relevant Branch Issuer fails to perform its obligations of paying the interest of the Notes, the Bank will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and PRC VAT tax and local levies at the rate of 6.72 per cent. of the interest component of the amount payable by the Bank to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if such capital gains are determined as income sourced in the PRC, accordingly such capital gains would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable, such as those provided under the arrangement for avoidance of double taxation between the PRC and Hong Kong. There is uncertainty as to whether gains realized on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as income sourced within the PRC which as a result will be subject to PRC individual income tax.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the relevant Branch Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC. The above statements on VAT may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law, IIT Law and the VAT reform detailed above, in the case of (i) and (ii), the relevant Branch Issuer or the Bank shall withhold EIT or IIT, (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC-resident Noteholder and the relevant Branch Issuer or the Bank shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC. However, in the event that such relevant Branch Issuer and the Bank are required to make such a deduction or withholding (whether by way of EIT, IIT or VAT otherwise), each relevant Branch Issuer and the Bank have 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 14 (Taxation)".

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The relevant Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

BANKING REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with CBIRC and PBOC acting as the principal regulatory authorities. CBIRC is primarily responsible for supervising and regulating banking institutions, and PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC banking industry consist principally of the Law of PRC on the People's Bank of China (中國人民銀行法, the "**PBOC Law**"), the PRC Commercial Banking Law（中華人民共和國商業銀行法）, the Law on Supervision and Administration of Banking Sector（中華人民共和國銀行業監督管理法）, and rules and regulations promulgated thereunder.

Principal Regulators

Prior to April 2003, PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, China Banking Regulatory Commission (the "**CBRC**") was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from PBOC. PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions. In March 2018, the PRC Government announced the merger of the CBRC with the China Insurance Regulatory Commission (the "CIRC"), to form the CBIRC.

CBIRC

Functions and Powers

CBIRC is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the banking sector in the PRC.

According to the Law on Supervision and Administration of Banking Sector, the main responsibilities of CBIRC include:

(i) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(ii) reviewing and approving the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licences for commercial banks, their branches and subsidiaries, branches and representative offices of foreign banks in the PRC;

(iii) regulating the business activities of banking institutions, including the products and services they offer;

(iv) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(v) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;

(vi) conducting on-site inspection and off-site surveillance of the business activities and risk exposure status of banking institutions;

(vii) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics;

(viii) imposing corrective and punitive measures for violations of applicable banking regulations;

(ix) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(x) working with authorities (including the PBOC and the Ministry of Finance);

(xi) to establish emergency disposal mechanisms and to deal with any emergencies in the banking sector;

(xii) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(xiii) carrying out international communication and cooperation activities related to supervisions of the banking sector.

Banks are also subject to the regulation of CIRC in conducting bancassurance business.

Examination and Supervision

CBIRC, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of banks' business activities and risk exposure status to evaluate and analyze the operational risk of the banks. If a banking institution is not in compliance with a regulation, CBIRC has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

PBOC

As the central bank of the PRC, PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PBOC Law, PBOC is empowered to:

(i) drafting and enforcing relevant rules and regulations that are related to fulfilling its functions;

(ii) formulating and implementing monetary policy in accordance with law;

(iii) issue the Renminbi and administering its flow;

(iv) regulating the inter-bank lending market and the inter-bank bond market;

(v) implementing foreign exchange management, supervising inter-bank foreign exchange market;

(vi) supervising and regulating gold market;

(vii) holding, managing and operating the state foreign exchange and gold reserves;

(viii) managing the State treasury as fiscal agent;

(ix) ensuring normal operation of the payment and settlement systems;

(x) providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement;

(xi) developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast for the financial industry;

(xii) participating in international financial activities at the capacity of the central bank; and

(xiii) participating financial business as prescribed by the PBOC Law to carry out monetary policies.

Other Regulatory Authorities

In addition to CBIRC and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, SAFE, CSRC and NDRC. For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of CSRC; and in issuing the notes overseas by the domestic banks, the domestic banks are subject to the regulation of NDRC.

Regulations Regarding Capital Adequacy

Capital Adequacy Guidelines

In June 2012, the CBRC issued the Administrative Measures on the Capital of Commercial Banks (Trial) (商業銀行資本管理辦法（試行）, the “Capital Measures”) regulating capital adequacy ratios (“CAR”) of PRC commercial banks. The Capital Measures, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of capital and risk-weighted assets. The overall CAR requirements are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the Capital Measures as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Common Equity Tier 1 Capital Adequacy Ratio} = \frac{\text{Common Equity Tier 1 Capital – deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

In November 2012, the then CBRC further released the Guiding Opinion on Commercial Banks’ Innovation on Capital Instruments (中國銀監會關於商業銀行資本工具創新的指導意見， the “2012 Guiding Opinions”), setting out the general principles of the innovation of capital instruments of commercial banks and criteria of qualified capital instruments. In 22 November 2019, the 2012 Guiding Opinions was abolished by CBIRC and was superseded by the Guiding Opinions on Innovation of Capital Instruments of Commercial Banks issued by CBIRC (Revised) (中國銀保監會關於商業銀行資本工具創新的指導意見(修訂).

PRC CURRENCY CONTROLS

CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled under in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow have been increased in September 2015. The PBOC permits enterprises in the Shanghai FTZ may establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pooling programme. In November 2016, PBOC Shanghai Headquarters further allowed banks in Shanghai to provide multinational enterprise groups with services of full-function onshore cash pooling, which will enable broader scope for utilising pooled cash.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "**foreign debt**") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "**outbound loans**"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "**cross-border security**"). Under current rules promulgated by SAFE and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financing denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening up. In January 2016, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There can be no assurance that the PRC government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 12 August 2021, agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Forms of the Notes*" and "*Terms and Conditions of the Notes*". The Bank (or the relevant Branch Issuer) will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. 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**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The relevant Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement. The relevant Issuer may agree to pay, through the Dealers, a commission to certain private banks on certain tranches of Notes based on the principal amount of Notes purchased by the clients of such private banks. Any such commissions will be described in the relevant Pricing Supplement.

The relevant Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of the relevant Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Dealer Agreement provides that the relevant Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the relevant Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies from time to time for which they have received, or will receive, fees and expenses. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the relevant Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of the Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes, which could adversely affect the trading price and liquidity of the Notes.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the relevant Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilisation or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities may only be carried on by the Stabilisation Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the relevant Issuer or its subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

SELLING RESTRICTIONS

United States of America

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States.

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not 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 European Economic Area. 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.

If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of Notes to the public in that Member 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 EU Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, **provided that** any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the EU 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 EU Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU 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 EU Prospectus Regulation,

provided that no such offer of Notes referred to in paragraphs (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**EU Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Prohibition of Sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not 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 United Kingdom. For the purposes of this provision,

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or

  (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by 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 specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Article 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, **provided that** any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the 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 the UK Prospectus Regulation;

(c) at any time to fewer than 150 persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the 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 the UK Prospectus Regulation.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other UK Regulatory restrictions

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

(a) in relation to any Notes having a maturity of less than one year:

    (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

    (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

    - 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 Financial Services and Markets Act 2000 (the "**FSMA**") by the relevant Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer; and

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.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, 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.

Hong Kong

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

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

PRC

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the offer of the Notes is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of China and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Taiwan

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly, in Taiwan, to investors other than "professional institutional investors" as defined under Paragraph 2, Article 19-7 of the Regulations Governing Securities Firms of Taiwan, currently including overseas or domestic Banks, insurance companies, bills finance companies, securities firms, fund management companies, government investment institutions, government funds, pension funds, mutual funds, unit trusts, securities investment trust enterprises, securities investment consulting enterprises, trust enterprises, futures commission merchants, futures service enterprises, and other institutions approved by the Financial Supervisory Commission of Taiwan.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required.

These selling restrictions may be modified by the agreement of the relevant Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. LISTING

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange. Separate application may be made for the listing of the Notes on the Hong Kong Stock Exchange. The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies).

2. AUTHORISATION

The establishment of the Programme and the issue of the Notes thereunder were authorised by the resolutions of the board of directors of the Bank passed on 27 March 2020 and the shareholders' resolutions of the Bank passed on 5 June 2020 and approval from the office meeting of the Bank's president which took place on 21 May 2021. Each of the Bank and the relevant Issuer has obtained, or will obtain from time to time, all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of their respective obligations under the Notes. In connection with Notes issued by the relevant Issuer, the relevant Issuer 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 such Issuer may be adversely affected in the event any required registration is not obtained. Each of the Bank and the relevant Issuer does not however expect that any registration would be refused.

3. LEGAL AND ARBITRATION PROCEEDINGS

None of the relevant Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the relevant Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

4. SIGNIFICANT/MATERIAL CHANGE

The Group has adopted new standards, including IFRS 9 (Financial Instruments), from 1 January 2018. Considering the impact of these standards on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 shareholders' equity at the adoption date, but did not restate comparative periods. The adoption of IFRS 9 has reduced the shareholders' equity by 2.87 per cent. as at 1 January 2018.

Other than as set out above, since 31 December 2020, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the relevant Issuer, the Bank or the Group.

5. AUDITOR

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by Ernst & Young, as stated in its respective reports appearing herein.

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the principal place of business of the Bank in Hong Kong at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and the specified office of the Fiscal Agent at 20th Floor, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong for so long as the Notes are capable of being issued under the Programme:

(i) the memorandum and articles of association of the Bank;

(ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020;

(iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;

(iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the UK, the European Economic Area nor offered in the UK or the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Fiscal Agent as to its holding of Notes and identity);

(v) a copy of this Offering Circular together with any Supplement to this Offering Circular;

(vi) the Deed of Covenant; and

(vii) the Agency Agreement (which contains the forms of the Notes in global and definitive form).

6. DOCUMENTS ON DISPLAY

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Bank at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and the specified office of the Fiscal Agent at 20th Floor Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong for so long as the Notes are capable of being issued under the Programme:

(i) the memorandum and articles of association of the Bank;

(ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020;

(iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;

(iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the UK, the European Economic Area nor offered in the UK or the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity);

(v) a copy of this Offering Circular together with any Supplement to this Offering Circular;

(vi) the Deed of Covenant; and

(vii) the Agency Agreement (which contains the forms of the Notes in global and definitive form).

7. CLEARING OF THE NOTES

The Legal Entity Identifier of the Bank is 549300U6PKQ4H1P34E17. The Notes may be accepted for clearance through Euroclear, Clearstream and CMU. The appropriate CMU instrument number, common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

8. NATIONAL DEVELOPMENT AND REFORM COMMISSION FILINGS

Where applicable for a relevant Tranche of Notes, registration will be completed by the relevant Issuer pursuant to the NDRC Circular. After the issuance of such relevant Tranche of Notes, the relevant Issuer undertakes to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Circular.

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CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AS AT AND FOR THE THREE MONTHS ENDED 31 MARCH 2021

Note:

(1) The Bank's consolidated financial statements set out herein are reproduced from the Bank's annual report for the year ended 31 December 2020 and quarterly report for the three months ended 31 March 2021, respectively. Page references referred to in the auditor's reports named above refer to pages set out in such annual or quarterly reports (as the case may be).

(2) The Bank's consolidated financial statements for the three months ended 31 March 2021 is unaudited and unreviewed and do not contain any financial notes.

Independent Auditor's Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity; • Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact to expected credit losses under multiple economic scenarios given different weights; and • Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2019, gross loans and advances to customers amounted to RMB2,720.364 billion, representing 57.47% of total assets, and impairment allowance for loans and advances to customers amounted to RMB76.666 billion), impairment of loans and advances is considered a key audit matter. Relevant disclosures are included in Note III 1, Note V 17 and Note V 51(a) to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and any significant increase in credit risk; • Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios; and • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and • Evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2019, financial assets and financial liabilities measured at fair value amounted to RMB496.460 billion and RMB13.993 billion respectively, representing 10.49% and 0.32% of total assets and total liabilities respectively. Financial instruments which required either direct (i.e. prices) or indirect (i.e. derived from prices) inputs, hence categorised within Level 2 of the fair value hierarchy, represented 56.14% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 0.93% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter. Relevant disclosures are included in Note III 2 and Note V 52 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to valuation of financial instruments, including relevant data quality and IT systems involved. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the financial statements adequately presented the risk of the Group.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of, and disclosures about, structured entities	
The Group has established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, this is considered a key audit matter. Relevant disclosures are included in Note III 6 and Note V 44 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls structured entities. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 2019 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2019	2018 (Restated)
Interest income		210,044	185,688
Interest expense		(108,126)	(107,524)
Net interest income	1	101,918	78,164
Fee and commission income		25,977	22,431
Fee and commission expense		(2,808)	(2,658)
Net fee and commission income	2	23,169	19,773
Net trading gains	3	585	1,071
Dividend income		42	8
Net gains arising from investment securities	4	4,900	9,862
Net foreign exchange gains		1,339	724
Other net operating income		986	784
Operating income		132,939	110,386
Operating expenses	5	(38,429)	(33,706)
Operating profit before impairment		94,510	76,680
Credit impairment losses	8	(48,965)	(35,744)
Other impairment losses	9	(382)	(84)
Profit before tax		45,163	40,852
Income tax	10	(7,722)	(7,131)
Net profit		37,441	33,721
Net profit attributable to:			
Equity shareholders of the Bank		37,354	33,659
Non-controlling interests		87	62
		37,441	33,721
Earnings per share			
Basic earnings per share (in RMB/share)	11	0.68	0.61
Diluted earnings per share (in RMB/share)	11	0.62	0.55

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2019	2018
Net profit		37,441	33,721
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits		(180)	(102)
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		6	3
– Related income tax effect	24(b)	(2)	(1)
Subtotal		(176)	(100)
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		3,158	2,982
– Changes in allowance for expected credit losses		409	(311)
– Reclassified to profit or loss upon disposal		(1,982)	1,095
– Related income tax effect	24(b)	(374)	(957)
– Exchange differences on translation of financial statements		48	67
Subtotal		1,259	2,876
Other comprehensive income, net of tax		1,083	2,776
Total comprehensive income		38,524	36,497
Total comprehensive income attributable to:			
Equity shareholders of the Bank		38,436	36,434
Non-controlling interests		88	63
		38,524	36,497

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

Consolidated Statement of Financial Position

As at 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2019	31 December 2018
Assets			
Cash and deposits with the central bank	12	364,340	366,575
Deposits with banks and other financial institutions	13	31,358	41,005
Precious metals		10,826	23,628
Placements with banks and other financial institutions	14	60,270	96,685
Derivative financial assets	15	13,805	15,212
Financial assets held under resale agreements	16	6,835	37,773
Loans and advances to customers	17	2,644,136	2,361,278
Finance lease receivables	18	83,723	63,333
Financial investments	19	1,433,546	1,301,080
– Financial assets at fair value through profit or loss		211,406	222,737
– Debt instruments at fair value through other comprehensive income		180,005	153,987
– Equity instruments at fair value through other comprehensive income		623	367
– Financial investments measured at amortised cost		1,041,512	923,989
Fixed assets	21	19,342	18,241
Right-of-use assets	22	11,684	–
Goodwill	23	1,281	1,281
Deferred tax assets	24	16,306	10,794
Other assets	25	35,979	20,447
Total assets		4,733,431	4,357,332
Liabilities and equity			
Liabilities			
Due to the central bank	27	224,838	267,193
Deposits from banks and other financial institutions	28	444,320	490,091
Placements from banks and other financial institutions	29	166,225	152,037
Financial liabilities at fair value through profit or loss	30	100	354
Derivative financial liabilities	15	13,893	14,349
Financial assets sold under repurchase agreements	31	25,603	40,411
Deposits from customers	32	3,017,888	2,571,961
Accrued staff costs	33	8,007	8,028
Taxes payable	34	9,322	5,666
Lease liabilities	35	11,069	–
Debt securities issued	36	371,904	440,449
Other liabilities	37	54,208	44,320
Total liabilities		4,347,377	4,034,859

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

Consolidated Statement of Financial Position

As at 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2019	31 December 2018
Equity			
Share capital	38	52,489	52,489
Other equity instruments	39	70,067	35,108
of which: preference shares		64,906	29,947
Capital reserve	40	53,533	53,533
Other comprehensive income	41	2,737	1,655
Surplus reserve	42	26,245	24,371
General reserve	42	59,417	54,036
Retained earnings		120,494	100,296
Total equity attributable to equity shareholders of the Bank		384,982	321,488
Non-controlling interests		1,072	985
Total equity		386,054	322,473
Total liabilities and equity		4,733,431	4,357,332

Approved and authorised for issue by the board of directors on 27 March 2020.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Liu Jin
President
Executive Director

Yao Zhongyou
Vice President in Charge of Finance

Sun Xinhong
General Manager of Financial Accounting Department

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

2019		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	37,354	37,354	87	37,441
Other comprehensive income	41	–	–	–	–	1,082	–	–	–	1,082	1	1,083
Capital contribution by other equity instrument holders		–	34,959	–	–	–	–	–	–	34,959	–	34,959
Appropriation of profit:	43											
– Appropriation to surplus reserve		–	–	–	–	–	1,874	–	(1,874)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	5,381	(5,381)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2019		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054

2018		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436
Impact of adopting new Standards		–	–	–	–	725	–	–	(9,480)	(8,755)	(16)	(8,771)
Balance at 1 January 2018		52,489	29,947	5,161	53,533	(1,120)	21,054	52,257	82,684	296,005	660	296,665
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	33,659	33,659	62	33,721
Other comprehensive income	41	–	–	–	–	2,775	–	–	–	2,775	1	2,776
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	265	265
Appropriation of profit:	43											
– Appropriation to surplus reserve		–	–	–	–	–	3,317	–	(3,317)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	1,779	(1,779)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(9,501)	(9,501)	(3)	(9,504)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2018		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473

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

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	2019	2018
Cash flows from operating activities		
Net profit	37,441	33,721
Adjustments for		
Impairment losses on assets	49,347	35,828
Depreciation and amortisation	4,664	2,164
Unwinding of discount	(828)	(792)
Dividend income	(42)	(8)
Unrealised foreign exchange gains	(112)	(400)
Net gains on investment securities	(54,654)	(55,661)
Net gains on disposal of trading securities	(1,021)	(922)
Revaluation losses/(gains) on financial instruments at fair value through profit or loss	2,162	(22)
Interest expense on debt securities issued	15,221	18,234
Interest expense on lease liabilities	489	–
Net losses on disposal of fixed assets	25	15
Income tax	7,722	7,131
	60,414	39,288
Changes in operating assets		
Net (increase)/decrease in deposits with the central bank, banks and other financial Institutions	(42,733)	53,454
Net decrease in placements with banks and other financial institutions	20,549	29,391
Net (increase)/decrease in financial assets held for trading	(6,928)	14,954
Net increase in loans and advances to customers	(331,235)	(416,007)
Net decrease in financial assets held under resale agreements	30,913	53,700
Net increase in other operating assets	(35,775)	(8,000)
	(365,209)	(272,508)
Changes in operating liabilities		
Net decrease in deposits from banks and other financial institutions	(45,587)	(90,295)
Net increase in placements from banks and other financial institutions	13,820	44,491
Net decrease in financial assets sold under repurchase agreements	(14,793)	(5,182)
Net (decrease)/increase in amount due to the central bank	(41,570)	30,550
Net increase in deposits from customers	446,317	266,043
Income tax paid	(10,239)	(8,200)
Net increase in other operating liabilities	21,947	15,327
	369,895	252,734
Net cash flows from operating activities	65,100	19,514
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	637,019	376,114
Investment income received	59,415	49,386
Proceeds from disposal of fixed assets and other long-term assets	305	375
Payments on acquisition of investments	(766,714)	(366,047)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(4,448)	(4,063)
Net cash flows from investing activities	(74,423)	55,765

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

	Note V	2019	2018
Cash flows from financing activities			
Capital injected into subsidiaries by non-controlling shareholders		–	265
Proceeds from issuance of preference shares		34,959	–
Repayments of debts issued		(68,034)	(8,615)
Interest paid on debt securities issued		(15,732)	(18,141)
Dividends paid		(9,902)	(10,953)
Other net cash flows from financing activities		(2,744)	–
Net cash flows from financing activities		(61,453)	(37,444)
Effect of foreign exchange rate changes on cash and cash equivalents		595	1,922
Net (decrease)/increase in cash and cash equivalents	47(a)	(70,181)	39,757
Cash and cash equivalents as at 1 January		187,680	147,923
Cash and cash equivalents as at 31 December	47(b)	117,499	187,680
Interest received		161,077	163,589
Interest paid (excluding interest expense on debt securities issued)		(93,880)	(84,763)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China (the "PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 20) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"),the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

These financial statements have been approved by the Board of Directors on 27 March 2020.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the "Accounting Standards for Business Enterprises-Basic Standard" issued by the Ministry of Finance of the People's Republic of China (the "MOF"), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the "PRC GAAP"). There is no difference in the net profit for the year or total equity as at the end of the year between the Group's consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretation.

IFRS 16	*Leases*
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*
IAS 19 Amendments	*Plan Amendment, Curtailment or Settlement*
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)	

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 and IFRIC 4. Under IFRS 16, the classification of finance leases and operating leases for lessees is removed, and lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and lease of low-value assets elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. The Group has adopted IFRS 16 from 1 January 2019 and applied the modified retrospective approach without restating comparative figures. The Group has not reassessed the existing contracts before 1 January 2019 (date of initial application) and has used practical expedients. As a lessee, the Group has elected to exercise the recognition exemption not to recognise the right-of-use assets and lease liabilities for the leases of which the underlying assets are of low value or for which the contract would end within 12 months from the date of initial application, and has recognised the profit or loss on a straight-line basis over the lease term. Therefore, the financial information for the year ended 31 December 2019 related to leasing presented on the financial information is not comparable with the comparative financial information presented in the 2018 financial statements in accordance with the former lease standards.

For the minimum lease payment for the operating leases disclosed in the financial statements of 2018, the Group used its incremental borrowing interest rate on 1 January 2019 to discount the lease payment. The reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is as follows:

Minimum lease payment for operating leases as at 31 December 2018	12,079
Less: Minimum lease payment with recognition exemption – short-term leases	(112)
Add: Minimum lease payment rising from reasonably exercising an option to extend the lease and others	1,206
Less: The impact of lease payment discounted at incremental borrowing interest rate as at 1 January 2019	(2,131)
Lease liabilities as at 1 January 2019	11,042
Right-of-use assets as at 1 January 2019	11,829

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2019 (continued)

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for "significant market fluctuations" in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 *Financial Instruments* ("IFRS 9") to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The adoption of the above standards, amendments and interpretation does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 3 Amendments	*Definition of a Business*	1 January 2020
IAS 1 and IAS 8 Amendments	*Definition of Material*	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	*Interest Rate Benchmark Reform*	1 January 2020
IFRS 17	*Insurance Contracts*	1 January 2021
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019 (continued)

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest-rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest-rate benchmark reform. The amendments must be applied retrospectively.

IFRS 17 *Insurance Contracts* replaces IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The above standards, amendments and interpretations does not have any significant impact on the consolidated financial statements.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2 Consolidation

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

3 Cash and cash equivalents

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

4 Foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in "Other comprehensive income". Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in "Other comprehensive income". Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the statement of profit or loss.

Assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the end of the year. Equity items, excluding "Retained Earnings", are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders, equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

5.1 Recognition and de-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

(1) the contractual rights to the cash flows from the financial asset expire; or

(2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flow collected to a third party in full and on time under the “pass-through agreement” and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

5.2 Classification and measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Business models

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial assets portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identity whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification:

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in “other comprehensive income”, except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when accounting mismatch can be eliminated or significantly reduced can financial assets be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as financial assets designated at fair value through profit or loss, it cannot be reclassified as other financial assets; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swap to manage the associated interest rate risk.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss, other financial liabilities or designated as effective hedging instruments at initial recognition. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial liabilities, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, includes financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognized in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognized in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

5.4 Impairment of financial instruments

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 51(a)).

5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

In terms of the hedge accounting method, the Group's hedge is classified as:

(1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk).

(2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognized definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Gains or losses arising from hedging instruments are recognized in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognized in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

For the fair value hedges related to the debt instrument measured at amortized cost, the adjustment of the book value of the hedged item should be amortized by the effective interest rate method during the remaining period of the hedge and recognized in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognized hedge gains or losses are amortized in the same way and recognized in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortized fair value is recognized in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedge

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognized in other comprehensive income, and the ineffective part shall be recognized in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognized in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognized in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.7 Convertible corporate bonds

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in “Equity” as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under “Capital reserve”.

5.8 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined as the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

5.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

8 Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note II 2.

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at the actual consideration paid if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note II 15) in the statement of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Fixed assets

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's fixed assets mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

9.1 Premises, electronic equipment and others

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value(%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

9.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

9.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019)

10.1 Lease classification

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

10.2 Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes the periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise the corresponding option.

10.3 As lessee

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. In calculating the present value of the lease payments after modification, the revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019) (continued)

10.3 As lessee (continued)

Lease modification (continued)

For the impact on the adjustments of a lease liability, the Group accounts for the remeasurement by:

(1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease or shorten the lease term, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or

(2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The incremental borrowing rate of lessee

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

Short-term leases and leases of low-value assets

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

10.4 As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets.In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019) (continued)

10.5 Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made at or before the commencement date of the lease less any lease incentives received; (3) any initial direct cost incurred when the Group is a lessee; and (4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

10.6 Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the amounts expected to be payable under a residual value guarantee; (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iii) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

11 Leases (applicable for the year ended 31 December 2018)

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

11.1 As lessee under operating leases

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

11.2 As lessor under operating leases

Rental income under an operating lease is recognised as "other net operating income" in the statement of profit or loss on a straight-line basis over the lease term. Contingent rental income is recognised as income in the accounting period in which it is earned.

11.3 As lessor under finance leases

When the Group is a lessor under finance leases, the sum of present value of minimum lease payments receivable from the lessee, and initial direct cost is recognized as a receivable, the unguaranteed residual value is also recorded. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. The Group uses the effective interest method to recognise finance income for the current year.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the year, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statement of financial position.

12 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

13 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 15). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

14 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

15 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: fixed assets, right-of-use assets, construction in progress, intangible assets, goodwill and investments in subsidiaries.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognised the impairment loss in the income statement. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

15 Provision for impairment losses on non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

16 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

16.1 Short-term employee benefits

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

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

16 Employee benefits (continued)

16.2 Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

16.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

– When the Group can no longer withdraw an offer of those benefits; and

– When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

16.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

17 Other provisions and contingent liabilities

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

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

18 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

19 Other equity instruments-preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payables are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

20 Income recognition

The income should be recognized when the group's performance obligation in the contract is fulfilled, which refers the revenue is recognized when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

20.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

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

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

20.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

20.3 Other income

Other income is recognised on an accrual basis.

21 Expenses recognition

21.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

21.2 Other expenses

Other expenses are recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

22 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

23 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

24 Related parties

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

25 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- modification of contractual cash flows

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and the discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

5 Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

(Expressed in millions of Renminbi, unless otherwise stated)

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax: value-added tax is charged at 6%,13%,or 16% on taxable added value.

(b) City construction tax: city construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge: education surcharge is calculated as 3% of business tax.

(d) Income tax: the income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A."), the Luxembourg subsidiary, is 19%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2019	2018 (Restated)
Interest income arising from			
Deposits with the central bank		5,020	5,100
Deposits with banks and other financial institutions		1,470	858
Placements with banks and other financial institutions		3,208	6,571
Loans and advances to customers	(a)		
– Corporate loans and advances		70,854	61,585
– Personal loans and advances		72,578	59,247
– Discounted bills		2,020	1,276
Finance lease receivables		4,444	3,379
Financial assets held under resale agreements		2,377	1,802
Investments		48,073	45,870
Subtotal		210,044	185,688
Interest expenses arising from			
Due to the central bank		8,012	8,481
Deposits from banks and other financial institutions		12,712	22,866
Placements from banks and other financial institutions		6,520	5,793
Deposits from customers			
– Corporate customers		47,074	39,161
– Individual customers		16,880	11,865
Financial assets sold under repurchase agreements		1,707	1,124
Debt securities issued		15,221	18,234
Subtotal		108,126	107,524
Net interest income		101,918	78,164

Note:

(a) *The interest income arising from impaired financial assets amounted to RMB828 million for the year ended 31 December 2019 (2018: RMB792 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2019	2018 (Restated)
Fee and commission income		
Bank card service fees	14,163	11,523
Agency services fees	2,744	2,734
Underwriting and advisory fees	1,909	1,594
Settlement and clearing fees	1,538	1,279
Custody and other fiduciary business fees	1,446	1,358
Acceptance and guarantee fees	1,360	1,120
Wealth management service fees	634	876
Others	2,183	1,947
Subtotal	25,977	22,431
Fee and commission expense		
Bank card transaction fees	1,908	1,713
Settlement and clearing fees	144	288
Others	756	657
Subtotal	2,808	2,658
Net fee and commission income	23,169	19,773

3 Net trading gains

	2019	2018
Trading financial instruments		
– Derivatives	(355)	(332)
– Debt securities	920	1,307
Subtotal	565	975
Financial instruments designated at fair value through profit or loss	(1)	4
Precious metal contracts	21	92
Total	585	1,071

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	2019	2018
Net gains arising from financial investments at fair value through profit or loss	4,622	9,813
Net (losses)/gains arising from debt instruments at fair value through other comprehensive income	(1,915)	803
Net gains arising from loans and advances to customers at fair value through other comprehensive income	189	347
Net gains/(losses) arising from financial investments measured at amortised cost	22	(6)
Net revaluation gains/(losses) reclassified from other comprehensive income on disposal	1,982	(1,095)
Total	4,900	9,862

5 Operating expenses

	Note	2019	2018
Staff costs			
– Salaries and bonuses		12,759	11,827
– Pension and annuity		2,167	1,811
– Housing allowances		881	775
– Staff welfares		443	400
– Supplementary retirement benefits		110	86
– Others		2,041	1,970
Subtotal		18,401	16,869
Premises and equipment expenses			
– Depreciation of the right-of-use assets		2,429	–
– Depreciation of fixed assets		1,485	1,419
– Rental and property management expenses		565	2,853
– Interest expense on lease liabilities		489	–
– Amortisation of intangible assets		400	338
– Amortisation of other long-term assets		350	407
Subtotal		5,718	5,017
Tax and surcharges		1,400	1,165
Other general and administrative expenses	(a)	12,910	10,655
Total		38,429	33,706

Note:

(a) *Auditors' remuneration for the year ended 31 December 2019 was RMB9.50million (2018: RMB9.00 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows:

		2019							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors									
Lu Hong	(i)	–	952	1,228	–	2,180	44	126	2,350
Non-executive directors									
Li Xiaopeng		–	–	–	–	–	–	–	–
Cai Yunge		–	–	–	–	–	–	–	–
Wang Xiaolin		–	–	–	–	–	–	–	–
Shi Yongyan		–	–	–	–	–	–	–	–
Dou Hongquan	(ii)	–	–	–	–	–	–	–	–
He Haibin		–	–	–	–	–	–	–	–
Liu Chong	(ii)	–	–	–	–	–	–	–	–
Yu Chunling	(ii)	–	–	–	–	–	–	–	–
Independent non-executive directors									
Fok Oi Ling		370	–	–	–	370	–	–	370
Xu Hongcai		271	–	–	–	271	–	–	271
Wang Liguo		360	–	–	–	360	–	–	360
Shao Ruiqing	(ii)	150	–	–	–	150	–	–	150
Hong Yong-miao	(ii)	93	–	–	–	93	–	–	93
Supervisors									
Li Xin		–	984	1,195	–	2,179	44	126	2,349
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Wang Zhe		290	–	–	–	290	–	–	290
Qiao Zhimin	(ii)	75	–	–	–	75	–	–	75
Xu Keshun	(ii)	–	363	570	–	933	21	64	1,018
Sun Jianwei	(ii)	–	364	456	–	820	18	64	902
Shang Wencheng	(ii)	–	348	519	–	867	21	64	952

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

		2019							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former executive directors									
Ge Haijiao	(ii)	–	200	150	–	350	16	105	471
Former non-executive directors									
Fu Dong	(ii)	–	–	–	–	–	–	–	–
Zhao Wei	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive director									
Qiao Zhimin	(ii)	284	–	–	–	284	–	–	284
Xie Rong	(ii)	216	–	–	–	216	–	–	216
Feng Lun	(ii)	343	–	–	–	343	–	–	343
Former Supervisors									
Sun Xinhong	(ii)	–	348	570	–	918	–	–	918
Jiang Ou	(ii)	–	349	456	–	805	–	–	805
Huang Dan	(ii)	–	264	519	–	783	–	–	783
Yu Erniu		–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

	2018							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors								
Ge Haijiao	–	22	17	–	39	3	11	53
Zhang Jinliang	–	311	–	–	311	9	81	401
Ma Teng	–	568	–	–	568	20	59	647
Li Jie	–	756	–	–	756	27	81	864
Non-executive directors								
Li Xiaopeng								
Cai Yunge								
Fu Dong	–	–	–	–	–	–	–	–
Shi Yongyan	–	–	–	–	–	–	–	–
Wang Xiaolin	–	–	–	–	–	–	–	–
He Haibin	–	–	–	–	–	–	–	–
Zhao Wei	–	–	–	–	–	–	–	–
Independent non-executive directors								
Fok Oi Ling	370	–	–	–	370	–	–	370
Qiao Zhimin	390	–	–	–	390	–	–	390
Xie Rong	370	–	–	–	370	–	–	370
Feng Lun	360	–	–	–	360	–	–	360
Wang Liguo	340	–	–	–	340	–	–	340
Xu Hongcai	–	–	–	–	–	–	–	–
Supervisors								
Li Xin	–	1,067	91	–	1,158	41	125	1,324
Yin Lianchen	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Yu Erniu	–	–	–	–	–	–	–	–
Wu Gaolian	–	–	–	–	–	–	–	–
Wang Zhe	290	–	–	–	290	–	–	290
Sun Xinhong	–	693	1,205	–	1,898	30	120	2,048
Jiang Ou	–	598	896	–	1,494	33	125	1,652
Huang Dan	–	522	1,425	–	1,947	40	125	2,112
Former non-executive directors								
Zhang Shude	–	–	–	–	–	–	–	–
Li Huaqiang	–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

Notes:

(i) On 30 July 2019, Mr. Lu Hong was elected as the executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 10 October 2019, the CBIRC approved his qualification of the executive director.

(ii) On 30 July 2019, Mr. Dou Hongquan was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 10 October 2019, the CBIRC approved his qualification of the non-executive director.

On 30 July 2019, Mr. Liu Chong was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 26 December 2019, the CBIRC approved his qualification of the non-executive director.

On 30 July 2019, Ms. Yu Chunling was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 2 November 2019, the CBIRC approved her qualification of the non-executive director.

On 30 May 2019, Mr. Shao Ruiqing was elected as an independent director at the Bank's 2018 Annual Shareholders' General Meeting. On 5 August 2019, the CBIRC approved his qualification of the independent director.

On 30 May 2019, Mr. Hong Yongmiao was elected as an independent director at the Bank's 2018 Annual Shareholders' General Meeting. On 12 September 2019, the CBIRC approved his qualification of the independent director.

On 7 January 2019, due to expiration of his term of office, Mr. Qiao Zhimin resigned from the positions of independent non-executive director, director and member of the Remuneration Committee, member of the Nomination Committee, member of the Risk Management Committee, member of the Audit Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. However, in order to ensure the number of independent non-executive directors meets the statutory requirements, Mr. Qiao Zhimin would continue to perform his duties before the qualifications of the succeeding independent non-executive director Mr. Hong Yongmiao were approved by CBIRC.

On 26 July 2019, the staff congress of the Bank elected Mr. Xu Keshun, Mr. Sun Jianwei and Mr. Shang Wencheng as the staff supervisors of the Bank. Mr. Sun Xinhong, Mr. Jiang ou and Ms. Huang Dan left their post on 26 July 2019.

On 22 January 2019, CBIRC approved Mr. Ge Haijiao to serve as executive director of the Bank. On 30 September 2019, due to job assignment, Mr. Ge Haijiao resigned from the positions of executive director, director and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of the Strategy Committee, and member of the Risk Management Committee of the Board of Directors of the Bank.

On 16 August 2019, due to job assignment, Mr. Fu Dong resigned from the positions of non-executive director, member of the Audit Committee, and member of the Risk Management Committee of the Board of Directors of the Bank.

On 30 July 2019, the 2019 Second Extraordinary General Shareholders' Meeting re-elected the Board of Directors, and Mr. Zhao Wei ceased to serve as the Bank's non-executive director.

On 7 January 2019, due to expiration of his term of office, Mr. Xie Rong resigned from the positions of independent director, director and member of the Audit Committee, member of the Nomination Committee, member of the Remuneration Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. However, in order to ensure the number of independent directors meets the statutory requirements, Mr. Xie Rong continued to perform his duties until the qualification of the succeeding independent director Mr. Shao Ruiqing was approved by CBIRC.

On 30 July 2019, the 2019 Second Extraordinary General Shareholders' Meeting re-elected the Board of Directors, and Mr. Feng Lun ceased to serve as the Bank's independent director. He would continue to perform his duties before the qualifications of the succeeding independent director are approved by CBIRC.

On July 30 2019, after the Second Extraordinary General Shareholders' Meeting of 2019, Mr. Yu Erniu left his post at the end of his term of office.

(iii) The total compensation package for these directors and supervisors for the year ended 31 December 2019 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2019.

The above directors' and supervisors' emoluments for the year ended 31 December 2019 were calculated in accordance with their actual tenure.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Individuals with highest emoluments

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	1,899	2,894
Discretionary bonuses	27,512	25,694
Contributions to pension schemes	248	905
Others	488	721
Total	30,147	30,214

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2019	2018
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	–	–
RMB4,500,001-5,000,000	2	–
RMB5,000,001 and above	3	5

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

8 Credit impairment losses

	2019	2018
Loans and advances to customers		
– measured at amortised cost	47,821	34,714
– measured at fair value through other comprehensive income	(35)	(369)
Debt instruments at fair value through other comprehensive income	439	58
Financial investments measured at amortised cost	(314)	485
Finance lease receivables	752	170
Others	302	686
Total	48,965	35,744

9 Other impairment losses

	2019	2018
Other assets	382	84
Total	382	84

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Income tax

(a) Income tax:

	Note V	2019	2018
Current tax		13,727	9,101
Deferred tax	24(b)	(5,887)	(1,808)
Adjustments for prior year	10(b)	(118)	(162)
Total		7,722	7,131

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2019	2018
Profit before tax		45,163	40,852
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		11,291	10,213
Effect of different tax rates applied by certain subsidiaries		(5)	–
Non-deductible expenses			
– Staff costs		88	2
– Impairment losses on assets		527	1,250
– Others		309	334
Subtotal		924	1,586
Non-taxable income	(i)	(4,370)	(4,506)
Subtotal		7,840	7,293
Adjustments for prior year		(118)	(162)
Income tax		7,722	7,131

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Net profit attributable to equity holders of the Bank	37,354	33,659
Less: Dividends on preference shares declared	1,450	1,450
Net profit attributable to ordinary shareholders of the Bank	35,904	32,209
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Basic earnings per share (in RMB/share)	0.68	0.61

Weighted average number of ordinary shares in issue (in million shares)

	2019	2018
Issued ordinary shares as at 1 January	52,489	52,489
Weighted average number of ordinary shares in issue	52,489	52,489

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2019	2018
Net profit attributable to ordinary shareholders of the Bank	35,904	32,209
Add: Interest expense on convertible bonds, net of tax	899	864
Net profit used to determine diluted earnings per share	36,803	33,073
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,264	7,264
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,753	59,753
Diluted earnings per share (in RMB/share)	0.62	0.55

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Cash and deposits with the central bank

	Notes	31 December 2019	31 December 2018
Cash on hand		4,355	4,721
Deposits with the central bank			
– Statutory deposit reserves	(a)	297,528	254,574
– Surplus deposit reserves	(b)	57,546	103,684
– Foreign currency risk reserves	(c)	3,732	857
– Fiscal deposits		1,050	2,603
Subtotal		364,211	366,439
Accrued interest		129	136
Total		364,340	366,575

Notes:

(a) *The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. At the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:*

	31 December 2019	*31 December 2018*
Reserve ratio for RMB deposits	*10.50%*	*12.00%*
Reserve ratio for foreign currency deposits	*5.00%*	*5.00%*

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2019, the foreign currency risk reserve ratio was 20% (31 December 2018: 20%).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Deposits in Mainland China		
– Banks	12,868	12,815
– Other financial institutions	528	246
Deposits outside Mainland China		
– Banks	18,399	28,382
Subtotal	31,795	41,443
Accrued interest	6	10
Total	31,801	41,453
Less: Provision for impairment losses	(443)	(448)
Net balances	31,358	41,005

14 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Placements in Mainland China		
– Banks	4,160	20,767
– Other financial institutions	29,777	53,420
Placements outside Mainland China		
– Banks	26,291	22,162
– Other financial institutions	–	–
Subtotal	60,228	96,349
Accrued interest	213	530
Total	60,441	96,879
Less: Provision for impairment losses	(171)	(194)
Net balances	60,270	96,685

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Derivatives and hedge accounting

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the reporting year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting year, while they do not represent exposure at risk.

(a) Derivative financial assets and liabilities

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,298,443	3,655	(3,680)
Currency derivatives			
– Foreign exchange forward	29,168	229	(197)
– Foreign exchange swap and cross-currency interest rate swap	1,365,001	9,483	(9,557)
– Foreign exchange option	78,260	392	(386)
Credit derivatives	4,254	46	(73)
Total	2,775,126	13,805	(13,893)

	31 December 2018		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,972,544	4,323	(4,280)
– Interest rate futures	3,275	2	(24)
Currency derivatives			
– Foreign exchange forward	18,331	166	(237)
– Foreign exchange swap and cross-currency interest rate swap	1,215,774	9,984	(9,112)
– Foreign exchange option	124,117	640	(661)
– Foreign exchange futures	27	–	–
Credit derivatives	4,756	97	(35)
Total	3,338,824	15,212	(14,349)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amounts

	31 December 2019	31 December 2018
Counterparty default risk-weighted assets		
– Interest rate derivatives	492	77
– Currency derivatives	3,449	1,547
– Credit derivatives	317	–
Credit value adjustment	1,710	724
Total	5,968	2,348

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA"). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

As at 31 December 2019, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB14 million (31 December 2018: Nil), and the fair value of the derivative financial instrument was RMB-95 thousands (31 December 2018: Nil).

In 2019, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Banks	2,000	5,395
– Other financial institutions	4,702	31,919
Outside Mainland China		
– Other financial institutions	126	427
Subtotal	6,828	37,741
Accrued interest	8	34
Total	6,836	37,775
Less: Provision for impairment losses	(1)	(2)
Net balances	6,835	37,773

(b) Analysed by type of security held

	31 December 2019	31 December 2018
Bonds		
– Government bonds	2,062	8,196
– Other debt securities	4,766	29,545
Subtotal	6,828	37,741
Accrued interest	8	34
Total	6,836	37,775
Less: Provision for impairment losses	(1)	(2)
Net balances	6,835	37,773

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers

(a) Analysed by nature

	31 December 2019	31 December 2018
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,463,630	1,306,473
Discounted bills	488	1,339
Personal loans and advances		
– Personal housing mortgage loans	414,211	381,772
– Personal business loans	158,871	145,502
– Personal consumption loans	140,545	125,425
– Credit cards	443,881	400,504
Subtotal	1,157,508	1,053,203
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	26,403	26,156
Discounted bills	64,175	34,158
Subtotal	90,578	60,314
Total	2,712,204	2,421,329
Accrued interest	8,160	7,158
Gross loans and advances to customers	2,720,364	2,428,487
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)	(67,209)
Net loans and advances to customers	2,644,136	2,361,278
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)	(473)

As at the end of the year, part of the above loans and advances to customers was pledged for repurchase agreements. See Note V 26(a).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	270,177	9.96%	102,716
Water, environment and public utility management	261,465	9.64%	111,707
Real estate	211,918	7.81%	130,785
Leasing and commercial services	170,068	6.27%	65,501
Wholesale and retail trade	113,140	4.17%	42,016
Construction	94,793	3.50%	35,149
Transportation, storage and postal services	87,226	3.22%	36,653
Finance	76,907	2.84%	12,380
Production and supply of electricity, gas and water	45,948	1.69%	13,517
Agriculture, forestry, husbandry and fishery	41,459	1.53%	12,962
Others	116,932	4.31%	45,051
Subtotal of corporate loans and advances	1,490,033	54.94%	608,437
Personal loans and advances	1,157,508	42.68%	550,653
Discounted bills	64,663	2.38%	62,914
Total	2,712,204	100.00%	1,222,004
Accrued interest	8,160		
Gross loans and advances to customers	2,720,364		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)		
Net loans and advances to customers	2,644,136		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)		

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2018		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	248,914	10.28%	78,477
Water, environment and public utility management	222,568	9.19%	103,210
Real estate	192,075	7.93%	120,395
Leasing and commercial services	150,159	6.20%	59,439
Wholesale and retail trade	111,021	4.59%	38,958
Transportation, storage and postal services	94,783	3.91%	40,528
Construction	71,435	2.95%	26,018
Finance	74,177	3.06%	3,325
Production and supply of power, gas and water	43,638	1.80%	11,195
Agriculture, forestry, husbandry and fishery	32,356	1.34%	8,962
Others	91,503	3.78%	38,537
Subtotal of corporate loans and advances	1,332,629	55.03%	529,044
Personal loans and advances	1,053,203	43.50%	519,182
Discounted bills	35,497	1.47%	31,119
Total	2,421,329	100.00%	1,079,345
Accrued interest	7,158		
Gross loans and advances to customers	2,428,487		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)		
Net loans and advances to customers	2,361,278		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)		

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(c) Analysed by type of collateral

	31 December 2019	31 December 2018
Unsecured loans	852,885	778,691
Guaranteed loans	637,315	563,293
Secured loans		
– By tangible assets other than monetary assets	862,021	814,026
– By monetary assets	359,983	265,319
Total	2,712,204	2,421,329
Accrued interest	8,160	7,158
Gross loans and advances to customers	2,720,364	2,428,487
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)	(67,209)
Net loans and advances to customers	2,644,136	2,361,278
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)	(473)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	31 December 2019		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	556,102	20.49%	219,717
Central	447,249	16.49%	256,676
Bohai Rim	349,559	12.89%	199,916
Western	348,706	12.86%	200,481
Pearl River Delta	341,541	12.59%	220,143
Northeastern	121,928	4.50%	80,011
Overseas	96,174	3.55%	38,005
Head Office	450,945	16.63%	7,055
Total	2,712,204	100.00%	1,222,004

	31 December 2018		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	478,383	19.76%	197,173
Central	382,965	15.82%	219,430
Bohai Rim	341,728	14.11%	188,325
Western	325,532	13.44%	195,562
Pearl River Delta	291,896	12.06%	187,691
Northeastern	119,667	4.94%	78,825
Overseas	78,040	3.22%	9,682
Head Office	403,118	16.65%	2,657
Total	2,421,329	100.00%	1,079,345

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers which constitute 10% or more of gross loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors is as follows:

	31 December 2019			
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)
Yangtze River Delta	6,831	(6,439)	(4,847)	(3,625)
Central	5,031	(4,094)	(2,461)	(3,218)
Bohai Rim	5,797	(2,159)	(2,435)	(3,032)
Western	4,951	(2,849)	(4,212)	(2,707)
Pearl River Delta	4,155	(4,219)	(1,829)	(1,811)
Total	26,765	(19,760)	(15,784)	(14,393)

	31 December 2018			
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)
Bohai Rim	9,196	(2,387)	(2,056)	(5,856)
Yangtze River Delta	5,599	(6,787)	(4,798)	(2,898)
Pearl River Delta	4,516	(3,945)	(1,816)	(2,135)
Central	4,477	(4,412)	(2,954)	(2,328)
Western	4,398	(3,076)	(3,930)	(2,032)
Total	28,186	(20,607)	(15,554)	(15,249)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue year

	31 December 2019				
	Overdue for three months or less (inclusive)	Overdue for three months to one year (inclusive)	Overdue for one year to three years (inclusive)	Overdue for more than three years	Total
Unsecured loans	15,557	11,118	323	33	27,031
Guaranteed loans	4,954	4,953	3,726	609	14,242
Secured loans					
– By tangible assets other than monetary assets	5,692	4,973	4,421	1,429	16,515
– By monetary assets	1,434	1,449	837	36	3,756
Subtotal	27,637	22,493	9,307	2,107	61,544
Accrued interest	69	–	–	–	69
Total	27,706	22,493	9,307	2,107	61,613
As a percentage of gross loans and advances to customers	1.01%	0.83%	0.34%	0.08%	2.26%

	31 December 2018				
	Overdue for three months or less (inclusive)	Overdue for three months to one year (inclusive)	Overdue for one year to three years (inclusive)	Overdue for more than three years	Total
Unsecured loans	10,014	8,443	394	29	18,880
Guaranteed loans	6,625	7,418	2,667	522	17,232
Secured loans					
– By tangible assets other than monetary assets	6,525	4,715	4,492	1,772	17,504
– By monetary assets	1,427	741	1,103	2	3,273
Subtotal	24,591	21,317	8,656	2,325	56,889
Accrued interest	349	–	–	–	349
Total	24,940	21,317	8,656	2,325	57,238
As a percentage of gross loans and advances to customers	1.03%	0.88%	0.35%	0.10%	2.36%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	31 December 2019				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,546,902	123,090	42,212	2,712,204	1.56%
Accrued interest	6,701	1,158	301	8,160	
Gross loans and advances to customers	2,553,603	124,248	42,513	2,720,364	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,060)	(27,574)	(24,594)	(76,228)	
Net loans and advances to customers	2,529,543	96,674	17,919	2,644,136	

	31 December 2018				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,245,353	137,555	38,421	2,421,329	1.59%
Accrued interest	5,354	1,576	228	7,158	
Gross loans and advances to customers	2,250,707	139,131	38,649	2,428,487	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(23,335)	(21,264)	(22,610)	(67,209)	
Net loans and advances to customers	2,227,372	117,867	16,039	2,361,278	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1	(2,089)	2,038	51	–
Transfer to Stage 2	742	(787)	45	–
Transfer to Stage 3	156	2,233	(2,389)	–
Charge for the year	(3,899)	(10,693)	(38,804)	(53,396)
Release for the year	4,365	899	311	5,575
Disposal	–	–	13,826	13,826
Write-off and transfer out	–	–	26,576	26,576
Recovery of loans and advances written off	–	–	(2,428)	(2,428)
Unwinding of discount on allowance	–	–	828	828
As at 31 December 2019	(24,060)	(27,574)	(24,594)	(76,228)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(18,666)	(18,271)	(21,134)	(58,071)
Transfer to Stage 1	(1,073)	1,048	25	–
Transfer to Stage 2	867	(898)	31	–
Transfer to Stage 3	164	3,038	(3,202)	–
Charge for the year	(7,412)	(7,137)	(24,318)	(38,867)
Release for the year	2,785	956	412	4,153
Disposal	–	–	10,149	10,149
Write-off and transfer out	–	–	16,162	16,162
Recovery of loans and advances written off	–	–	(1,527)	(1,527)
Unwinding of discount on allowance	–	–	792	792
As at 31 December 2018	(23,335)	(21,264)	(22,610)	(67,209)

Notes:

(i) The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2019, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB438 million (31 December 2018: RMB473 million).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	31 December 2019	31 December 2018
Rescheduled loans and advances to customers	11,888	15,788
Of which: Rescheduled loans and advances to customers overdue for more than 90 days	898	801

18 Finance lease receivables

	Note	31 December 2019	31 December 2018
Minimum finance lease receivables		99,825	74,656
Less: Unearned finance lease income		(14,662)	(10,287)
Present value of minimum lease receivable		85,163	64,369
Accrued interest		936	588
Less: Impairment losses		(2,376)	(1,624)
Net balance	(i)	83,723	63,333

Minimum finance lease receivables analysed by remaining period are listed as follows:

	31 December 2019	31 December 2018
Less than 1 year (inclusive)	23,619	19,073
1 year to 2 years (inclusive)	20,418	14,924
2 years to 3 years (inclusive)	17,123	12,298
3 years to 4 years (inclusive)	12,628	8,718
4 years to 5 years (inclusive)	9,745	6,301
More than 5 years	16,292	13,342
Total	99,825	74,656

Note:

(i) As at the end of the year, part of finance lease receivables were pledged for borrowings from banks. See Note V 26(a).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments

	Notes	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss	(a)	211,406	222,737
Debt instruments at fair value through other comprehensive income	(b)	180,005	153,987
Equity instruments at fair value through other comprehensive income	(c)	623	367
Financial investments measured at amortised cost	(d)	1,041,512	923,989
Total		1,433,546	1,301,080

(a) Financial assets at fair value through profit or loss

	Notes	31 December 2019	31 December 2018
Debt instruments held for trading	(i)	18,602	10,886
Financial assets designated at fair value through profit or loss	(ii)	4	6
Other financial assets at fair value through profit or loss	(iii)	192,800	211,845
Total		211,406	222,737

(i) Debt instruments held for trading

	Notes	31 December 2019	31 December 2018
Issued by the following governments or institutions:			
In Mainland China			
– Government		132	–
– Banks and other financial institutions		4,975	1,006
– Other institutions	(1)	9,436	8,323
Outside Mainland China			
– Banks and other financial institutions		2,624	170
– Other institutions		1,435	1,387
Total	(2)	18,602	10,886
Listed	(3)	4,716	2,257
Of which listed in Hong Kong		1,703	1,809
Unlisted		13,886	8,629
Total		18,602	10,886

Notes:

(1) Debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(2) At the end of the year, some of the debt instruments held for trading are used as pledges for repurchase agreement. See Note V 26(a).

(3) Listed investments include debt instruments traded on the stock exchange markets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(ii) Financial assets designated at fair value through profit or loss

	31 December 2019	31 December 2018
Fixed interest rate personal mortgage loans	4	6

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Fund investments	159,760	180,633
Equity instruments	2,019	1,182
Others	31,021	30,030
Total	192,800	211,845

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	31 December 2019	31 December 2018
In Mainland China			
– Government		40,880	32,527
– Banks and other financial institutions	(1)	51,640	46,569
– Other institutions	(2)	56,371	54,903
Outside Mainland China			
– Government		98	–
– Banks and other financial institutions		7,574	1,709
– Other institutions		19,777	14,942
Subtotal		176,340	150,650
Accrued interest		3,665	3,337
Total	(3)(4)	180,005	153,987
Listed	(5)	43,019	27,077
Of which listed in Hong Kong		29,884	19,855
Unlisted		133,321	123,573
Subtotal		176,340	150,650
Accrued interest		3,665	3,337
Total		180,005	153,987

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

Notes:

(1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.

(2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at 31 December 2019, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximates to RMB826 million (31 December 2018: RMB384 million).

(4) At the end of the year, part of the debt instruments at fair value through other comprehensive income was pledged for repurchase agreements and time deposits. See Note V 26(a).

(5) Listed investments include debt instruments traded on the stock exchange markets.

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(384)	–	–	(384)
Transfer to Stage 3	2	–	(2)	–
Charge for the year	(343)	–	(116)	(459)
Release for the year	20	–	–	20
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(708)	–	(118)	(826)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(325)	–	–	(325)
Charge for the year	(75)	–	–	(75)
Release for the year	17	–	–	17
Exchange fluctuation and others	(1)	–	–	(1)
As at 31 December 2018	(384)	–	–	(384)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2019	31 December 2018
Equity instruments at fair value through other comprehensive income	(i)	623	367
Listed	(ii)	21	15
Of which listed in Hong Kong		–	–
Unlisted		602	352
Total		623	367

Notes:

(i) *The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2019, the fair value was RMB623 million (31 December 2018: RMB367 million). In 2019, the Group received dividends of approximately RMB11 million from the above equity instruments (2018: RMB8 million).*

(ii) *Listed investments include equity instruments traded on the stock exchange markets.*

(d) Financial investments measured at amortised cost

	Notes	31 December 2019	31 December 2018
Debt securities	(i)	773,460	497,775
Others	(ii)	256,649	410,350
Subtotal		1,030,109	908,125
Accrued interest		15,786	20,558
Total		1,045,895	928,683
Less: Provision for impairment losses		(4,383)	(4,694)
Net balance		1,041,512	923,989
Listed	(iii)	139,562	79,879
Of which listed in Hong Kong		20,905	10,193
Unlisted		886,164	823,552
Subtotal		1,025,726	903,431
Accrued interest		15,786	20,558
Net balance		1,041,512	923,989

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities measured at amortised cost were analysed by type and location of counterparty, as follows:

	Notes	31 December 2019	31 December 2018
In Mainland China			
– Government		340,733	259,640
– Banks and other financial institutions	(1)	228,028	174,930
– Other institutions	(2)	183,628	51,150
Outside Mainland China			
– Government		1,891	1,088
– Banks and other financial institutions		5,486	3,789
– Other institutions		13,694	7,178
Subtotal		773,460	497,775
Accrued interest		13,140	9,175
Total	(3)	786,600	506,950
Less: Provision for impairment losses		(1,657)	(1,599)
Net balance		784,943	505,351
Fair value		796,461	512,668

Notes:

(1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.

(2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at the end of the year, part of the debt securities measured at amortised cost was pledged for repurchase agreements, time deposits and derivative transactions. See Note V 26(a).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments include debt instruments traded on the stock exchange markets.

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Transfer to Stage 2	3	(3)	–	–
Transfer to Stage 3	8	–	(8)	–
Charge for the year	–	(98)	(723)	(821)
Release for the year	1,010	–	125	1,135
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(2,513)	(101)	(1,769)	(4,383)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(3,288)	–	(916)	(4,204)
Charge for the year	(435)	–	(247)	(682)
Release for the year	197	–	–	197
Exchange fluctuation and others	(5)	–	–	(5)
As at 31 December 2018	(3,531)	–	(1,163)	(4,694)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Investments in subsidiaries

	31 December 2019	31 December 2018
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co.,Ltd.	5,000	–
Total	12,383	7,383

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd.	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd.	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co.,Ltd. (Note i)	Qingdao, Shandong	5,000	100%	100%	Wealth management	Limited company

(i) In September 2019, the Bank registered and established its wholly-owned subsidiary, Everbright Wealth Co.,Ltd. ("Everbright Wealth") in Qingdao, Shandong province, with a registered capital of RMB5 billion.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Fixed assets

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	69	170	1,256	871	459	2,825
Transfers in/(out)	1,146	–	(1,146)	–	–	–
Disposals	(3)	(332)	–	(399)	(133)	(867)
Foreign currency conversion difference	–	94	–	–	–	94
As at 31 December 2019	12,949	5,657	2,210	6,667	4,498	31,981
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the year	(404)	(200)	–	(480)	(401)	(1,485)
Disposals	3	38	–	374	125	540
Foreign currency conversion difference	–	(6)	–	–	–	(6)
As at 31 December 2019	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 31 December 2019	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2019	8,686	5,249	2,210	1,772	1,425	19,342

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Fixed assets (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2018	11,404	2,752	1,606	6,060	3,753	25,575
Additions	247	3,129	622	468	496	4,962
Transfers in/(out)	128	–	(128)	–	–	–
Disposals	(42)	(322)	–	(334)	(80)	(778)
Foreign currency conversion difference	–	166	–	1	3	170
As at 31 December 2018	11,737	5,725	2,100	6,195	4,172	29,929
Accumulated depreciation						
As at 1 January 2018	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Charge for the year	(360)	(130)	–	(593)	(336)	(1,419)
Disposals	1	1	–	317	68	387
Foreign currency conversion difference	–	(8)	–	–	(2)	(10)
As at 31 December 2018	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Provision for impairment						
As at 1 January 2018	(159)	–	–	–	–	(159)
As at 31 December 2018	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2018	7,875	5,485	2,100	1,406	1,375	18,241

Notes:

(i) *As at 31 December 2019, title deeds were not yet finalised for the premises with a carrying amount of RMB45 million (31 December 2018: RMB141 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 31 December 2019, Everbright Financial Leasing, the Group's subsidiary leases certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB5,249 million (31 December 2018: RMB5,485 million).*

The net book values of premises at the end of the year are analysed by the remaining terms of the leases as follows:

	31 December 2019	31 December 2018
Held in Mainland China		
– Medium term leases (10 – 50 years)	8,454	7,795
– Short term leases (less than 10 years)	232	80
Total	8,686	7,875

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Right-of-use assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	2,557	8	2,565
Charge for the year	(303)	(3)	(306)
Foreign currency conversion difference	1	–	1
As at 31 December 2019	14,023	66	14,089
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(2,412)	(17)	(2,429)
Reduction for the year	24	–	24
As at 31 December 2019	(2,388)	(17)	(2,405)
Net book value			
As at 31 December 2019	11,635	49	11,684

23 Goodwill

	31 December 2019	31 December 2018
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed an "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank's cash flow forecast is 13% (2018: 14%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Deferred tax assets and liabilities

(a) Analysed by nature

	Note V	31 December 2019 Temporary difference	31 December 2019 Deferred tax assets/ (liabilities)	31 December 2018 Temporary difference	31 December 2018 Deferred tax assets/ (liabilities)
Deferred income tax assets		65,221	16,306	43,175	10,794
Deferred income tax liabilities	37	(6)	(1)	–	–
Total		65,215	16,305	43,175	10,794

(b) Movements of deferred tax

	Provision for impairment losses (Note(i))	Fair value changes of financial instruments (Note(ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Recognised in profit or loss	5,042	705	140	5,887
Recognised in other comprehensive income	(102)	(274)	–	(376)
31 December 2019	14,664	(243)	1,884	16,305

	Provision for impairment losses (Note(i))	Fair value changes of financial instruments (Note(ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
31 December 2017	4,918	1,131	1,547	7,596
Impact of adopting new standards	2,446	(98)	–	2,348
1 January 2018	7,364	1,033	1,547	9,944
Recognised in profit or loss	2,284	(673)	197	1,808
Recognised in other comprehensive income	76	(1,034)	–	(958)
31 December 2018	9,724	(674)	1,744	10,794

Notes:

(i) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*

(ii) *Fair value changes of financial instruments are subject to tax when realised.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25 Other assets

	Note	31 December 2019	31 December 2018
Other receivables	(a)	25,614	11,201
Fixed asset purchase prepayment		795	509
Long-term deferred expense		871	1,103
Intangible assets		1,646	1,171
Repossessed assets		478	458
Land use rights		88	94
Accrued interest		2,988	2,198
Others		3,499	3,713
Total		35,979	20,447

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

26 Pledged assets

(a) Assets pledged as collateral

Financial assets pledged by the Group as collaterals for liabilities include discounted bills, debt securities and finance lease receivables. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2019 is RMB86,363 million (31 December 2018: RMB95,841 million).

(b) Collateral received

The Group accepted securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2019. As at 31 December 2019, the Group's collateral received from banks and other financial institutions has expired (31 December 2018: Nil). As at 31 December 2019, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2018: Nil). These transactions are conducted under standard terms in the normal course of business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 Due to the central bank

	31 December 2019	31 December 2018
Due to central banks	221,480	263,050
Accrued interest	3,358	4,143
Total	224,838	267,193

28 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Deposits in Mainland China		
– Banks	170,505	168,466
– Other financial institutions	269,224	316,855
Deposits outside Mainland China		
– Banks	1,836	1,831
Subtotal	441,565	487,152
Accrued interest	2,755	2,939
Total	444,320	490,091

29 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Placements in Mainland China		
– Banks	89,480	75,109
– Other financial institutions	1,004	7,156
Placements outside Mainland China		
– Banks	74,625	69,024
Subtotal	165,109	151,289
Accrued interest	1,116	748
Total	166,225	152,037

30 Financial liabilities at fair value through profit or loss

	31 December 2019	31 December 2018
Short position in debt securities	100	354
Total	100	354

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Banks	23,064	40,347
Outside Mainland China		
– Banks	2,390	–
– Other financial institutions	131	46
Subtotal	25,585	40,393
Accrued interest	18	18
Total	25,603	40,411

(b) Analysed by collateral

	31 December 2019	31 December 2018
Bank acceptances	10,814	7,336
Debt securities	14,771	33,057
Subtotal	25,585	40,393
Accrued interest	18	18
Total	25,603	40,411

32 Deposits from customers

	31 December 2019	31 December 2018
Demand deposits		
– Corporate customers	783,859	732,628
– Individual customers	217,892	191,592
Subtotal	1,001,751	924,220
Time deposits		
– Corporate customers	1,262,657	990,038
– Individual customers	466,413	320,312
Subtotal	1,729,070	1,310,350
Pledged deposits	232,522	220,284
Other deposits	21,682	83,854
Subtotal deposits from customers	2,985,025	2,538,708
Accrued interest	32,863	33,253
Total	3,017,888	2,571,961

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Accrued staff costs

	Note	31 December 2019	31 December 2018
Salary and welfare payable		6,269	6,904
Pension payable	(a)	620	281
Supplementary retirement benefits payable	(b)	1,118	843
Total		8,007	8,028

Notes:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Wills Towers Watson Management Consulting (Shenzhen) Co.,Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2019	31 December 2018
Present value of supplementary retirement benefits liability	1,118	843

(ii) Movements of SRB of the Group are as follows:

	2019	2018
As at 1 January 2019	843	669
Current service costs	77	56
Interest costs	33	30
Recalculation part of the defined benefit plan	180	102
Payments made	(15)	(14)
As at 31 December 2019	1,118	843

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 41.

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December 2019	31 December 2018
Discount rate	4.00%	4.00%
Medical cost trend rate	5.88%	5.88%
Average expected future lifetime	22.80	22.80

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Accrued staff costs (continued)

Notes: (continued)

(b) *Supplementary retirement benefits ("SRB")* (continued)

(iv) *Sensitivity analysis:*

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below.

	31 December 2019	
	Increases	*Decreases*
Discount rate (1% movement)	*(301)*	*330*
Medical cost trend rate (1% movement)	*356*	*(251)*

	31 December 2018	
	Increases	*Decreases*
Discount rate (1% movement)	*(222)*	*244*
Medical cost trend rate (1% movement)	*260*	*(183)*

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (a) and (b) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits.

34 Taxes payable

	31 December 2019	31 December 2018
Income tax payable	6,446	3,076
Value added tax payable	2,446	2,169
Others	430	421
Total	9,322	5,666

35 Lease liabilities

	31 December 2019
Within 1 year (inclusive)	2,611
1 to 2 years (inclusive)	2,283
2 to 3 years (inclusive)	1,937
3 to 5 years (inclusive)	2,711
More than 5 years	3,292
Total undiscounted lease liabilities	12,834
Lease liabilities	11,069

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued

	Note	31 December 2019	31 December 2018
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	55,782	54,940
Tier-two capital bonds issued	(c)	39,983	56,170
Convertible bonds issued	(d)	27,547	26,618
Interbank deposits issued	(e)	199,057	265,894
Certificates of deposits issued	(f)	19,249	9,711
Medium term notes	(g)	20,428	16,747
Subtotal		368,746	436,780
Accrued interest		3,158	3,669
Total		371,904	440,449

(a) Subordinated debts issued

	Note	31 December 2019	31 December 2018
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) *Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.*

(ii) *As at 31 December 2019, the fair value of the total subordinated debt issued approximated to RMB6,998 million (31 December 2018: RMB6,960 million).*

(b) Financial bonds issued

	Note	31 December 2019	31 December 2018
Financial fixed rate bonds maturing in February 2020	(i)	27,999	27,976
Financial fixed rate bonds maturing in July 2020	(ii)	21,995	21,978
Financial fixed rate bonds maturing in November 2021	(iii)	4,990	4,986
Financial fixed rate bonds maturing in January 2022	(iv)	798	–
Total		55,782	54,940

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(b) Financial bonds issued (continued)

Notes:

(i) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(ii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iii) *Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.*

(iv) *Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.*

(v) *As at 31 December 2019, the fair value of the total financial bonds issued approximated to RMB56,058 million (31 December 2018: RMB55,369 million).*

(c) Tier-two capital bonds issued

	Note	31 December 2019	31 December 2018
Tier-two capital fixed rate bonds maturing in June 2024	(i)	–	16,200
Tier-two capital fixed rate bonds maturing in March 2027	(ii)	27,988	27,980
Tier-two capital fixed rate bonds maturing in August 2027	(iii)	11,995	11,990
Total		39,983	56,170

Notes:

(i) *Fixed rate tier-two capital bonds of RMB16.20 billion with a term of ten years were issued on 9 June 2014. The coupon rate was 6.20% per annum. The Group had an option to redeem the debts on 10 June 2019 at the nominal amount. The Group redeemed the bonds on 10 June 2019.*

(ii) *Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.*

(iii) *Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.*

(iv) *As at 31 December 2019, the fair value of the total tier-two capital bonds issued approximated to RMB40,935 million (31 December 2018: RMB56,669 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(d) Convertible bonds issued

	31 December 2019	31 December 2018
Fixed rate six years convertible bonds issued in March 2017	27,547	26,618

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V 39	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2019		1,857	–	1,857
Accumulated conversion amount as at 1 January 2019		(1)	–	(1)
Balance as at 1 January 2019		26,618	5,161	31,779
Amortisation during the year		929	–	929
Conversion amount during the year	(iv)	–	–	–
Balance as at 31 December 2019		27,547	5,161	32,708

Notes:

(i) *Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of par value, including interest for the sixth year.*

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2019, the new conversion price is RMB3.97per share.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

Notes: (continued)

(iv) *As at 31 December 2019, a total of RMB965,000 (31 December 2018: RMB730,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares was 228,101 shares (31 December 2018: 170,354 shares).*

(v) *In 2019, a total of RMB150 million interest on the convertible bonds was been paid by the Bank (2018: RMB60 million).*

(e) Interbank deposits issued

In 2019, 113 interbank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB216,490 million (2018: RMB615,500 million). The carrying amount of interbank deposits due in 2019 was RMB285,690 million (2018: RMB631,950 million). As at 31 December 2019, the fair value of outstanding interbank deposits issued was RMB196,493 million (31 December 2018: RMB263,247 million).

(f) Certificates of deposits issued

As at 31 December 2019, the certificates of deposits were issued by the Bank's Hong Kong branch, Seoul branch and Sydney branch measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	31 December 2019	31 December 2018
Medium term notes with fixed rate maturing in 15 September 2019	(i)	–	3,423
Medium term notes with fixed rate maturing in 8 March 2020	(ii)	3,472	3,423
Medium term notes with floating rate maturing in 13 June 2020	(iii)	3,484	3,432
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,342	2,356
Medium term notes with floating rate maturing in 13 June 2021	(v)	2,091	2,059
Medium term notes with floating rate maturing in 19 September 2021	(vi)	2,083	2,054
Medium term notes with floating rate maturing in 24 June 2022	(vii)	3,484	–
Medium term notes with floating rate maturing in 11 December 2022	(viii)	3,472	–
Total		20,428	16,747

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(g) Medium term notes (continued)

Notes:

(i) *Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.*

(ii) *Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.*

(iii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.*

(iv) *Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.*

(v) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.*

(vi) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.*

(vii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.*

(viii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.*

(ix) *As at 31 December 2019, the fair value of the medium term notes approximated to RMB20,478 million (31 December 2018: RMB16,689 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Other liabilities

	Note	31 December 2019	31 December 2018
Deferred income	37(a)	6,710	6,808
Bank loans	37(b)	17,597	5,744
Deferred emoluments payment	37(c)	5,660	5,078
Finance lease payables		4,876	3,750
Provisions	37(d)	2,751	2,258
Payment and collection clearance accounts		1,761	908
Dormant accounts		354	310
Dividend payables		21	21
Deferred tax liabilities	24	1	–
Others		14,477	19,443
Total		54,208	44,320

Notes:

(a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*

(b) *As at 31 December 2019, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms from 1 to 9 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loan was RMB17,597 million (31 December 2018: RMB5,744 million).*

(c) *As at 31 December 2019, the deferred emolument payment amounted to RMB5,660 million (31 December 2018: RMB5,078 million), which is related to deferred emoluments payment to employees in respect of services provided to the Group. Such amount will be distributed according to plans.*

(d) *As at 31 December 2019, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB255 million (31 December 2018: RMB147 million).*

38 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	31 December 2019	31 December 2018
Ordinary shares listed in Mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	52,489	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments

	Note V	31 December 2019	31 December 2018
Preference shares (Notes(a), (b), (c), (d))		64,906	29,947
Equity of convertible bonds	36(d)	5,161	5,161
Total		70,067	35,108

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	5.30%	100	200	20,000	Mandatory conversion triggering events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion triggering events
Everbright P3					
2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
SubTotal				65,000	
Less:					
Issuing costs				(94)	
Book value				64,906	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments

(b) Main clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions for distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholders' resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds and holders of convertible bonds, but will be senior to the ordinary shareholders.

(v) Mandatory conversion triggering events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the Common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

Upon the occurrence of a Non-Viability Triggering Event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments (continued)

(b) Main clauses (continued)

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in preference shares outstanding

	1 January 2019		Additions for the year		31 December 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	300	29,947	350	34,959	650	64,906

	1 January 2018		Additions for the year		31 December 2018	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	300	29,947	–	–	300	29,947

(d) Interests attributable to equity instruments' holders

Items	31 December 2019	31 December 2018
Total equity attributable to equity shareholders of the Bank	384,982	321,488
– Equity attributable to ordinary shares holders of the Bank	320,076	291,541
– Equity attributable to preference shares holders of the Bank	64,906	29,947
Total equity attributable to non-controlling interests	1,072	985
– Equity attributable to non-controlling interests of ordinary shares	1,072	985
– Equity attributable to non-controlling interests of preference shares	–	–

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Capital reserve

	31 December 2019	31 December 2018
Share premium	53,533	53,533

41 Other comprehensive income

	31 December 2019	31 December 2018
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	14	10
Remeasurement of a defined benefit plan	(303)	(123)
Subtotal	(289)	(113)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	2,959	1,748
– Net change in fair value	1,998	1,094
– Net change in expected credit losses	961	654
Exchange differences on translation of financial statements	67	20
Subtotal	3,026	1,768
Total	2,737	1,655

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2018	(1,948)	887	8	(46)	(21)	(1,120)
Changes in amount for the previous year	3,042	(233)	2	66	(102)	2,775
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the year	904	307	4	47	(180)	1,082
As at 31 December 2019	1,998	961	14	67	(303)	2,737

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

43 Appropriation of profits

(a) At the Board Meeting held on 27 March 2020, the Board of Directors approved the following profit appropriations for the year ended 31 December 2019:

– Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated amount of withdrawal has reached 50% of the Bank's registered capital;

– Appropriated RMB5,380 million to general reserve;

– The 2019 annual dividend of RMB769 million should be paid to third preference shareholders in cash dividend RMB2.20 per share before tax based on the coupon dividend yield of 4.80%; and

– Declared cash dividends of RMB11,233 million to all ordinary shareholders of 52,489 million shares representing RMB2.14 per 10 shares before tax.

(b) At the Annual General Meeting of shareholders held on 30 May 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018:

– Appropriated RMB3,317 million (10% of the net profit of the Bank) to surplus reserve;

– Appropriated RMB1,701 million to general reserve; and

– Declared cash dividends to all ordinary shareholders of RMB8,451 million representing RMB1.61 per 10 shares before tax.

(c) At the Board Meeting held on 30 May 2019, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, accruing from 25 June 2018, and are calculated using 5.30% of dividend yield ratio for the Everbright P1.

(d) At the Board Meeting held on 30 July 2019, the dividend distribution of the Everbright P2 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, accruing from 13 August 2018, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2019		31 December 2018	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	159,760	159,760	180,633	180,633
– Asset management plans	18,686	18,686	8,693	8,693
Financial investments measured at amortised cost				
– Asset management plans	256,569	256,569	418,639	418,639
– Asset-backed securities	119,439	119,439	31,509	31,509
Total	554,454	554,454	639,474	639,474

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2019, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial position.

As at 31 December 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB778,837 million (31 December 2018: RMB689,002 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 amounted to RMB771 million (2018: RMB18,124 million).

In 2019, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB634 million (2018: RMB876 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (continued)

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. Such financing provided by the Group was included in "Placements with banks and other financial institutions". As at 31 December 2019, the balance of above trading was RMB9,106 million (31 December 2018: RMB15,230 million). The maximum exposure to loss of those placements approximated to the carrying amount. In 2019, the amount of interest receivables provided by the above financing being recognised was not material for the Group in the statement of profit or loss.

In addition, as at 31 December 2019, the Group held interests in the unconsolidated structured entities of asset securitisation transactions. Refer to Note V 45. In 2019, the Group's income from these structured entities was immaterial.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Credit assets backed securitisation

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB13 million as at 31 December 2019 (31 December 2018: RMB118 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2019, the credit assets backed securities which the Group has continuing involvement have been liquidated.

Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transfer and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2019, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2019, loans with an original carrying amount of RMB2,590 million (31 December 2018: RMB3,776 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2019, the carrying amount of assets that the Group continues to recognise was RMB614 million (31 December 2018: RMB1,097 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the year, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements.

	31 December 2019	31 December 2018
Total common equity tier-one capital	320,793	292,093
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	61,431	60,349
Surplus reserve	26,245	24,371
General reserve	59,417	54,036
Retained earnings	120,494	100,296
Qualifying portions of non-controlling interests	717	552
Common equity tier-one capital deductions	(2,930)	(2,455)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(1,646)	(1,171)
Net deferred tax assets arising from operating losses that depend on future profits	(3)	(3)
Net common equity tier-one capital	317,863	289,638
Additional tier-one capital	65,002	30,021
Additional tier-one capital instruments	64,906	29,947
Qualifying portions of non-controlling interests	96	74
Tier-one capital net	382,865	319,659
Tier-two capital	82,640	92,353
Qualifying portions of tier-two capital instruments issued and share premium	46,683	62,870
Excess loan loss provisions	35,766	29,336
Qualifying portions of non-controlling interests	191	147
Net capital base	465,505	412,012
Total risk-weighted assets	3,456,054	3,166,668
Common equity tier-one capital adequacy ratio	9.20%	9.15%
Tier-one capital adequacy ratio	11.08%	10.09%
Capital adequacy ratio	13.47%	13.01%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Notes to consolidated cash flow statement

(a) Net change in cash and cash equivalents

	31 December 2019	31 December 2018
Cash and cash equivalents as at 31 December	117,499	187,680
Less: Cash and cash equivalents as at 1 January	187,680	147,923
Net (decrease)/increase in cash and cash equivalents	(70,181)	39,757

(b) Cash and cash equivalents

	31 December 2019	31 December 2018
Cash on hand	4,355	4,721
Deposits with the central bank	57,546	103,684
Deposits with banks and other financial institutions	26,581	34,686
Placements with banks and other financial institutions	29,017	44,589
Total	117,499	187,680

48 Related party relationships and transactions

(a) The immediate and ultimate parent companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. ("China Everbright Group") and China Investment Corporation, respectively.

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note V 48(b)(ii).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Information of other related parties

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co.,Ltd ("Everbright Securities").	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment and Assets Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co.,Ltd.	Affiliate of China Everbright Group Ltd.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Information of other related parties (continued)

Other related parties having transactions with the Group: (continued):

Related party	Relationship with the Group
Affiliated companies (continued)	
– Everbright Jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Tianjin) Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance Holding Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service (Group) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Cachet Pharmaceutical Company Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service Limited	Affiliate of China Everbright Group Ltd.
– Everbright Technology Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happiness International Commercial Factoring Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Sunshine Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Ningbo Jin'ou Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Guokaitai Industrial Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Zhongqing Chuangyi Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shenzhen Qianhai Everbright Investment Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Senior Healthcare Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Culture Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Development Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
–Beijing Caiwan Internet Information Service Co., Ltd	Affiliate of China Everbright Group Ltd.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Information of other related parties (continued)

Other related parties having transactions with the Group: (continued):

Related party	Relationship with the Group
Other related parties	
– Overseas Chinese Town Holding Company	Shareholder, common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co.,Ltd.	Common key management
– Haitong Securities Co.,Ltd.	Common key management
– China UnionPay Co.,Ltd.	Common key management
– Orient Securities Co.,Ltd.	Common key management
– Konka Group Co.,Ltd	Common key management
– China Pacific Property Insurance Co.,Ltd.	Common key management
– China Pacific Life Insurance Co.,Ltd.	Common key management
– First-trust Fund Management Co.,Ltd.	Common key management
– COSCO Shipping Development Co.,Ltd.	Common key management
– China COSCO Shipping Co.,Ltd.	Common key management
– Shenergy Group Co.,Ltd.	Common key management
– Bohai Securities Co., Ltd.	Common key management
– Shanghai Gas (Group) Co., Ltd.	Common key management
– China Marine Bunker (PetroChina) Co., Ltd.	Common key management
– Shenzhen Guangming Group Co., Ltd.	Common key management
– Shenzhen Vphonor Information Technology Co., Ltd.	Common key management
– Shanghai Zhongbo Enterprise Management Development Co.,Ltd.	Common key management
– Shanghai Insurance Exchange Co.,Ltd.	Common key management
– Beijing Jingneng Clean Energy Co.,Ltd.	Common key management
– Shijiazhuang Hualin Food Co.,Ltd.	Common key management
– Zhengzhou Chemical Light Industry Co.,Ltd.	Common key management

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows:

	China Everbright Group (Note V48(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2019:				
Interest income	–	533	501	1,034
Interest expense	(159)	(371)	(331)	(861)
Balances with related parties as at 31 December 2019:				
Placements with banks and other financial institutions	–	508	2,002	2,510
Derivative financial assets	–	–	12	12
Loans and advances to customers	–	7,251	9,064	16,315
Financial assets at fair value through profit or loss	–	7,727	–	7,727
Debt instruments at fair value through other comprehensive income	178	385	–	563
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	113,480	256	113,736
Other assets	–	3,261	–	3,261
Total	178	132,612	11,432	144,222
Deposits from banks and other financial institutions	–	3,147	1,528	4,675
Derivative financial liabilities	–	–	11	11
Deposits from customers	4,652	15,696	35,638	55,986
Other liabilities	–	693	167	860
Total	4,652	19,536	37,344	61,532
Significant other sheet items with related parties as at 31 December 2019:				
Guarantee granted (Note)	180	–	–	180

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows (continued):

	China Everbright Group (Note V 48(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2018:				
Interest income	–	368	134	502
Interest expense	(48)	(405)	(471)	(924)
Balances with related parties as at 31 December 2018:				
Placements with banks and other financial institutions	–	1,001	–	1,001
Derivative financial assets	–	–	5	5
Financial assets held under resale agreements	–	–	292	292
Loans and advances to customers	–	7,911	6,330	14,241
Financial assets at fair value through profit or loss	–	14,296	–	14,296
Debt instruments at fair value through other comprehensive income	301	1,209	171	1,681
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	194,750	138	194,888
Other assets	–	682	200	882
Total	301	219,849	7,234	227,384
Deposits from banks and other financial institutions	–	1,911	1,473	3,384
Derivative financial liabilities	–	–	4	4
Deposits from customers	6,402	14,665	20,051	41,118
Total	6,402	16,576	21,528	44,506
Significant other sheet items with related parties as at 31 December 2018:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	67	–	67

Note: As at 31 December 2019, the Bank had guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2018: RMB180 million) due to one of the state-owned commercial banks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was incorporated as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposits which are bearer bonds tradable in the secondary market. Accordingly, the Group had no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year.

The Group's material transactions with CIC, Huijin and its affiliates during the year are summarised as follows:

	2019	2018
Interest income	1,051	1,556
Interest expense	(3,548)	(4,183)

The Group's material balances with CIC, Huijin and its affiliates during the year are summarised as follows:

	31 December 2019	31 December 2018
Deposits with banks and other financial institutions	9,552	12,983
Precious metals	51	–
Placements with banks and other financial institutions	13,909	17,941
Derivative financial assets	3,764	4,098
Financial assets held under resale agreements	997	5,201
Loans and advances to customers	694	2,388
Financial assets at fair value through profit or loss	36,270	28,663
Debt instruments at fair value through other comprehensive income	27,611	27,310
Financial investments measured at amortised cost	106,537	67,966
Other assets	419	609
Deposits from banks and other financial institutions	81,621	76,488
Placements from banks and other financial institutions	70,629	58,276
Derivative financial liabilities	3,678	3,948
Financial assets sold under repurchase agreements	2,970	4,455
Deposits from customers	14,586	19,952
Other liabilities	30	11

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(d) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(e) Key management personnel

	2019 RMB'000	2018 RMB'000
Remuneration	30,970	19,199
Retirement benefits	1,037	1,165
– Basic social pension insurance	567	691

The total compensation packages for senior management of the Group for the year ended 31 December 2019 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2019 financial statements.

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	8,867	9,041
Maximum aggregate amount of relevant loans outstanding during the year	8,994	9,247

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Statement of financial position of the Bank

	Note V	31 December 2019	31 December 2018
Assets			
Cash and deposits with the central bank		364,184	366,418
Deposits with banks and other financial institutions		28,648	39,243
Precious metals		10,826	23,628
Placements with banks and other financial institutions		60,466	98,057
Derivative financial assets		13,754	15,112
Financial assets held under resale agreements		6,709	37,348
Loans and advances to customers		2,642,764	2,361,930
Financial investments		1,425,223	1,295,523
– Financial assets at fair value through profit or loss		207,634	221,059
– Debt instruments at fair value through other comprehensive income		175,565	150,244
– Equity instruments at fair value through other comprehensive income		618	362
– Financial investments measured at amortised cost		1,041,406	923,858
Investments in subsidiaries	20	12,383	7,383
Fixed assets		14,041	12,721
Right-of-use assets		11,599	–
Goodwill		1,281	1,281
Deferred tax assets		15,446	10,194
Other assets		34,243	18,617
Total assets		4,641,567	4,287,455
Liabilities and equity			
Liabilities			
Due to the central bank		224,758	267,143
Deposits from banks and other financial institutions		450,716	492,275
Placements from banks and other financial institutions		108,045	102,908
Derivative financial liabilities		13,821	14,291
Financial assets sold under repurchase agreements		24,542	40,364
Deposits from customers		3,016,555	2,570,877
Accrued staff costs		7,834	7,880
Taxes payable		8,729	5,260
Lease liabilities		10,986	–
Debts securities issued		366,061	435,435
Other liabilities		28,218	32,172
Total liabilities		4,260,265	3,968,605
Equity			
Share capital		52,489	52,489
Other equity instruments		70,067	35,108
of which: preference shares		64,906	29,947
Capital reserve		53,533	53,533
Other comprehensive income		2,617	1,791
Surplus reserve		26,245	24,371
General reserve		58,523	53,143
Retained earnings		117,828	98,415
Total equity		381,302	318,850
Total liabilities and equity		4,641,567	4,287,455

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchases transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities

	2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	25,445	55,890	20,583	–	101,918
Internal net interest income/ (expense)	21,510	(17,459)	(4,051)	–	–
Net interest income	46,955	38,431	16,532	–	101,918
Net fee and commission income	6,100	16,115	954	–	23,169
Net trading gains	–	–	585	–	585
Dividend income	–	–	–	42	42
Net (losses)/gains arising from investment securities	(862)	6	5,660	96	4,900
Foreign exchange gains	297	75	967	–	1,339
Other net operating income	785	56	67	78	986
Operating income	53,275	54,683	24,765	216	132,939
Operating expenses	(15,703)	(20,465)	(2,136)	(125)	(38,429)
Operating profit before impairment	37,572	34,218	22,629	91	94,510
Credit impairment losses	(20,562)	(28,306)	(97)	–	(48,965)
Other impairment losses	(340)	(15)	–	(27)	(382)
Profit before tax	16,670	5,897	22,532	64	45,163
Other segment information					
– Depreciation and amortisation	2,072	2,360	232	–	4,664
– Capital expenditure	2,284	1,976	188	–	4,448

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,938,565	1,276,983	1,499,765	531	4,715,844
Segment liabilities	2,405,750	779,244	1,157,929	4,432	4,347,355

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	23,034	47,890	7,240	–	78,164
Internal net interest income/ (expense)	15,716	(14,998)	(718)	–	–
Net interest income	38,750	32,892	6,522	–	78,164
Net fee and commission income	5,542	13,485	746	–	19,773
Net trading gains	–	–	1,071	–	1,071
Dividend income	–	–	–	8	8
Net (losses)/gains arising from investment securities	(298)	6	10,163	(9)	9,862
Foreign exchange gains	279	83	362	–	724
Other net operating income	563	52	71	98	784
Operating income	44,836	46,518	18,935	97	110,386
Operating expenses	(14,708)	(16,887)	(2,019)	(92)	(33,706)
Operating profit before impairment	30,128	29,631	16,916	5	76,680
Credit impairment losses	(22,086)	(12,776)	(882)	–	(35,744)
Other impairment losses	(84)	–	–	–	(84)
Profit before tax	7,958	16,855	16,034	5	40,852
Other segment information					
– Depreciation and amortisation	1,000	1,045	119	–	2,164
– Capital expenditure	3,358	634	71	–	4,063

	31 December 2018				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,705,352	1,174,769	1,464,480	656	4,345,257
Segment liabilities	2,067,338	662,614	1,300,411	4,475	4,034,838

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2019	31 December 2018
Segment assets		4,715,844	4,345,257
Goodwill	23	1,281	1,281
Deferred tax assets	24	16,306	10,794
Total assets		4,733,431	4,357,332
Segment liabilities		4,347,355	4,034,838
Dividend payables	37	21	21
Deferred tax liabilities	37	1	–
Total liabilities		4,347,377	4,034,859

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, and with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include fixed assets, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income.

Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the areas serviced by the following branches of the Bank and Everbright Wealth: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai.

– "Central" refers to the areas serviced by the following branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright and Ruijin Everbright: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

– "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(b) Geographical information (continued)

– "Overseas" refers to the areas serviced by the following subsidiaries and branches of the Bank: Hong Kong, Seoul, Luxembourg and Sydney; and

– "Head Office" refers to the head office of the Bank.

	Operating Income								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Over – seas	Head Office	Total
2019	23,837	18,419	20,936	22,031	15,912	6,638	2,258	22,908	132,939
2018	18,056	14,180	16,163	16,125	12,111	5,198	1,652	26,901	110,386

	Non-current assets (Note(i))								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Over – seas	Head Office	Total
31 December 2019	3,729	3,244	3,782	8,568	2,843	1,539	566	8,489	32,760
31 December 2018	2,526	1,190	839	6,531	1,212	904	117	6,187	19,506

Note:

(i) Including fixed assets, right-of-use assets, intangible assets and land use rights.

51 Risk management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. Also, Senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Strategic Customer and Investment Banking Department, Inclusive Finance Department, Credit Card Centre, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution".

– The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardised systems and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implements control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, standardised review and approval policies and processes in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardised loan recovery procedures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Treasury business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting year, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting year according to the ECL in the next 12 months.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting year as impairment allowance. At the end of each reporting year, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flows

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting year. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the year with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, compared with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status

- Be classified into Special Mention category within the five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments.) and forward-looking information in order to establish the model of PD, LGD and EAD.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Parameters of ECL measurement (continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, PPI, CPI, Investment in fixed assets, Home price index, Aggregate financing to the real economy.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined a statistical model and experts' judgement in this process, according to the result of the model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines a statistical model with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or lifetime (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1, and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the items in the statement of financial position as at the end of the year is disclosed in Note V 54(a).

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	364,340	–	–	–	364,340
Deposits with banks and other financial institutions	31,358	–	–	–	31,358
Placements with banks and other financial institutions	60,000	270	–	–	60,270
Financial assets held under resale agreements	6,835	–	–	–	6,835
Loans and advances to customers	2,529,543	96,674	17,919	–	2,644,136
Finance lease receivables	80,839	2,869	15	–	83,723
Financial investments	1,215,372	1,375	4,770	212,029	1,433,546
Others (Note)	29,249	–	–	13,848	43,097
Total	4,317,536	101,188	22,704	225,877	4,667,305

	31 December 2018				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	366,575	–	–	–	366,575
Deposits with banks and other financial institutions	41,005	–	–	–	41,005
Placements with banks and other financial institutions	96,685	–	–	–	96,685
Financial assets held under resale agreements	37,773	–	–	–	37,773
Loans and advances to customers	2,227,372	117,867	16,039	–	2,361,278
Finance lease receivables	60,890	1,979	464	–	63,333
Financial investments	1,077,619	–	357	223,104	1,301,080
Others (Note)	16,718	–	–	15,238	31,956
Total	3,924,637	119,846	16,860	238,342	4,299,685

Note: Others comprise precious metal (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	31 December 2019					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments	Others (Note)
Impaired						
Gross amount	42,513	1,063	366	–	6,539	1,944
Provision for impairment losses	(24,594)	(1,048)	(366)	–	(1,769)	(326)
Subtotal	17,919	15	–	–	4,770	1,618
Overdue but not impaired						
– Less than 3 months (inclusive)	25,304	58	300	–	1,476	–
Provision for impairment losses	(6,492)	(1)	(30)	–	(101)	–
Subtotal	18,812	57	270	–	1,375	–
Neither overdue nor impaired						
Gross amount	2,652,547	84,978	91,576	6,836	1,429,914	41,726
Provision for impairment losses	(45,142)	(1,327)	(218)	(1)	(2,513)	(247)
Subtotal	2,607,405	83,651	91,358	6,835	1,427,401	41,479
Total	2,644,136	83,723	91,628	6,835	1,433,546	43,097

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued)*:*

	31 December 2018					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments	Others (Note)
Impaired						
Gross amount	38,649	1,076	366	–	1,520	1,785
Provision for impairment losses	(22,610)	(612)	(366)	–	(1,163)	(228)
Subtotal	16,039	464	–	–	357	1,557
Overdue but not impaired						
– Less than 3 months (inclusive)	23,893	1,143	–	–	–	–
– Between 3 months and 6 months (inclusive)	243	2	–	–	–	–
Gross amount	24,136	1,145	–	–	–	–
Provision for impairment losses	(3,778)	(64)	–	–	–	–
Subtotal	20,358	1,081	–	–	–	–
Neither overdue nor impaired						
Gross amount	2,365,702	62,736	137,966	37,775	1,304,254	30,803
Provision for impairment losses	(40,821)	(948)	(276)	(2)	(3,531)	(404)
Subtotal	2,324,881	61,788	137,690	37,773	1,300,723	30,399
Total	2,361,278	63,333	137,690	37,773	1,301,080	31,956

Note: Others comprise precious metals (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2019	31 December 2018
Impaired		
Carrying amount	366	366
Provision for impairment losses	(366)	(366)
Subtotal	–	–
Overdue but not impaired		
– grade B to BBB	270	–
Neither overdue nor impaired		
– grade A to AAA	73,880	171,905
– grade B to BBB	5,879	3,312
– unrated (Note)	18,435	246
Subtotal	98,193	175,463
Total	98,463	175,463

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the year are as follows:

	31 December 2019	31 December 2018
Impaired		
Carrying amount	1,662	1,520
Provision for impairment losses	(1,038)	(1,163)
Subtotal	624	357
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	1,033	–
– grade AA- to AA+	810	–
– grade A- to A+	25,497	8,935
– grade lower than A–	30,001	8,396
Subtotal	57,341	17,331
Other agency ratings		
– grade AAA	740,453	520,033
– grade AA- to AA+	63,240	32,986
– grade A- to A+	548	7,872
– grade lower than A–	2,119	11,725
– unrated	120,451	83,182
Subtotal	926,811	655,798
Total	984,776	673,486

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured monitored and control all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Asset and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk
Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Assets and Liability Management Department of the Group is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk
Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis point (1%) movement in the interest rates.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, whichever is earlier:

	31 December 2019						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.46%	364,340	15,487	348,853	–	–	–
Deposits with banks and other financial institutions	1.73%	31,358	6	29,359	1,993	–	–
Placements with banks and other financial institutions	2.97%	60,270	213	42,793	16,775	489	–
Financial assets held under resale agreements	2.51%	6,835	8	6,827	–	–	–
Loans and advances to customers	5.64%	2,644,136	29,609	1,992,591	531,959	86,871	3,106
Finance lease receivables	5.78%	83,723	951	69,524	289	9,195	3,764
Financial investments	4.26%	1,433,546	67,851	234,363	201,092	599,514	330,726
Others	–	109,223	106,094	–	–	–	3,129
Total assets	4.76%	4,733,431	220,219	2,724,310	752,108	696,069	340,725
Liabilities							
Due to the central bank	3.34%	224,838	3,358	7,000	214,480	–	–
Deposits from banks and other financial institutions	2.89%	444,320	2,913	339,180	102,227	–	–
Placements from banks and other financial institutions	3.10%	166,225	1,122	98,731	66,372	–	–
Financial assets sold under repurchase agreements	2.22%	25,603	18	20,422	5,163	–	–
Deposits from customers	2.28%	3,017,888	34,570	1,867,333	645,265	470,708	12
Debt securities issued	3.69%	371,904	3,158	142,222	174,052	5,789	46,683
Others	–	96,599	76,614	12,735	4,195	3,048	7
Total liabilities	2.58%	4,347,377	121,753	2,487,623	1,211,754	479,545	46,702
Asset-liability gap	2.18%	386,054	98,466	236,687	(459,646)	216,524	294,023

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, whichever is earlier (continued):

	31 December 2018						
	Effective interest rate (*) (Restated)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	366,575	14,111	352,464	–	–	–
Deposits with banks and other financial institutions	1.79%	41,005	76	40,929	–	–	–
Placements with banks and other financial institutions	3.86%	96,685	530	69,506	25,663	986	–
Financial assets held under resale agreements	3.21%	37,773	34	37,515	68	156	–
Loans and advances to customers	5.45%	2,361,278	29,287	1,822,602	435,372	70,817	3,200
Finance lease receivables	5.37%	63,333	1,801	60,331	490	711	–
Financial investments	4.42%	1,301,080	39,210	280,950	224,484	541,874	214,562
Others	–	89,603	85,956	–	–	–	3,647
Total assets	4.69%	4,357,332	171,005	2,664,297	686,077	614,544	221,409
Liabilities							
Due to the central bank	3.29%	267,193	4,143	34,500	228,550	–	–
Deposits from banks and other financial institutions	3.84%	490,091	2,704	257,323	230,064	–	–
Placements from banks and other financial institutions	3.32%	152,037	754	103,060	48,085	138	–
Financial assets sold under repurchase agreements	2.54%	40,411	18	37,330	3,063	–	–
Deposits from customers	2.15%	2,571,961	35,659	2,067,304	364,245	104,753	–
Debt securities issued	4.31%	440,449	3,669	58,022	221,007	94,881	62,870
Others	–	72,717	59,823	8,612	3,631	651	–
Total liabilities	2.78%	4,034,859	106,770	2,566,151	1,098,645	200,423	62,870
Asset-liability gap	1.91%	322,473	64,235	98,146	(412,568)	414,121	158,539

* *Effective interest rate represents the ratio of interest income/expense to average interest-bearing assets/liabilities*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2019, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB969 million (31 December 2018: decrease by RMB1,222 million), and equity to decrease by RMB5,039 million (31 December 2018: decrease by RMB4,820 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,017 million (31 December 2018: increase by RMB1,267 million), and equity to increase by RMB5,316 million (31 December 2018: increase by RMB5,074 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the year apply to all derivative and non-derivative financial instruments of the Group;

– At the end of the year, an interest rate movement of one hundred basis points is based on the assumption of interest rate movements over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the portfolio of asset and liabilities;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	353,625	10,258	457	364,340
Deposits with banks and other financial institutions	8,822	15,096	7,440	31,358
Placements with banks and other financial institutions	33,091	23,340	3,839	60,270
Financial assets held under resale agreements	6,708	127	–	6,835
Loans and advances to customers	2,488,590	100,219	55,327	2,644,136
Finance lease receivables	82,800	923	–	83,723
Financial investments	1,345,906	79,341	8,299	1,433,546
Others	98,151	10,053	1,019	109,223
Total assets	4,417,693	239,357	76,381	4,733,431
Liabilities				
Due to the central bank	224,838	–	–	224,838
Deposits from banks and other financial institutions	442,306	1,488	526	444,320
Placements from banks and other financial institutions	55,186	92,685	18,354	166,225
Financial assets sold under repurchase agreements	23,074	2,529	–	25,603
Deposit from customers	2,839,940	146,468	31,480	3,017,888
Debt securities issued	332,159	35,802	3,943	371,904
Others	86,763	7,987	1,849	96,599
Total liabilities	4,004,266	286,959	56,152	4,347,377
Net position	413,427	(47,602)	20,229	386,054
Off-balance sheet credit commitments	1,220,466	53,513	13,517	1,287,496
Derivative financial instruments (Note)	(28,453)	51,603	(17,294)	5,856

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2018			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	359,143	6,990	442	366,575
Deposits with banks and other financial institutions	14,614	18,094	8,297	41,005
Placements with banks and other financial institutions	58,436	31,783	6,466	96,685
Financial assets held under resale agreements	37,348	–	425	37,773
Loans and advances to customers	2,245,883	71,428	43,967	2,361,278
Finance lease receivables	62,291	1,042	–	63,333
Financial investments	1,247,713	43,016	10,351	1,301,080
Others	83,712	3,856	2,035	89,603
Total assets	4,109,140	176,209	71,983	4,357,332
Liabilities				
Due to the central bank	267,193	–	–	267,193
Deposits from banks and other financial institutions	489,301	145	645	490,091
Placements from banks and other financial institutions	50,288	80,231	21,518	152,037
Financial assets sold under repurchase agreements	40,364	–	47	40,411
Deposit from customers	2,408,136	134,718	29,107	2,571,961
Debt securities issued	416,623	18,437	5,389	440,449
Others	63,190	6,691	2,836	72,717
Total liabilities	3,735,095	240,222	59,542	4,034,859
Net position	374,045	(64,013)	12,441	322,473
Off-balance sheet credit commitments	932,340	52,390	26,861	1,011,591
Derivative financial instruments (Note)	(33,881)	46,775	(10,192)	2,702

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2019	31 December 2018
Exchange rates against RMB for the HK dollar	0.8949	0.8763
Exchange rates against RMB for the US dollar	6.9687	6.8633

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2019, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB7 million (31 December 2018: decrease by RMB16 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB7 million (31 December 2018: increase by RMB16 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis point fluctuation in the foreign currency exchange rates (central parity) against RMB;

– At the end of the year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movements over the next 12 months;

– Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payment of various business, whether under a normal operating environment or a state of stress; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2019							
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	301,750	62,590	–	–	–	–	–	364,340
Deposit with banks and other financial institutions	–	28,209	439	717	1,993	–	–	31,358
Placements with banks and other financial institutions	270	–	34,032	8,630	16,841	497	–	60,270
Financial assets held under resale agreements	–	–	6,835	–	–	–	–	6,835
Loans and advances to customers	33,760	409,336	162,556	132,922	635,142	612,104	658,316	2,644,136
Finance lease receivables	4	4	2,277	3,446	13,853	49,946	14,193	83,723
Financial investments	9,100	159,827	37,613	36,928	235,099	614,108	340,871	1,433,546
Others	63,610	28,678	2,015	2,765	5,698	3,325	3,132	109,223
Total assets	408,494	688,644	245,767	185,408	908,626	1,279,980	1,016,512	4,733,431
Liabilities								
Due to the central bank	–	–	7,210	–	217,628	–	–	224,838
Deposits from banks and other financial institutions	–	179,958	73,454	87,280	103,628	–	–	444,320
Placements from banks and other financial institutions	–	6	50,449	48,909	66,861	–	–	166,225
Financial assets sold under repurchase agreements	–	–	15,720	4,715	5,168	–	–	25,603
Deposits from customers	–	1,150,257	366,487	385,159	645,265	470,708	12	3,017,888
Debt securities issued	–	–	17,233	85,324	175,856	46,808	46,683	371,904
Others	–	41,076	8,245	3,294	18,649	20,388	4,947	96,599
Total liabilities	–	1,371,297	538,798	614,681	1,233,055	537,904	51,642	4,347,377
Net position	408,494	(682,653)	(293,031)	(429,273)	(324,429)	742,076	964,870	386,054
Notional amount of derivative financial instruments	–	–	404,966	378,775	1,314,045	673,700	3,640	2,775,126

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2018							
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	258,034	108,541	–	–	–	–	–	366,575
Deposit with banks and other financial institutions	–	33,789	6,177	1,039	–	–	–	41,005
Placements with banks and other financial institutions	–	–	45,345	24,436	25,918	986	–	96,685
Financial assets held under resale agreements	–	–	37,549	–	68	156	–	37,773
Loans and advances to customers	32,418	378,666	86,818	153,203	560,558	497,661	651,954	2,361,278
Finance lease receivables	184	121	1,324	3,046	11,135	35,875	11,648	63,333
Financial investments	2,453	180,633	49,292	43,254	243,026	561,212	221,210	1,301,080
Others	57,255	13,780	1,316	3,556	6,692	3,644	3,360	89,603
Total assets	350,344	715,530	227,821	228,534	847,397	1,099,534	888,172	4,357,332
Liabilities								
Due to the central bank	–	–	12,896	22,613	231,684	–	–	267,193
Deposits from banks and other financial institutions	–	140,751	89,005	28,207	232,128	–	–	490,091
Placements from banks and other financial institutions	–	6	58,966	44,503	48,425	137	–	152,037
Financial assets sold under repurchase agreements	–	–	35,206	2,142	3,063	–	–	40,411
Deposits from customers	–	1,163,169	246,800	321,019	565,913	275,060	–	2,571,961
Debt securities issued	–	–	21,153	36,869	221,007	94,881	66,539	440,449
Others	–	40,232	7,326	3,303	8,556	10,878	2,422	72,717
Total liabilities	–	1,344,158	471,352	458,656	1,310,776	380,956	68,961	4,034,859
Net position	350,344	(628,628)	(243,531)	(230,122)	(463,379)	718,578	819,211	322,473
Notional amount of derivative financial instruments	–	–	501,608	608,087	1,636,249	592,720	160	3,338,824

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the financial liabilities at the end of the year:

	31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	224,838	228,879	–	7,224	–	221,655	–	–
Deposits from banks and other financial institutions	444,320	448,811	179,959	75,916	87,926	105,010	–	–
Placements from banks and other financial institutions	166,225	167,904	6	50,558	49,207	68,133	–	–
Financial assets sold under repurchase agreements	25,603	25,667	–	15,723	4,734	5,210	–	–
Deposits from customers	3,017,888	3,049,947	1,150,257	372,046	390,510	655,277	481,840	17
Debt securities issued	371,904	405,350	–	17,555	93,250	182,147	59,086	53,312
Other financial liabilities	76,519	79,880	21,059	8,237	3,298	19,361	21,857	6,068
Total non-derivative financial liabilities	4,327,297	4,406,438	1,351,281	547,259	628,925	1,256,793	562,783	59,397
Derivative financial liabilities								
Derivative financial instruments settled on net basis		327	–	17	108	158	44	–
Derivative financial instruments settled on gross basis								
– Cash inflow		1,388,726	–	363,750	307,177	704,146	13,653	–
– Cash outflow		(1,387,827)	–	(362,637)	(307,299)	(704,213)	(13,678)	–
Total derivative financial liabilities		899	–	1,113	(122)	(67)	(25)	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the reporting period (continued):

	31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	267,193	271,562	–	12,912	22,727	235,923	–	–
Deposits from banks and other financial institutions	490,091	494,874	140,753	89,153	28,425	236,543	–	–
Placements from banks and other financial institutions	152,037	154,101	6	59,036	44,991	49,910	158	–
Financial assets sold under repurchase agreements	40,411	40,456	–	35,218	2,150	3,088	–	–
Deposits from customers	2,571,961	2,608,140	1,165,410	251,751	327,937	573,689	289,353	–
Debt securities issued	440,449	528,781	–	21,394	42,667	277,120	114,881	72,719
Other financial liabilities	58,368	59,799	40,212	5,434	774	2,290	8,115	2,974
Total non-derivative financial liabilities	4,020,510	4,157,713	1,346,381	474,898	469,671	1,378,563	412,507	75,693
Derivative financial liabilities								
Derivative financial instruments settled on net basis		84	–	–	42	–	41	1
Derivative financial instruments settled on gross basis								
– Cash inflow		1,232,949	–	300,060	289,923	636,594	6,372	–
– Cash outflow		(1,231,956)	–	(300,482)	(288,764)	(636,343)	(6,367)	–
Total derivative financial liabilities		993	–	(422)	1,159	251	5	–

This analysis of the financial instruments by contractual undiscounted cash flow might diverge from actual results.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	312,090	5,474	6,179	323,743
Guarantees, acceptances and other credit commitments	912,051	51,355	347	963,753
Total	1,224,141	56,829	6,526	1,287,496

	31 December 2018			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	273,488	580	5,116	279,184
Guarantees, acceptances and other credit commitments	684,888	44,768	2,751	732,407
Total	958,376	45,348	7,867	1,011,591

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed below:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering various business and management activities, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting year. The fair values of unlisted equity investments are estimated using comparable firms approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting year.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting year, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting year.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the year, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of the loans and advances to customers, finance lease receivables and financial investments measured at amortised cost except for debt securities investments are priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note V 19.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of the year:

	Carrying value		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets				
Debt securities investments measured at amortised cost	784,943	505,351	796,461	512,668
Financial liabilities				
Debt securities issued	371,904	440,449	371,869	435,137

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank performs valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in the valuation include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,104	–	10,104
– Interest rate derivatives	–	3,653	2	3,655
– Credit derivatives	–	46	–	46
Loans and advances to customers	–	90,578	–	90,578
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,716	13,886	–	18,602
– Financial assets designated at fair value through profit or loss	–	–	4	4
– Other financial assets at fair value through profit or loss	164,806	23,964	4,030	192,800
Debt instruments at fair value through other comprehensive income	43,527	136,478	–	180,005
Equity instruments at fair value through other comprehensive income	21	–	602	623
Precious metals	43	–	–	43
Total	213,113	278,709	4,638	496,460
Liabilities				
Financial liabilities at fair value through profit or loss	100	–	–	100
Derivative financial liabilities				
– Currency derivatives	–	10,140	–	10,140
– Interest rate derivatives	–	3,678	2	3,680
– Credit derivatives	–	72	1	73
Total	100	13,890	3	13,993

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,790	–	10,790
– Interest rate derivatives	2	4,316	7	4,325
– Credit derivatives	–	97	–	97
Loans and advances to customers	–	60,314	–	60,314
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	2,257	8,629	–	10,886
– Financial assets designated at fair value through profit or loss	–	–	6	6
– Other financial assets at fair value through profit or loss	198,482	10,228	3,135	211,845
Debt instruments at fair value through other comprehensive income	27,384	126,603	–	153,987
Equity instruments at fair value through other comprehensive income	15	–	352	367
Precious metals	26	–	–	26
Total	228,166	220,977	3,500	452,643
Liabilities				
Financial liabilities at fair value through profit or loss	354	–	–	354
Derivative financial liabilities				
– Currency derivatives	–	10,010	–	10,010
– Interest rate derivatives	24	4,273	7	4,304
– Credit derivatives	–	34	1	35
Total	378	14,317	8	14,703

During the year, there was no significant conversion between Level 1 and Level 2 of the Group's financial instruments.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets designated at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(5)	(725)	–	(730)	4	4
Purchases	–	1,906	250	2,156	–	–
Settlements	–	(288)	–	(288)	1	1
31 December 2019	2	4,034	602	4,638	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	(5)	(725)	–	(730)	4	4

The movements during the year ended 31 December 2018 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets designated at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2018	4	41,875	98	41,977	(3)	(3)
Total gains or losses:						
– In profit or loss	5	(2,196)	–	(2,191)	(4)	(4)
Purchases	–	2,618	254	2,872	(1)	(1)
Settlements	(2)	(39,156)	–	(39,158)	–	–
31 December 2018	7	3,141	352	3,500	(8)	(8)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	5	(2,196)	–	(2,191)	(4)	(4)

During the year ended 31 December 2019 and 31 December 2018, there were no significant transfers into or out of Level 3.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	142,394	654,067	–	796,461
Financial liabilities				
Debt securities issued	31,658	340,211	–	371,869

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	81,743	430,925	–	512,668
Financial liabilities				
Debt securities issued	26,492	408,645	–	435,137

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using the cash flow the discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2019, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December 2019	31 December 2018
Entrusted loans	139,790	148,654
Entrusted funds	139,790	148,654

54 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2019	31 December 2018
Loan commitments		
– Original contractual maturity within one year	19,855	33,056
– Original contractual maturity more than one year (inclusive)	13,732	12,688
Credit card commitments	290,156	233,440
Subtotal	323,743	279,184
Acceptances	609,169	477,110
Letters of guarantees	128,746	123,416
Letters of credit	225,653	131,696
Guarantees	185	185
Total	1,287,496	1,011,591

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	31 December 2019	31 December 2018
Credit risk-weighted amount of credit commitments	380,959	351,409

The credit risk-weighted amount of credit commitments represent to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2019	31 December 2018
Contracted but not paid		
– Purchase of property and equipment	1,100	790
Approved but not contracted for		
– Purchase of property and equipment	2,817	1,942
Total	3,917	2,732

(d) Underwriting and redemption commitments

The Group had no unexpired commitments for underwriting bonds as at 31 December 2019.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2019	31 December 2018
Redemption commitments	6,626	8,192

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54 Commitments and contingent liabilities (continued)

(e) Outstanding litigation and disputes

As at 31 December 2019, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,384 million (31 December 2018: RMB1,007 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels(Note V 37). The Group considers that the provisions made are reasonable and adequate.

55 Events after the financial reporting date

Establishment of Beijing Sunshine Consumer Finance Co., Ltd

The 28th Meeting of the Seventh Session of the Board of Directors of the Bank held on 15 September approved the proposal of establishing the Beijing Sunshine Consumer Finance Company Limited together with China Youth Tourism Holding Co., Ltd. and other promoters. The Bank will invest RMB600 million, representing 60% of the equity.

The Bank has received the Approval Regarding the establishment of Beijing Sunshine Consumer Finance Company Limited (CBIRC Approval [2020] No. 16) from CBIRC. At present, the relevant preparatory work is still in progress.

Impact assessment of the Coronavirus Disease 2019

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, prevention and control measures against the pandemic have been adopted nationwide. The PBOC, the MOF, the CBIRC, the CSRC and the State Administration of Foreign Exchange jointly issued the requirements of the Notice on Further Enhancing Financial Support for the Prevention and Control of the Novel Coronavirus Pneumonia Outbreak. Various ministries and commissions have also issued a series of policy measures to strengthen financial institutions' support for the prevention and control of the pandemic. The Group actively responded to the call of the Government, fulfilled social responsibilities and implemented various policy measures.

The COVID-19 will affect the business operations in certain industries and certain areas including Hubei province, even the overall economic operation in various areas. This in turn may affect the quality or the yields of the Group's credit assets and other financial assets, the extent of which will depend on factors including evolvement of the pandemic, macro policies, resumption of work and activities in enterprises.

The Group will continue to closely pay attention to the development of COVID-19, assessing and actively responding to its impact on the financial position and operating results of the Group.

56 Comparative figures

In accordance with the presenting pattern of the financial statements, the Group has reclassified some comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks*, commercial banks' Liquidity Coverage Ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December 2019
Liquidity coverage ratio	125.12%
High Quality Liquid Assets	630,894
Net cash outflows in 30 days from the end of the year	504,250

Liquidity Ratio*

	As at 31 December 2019	Average for The year ended 31 December 2019	As at 31 December 2018	Average for The year ended 31 December 2018
RMB current assets to RMB current liabilities	72.63%	69.29%	64.26%	58.20%
Foreign currency current assets to foreign currency current liabilities	93.29%	79.43%	62.15%	74.74%

* *Liquidity ratio is calculated in accordance with the banking level.*

Leverage Ratio

	31 December 2019
Leverage Ratio	6.83%

Pursuant to the Leverage Ratio Management of Commercial Banks Amendments which has been effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Net Stable Funding Ratio

The net stable fund ratio is designed to ensure commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 31 December 2019, the Group met the regulatory requirement with the net stable funding ratio standing at 105.34%.

Indicators	31 December 2019
Available and stable funds	2,693,533
Required stable funds	2,556,972
Net stable funding ratio	105.34%

2 CURRENCY CONCENTRATIONS

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	239,357	39,857	36,524	315,738
Spot liabilities	(286,959)	(33,950)	(22,202)	(343,111)
Forward purchases	759,868	20,366	7,268	787,502
Forward sales	(708,265)	(25,171)	(19,757)	(753,193)
Net long position	4,001	1,102	1,833	6,936
Net structural position	–	34	15	49

	31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	176,209	38,616	33,367	248,192
Spot liabilities	(240,222)	(39,524)	(20,018)	(299,764)
Forward purchases	704,568	11,509	1,436	717,513
Forward sales	(657,793)	(8,780)	(14,357)	(680,930)
Net (short)/long position	(17,238)	1,821	428	(14,989)
Net structural position	9	25	63	97

The net structural position of the Group includes the structural position, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include fixed assets.

(Expressed in millions of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 31 December 2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	69,367	2,868	32,485	104,720
– of which attributed to Hong Kong	19,907	537	15,350	35,794
Europe	9,874	39	32,268	42,181
North and South America	12,736	–	23,352	36,088
Total	91,977	2,907	88,105	182,989

	As at 31 December 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	73,966	910	24,329	99,205
– of which attributed to Hong Kong	22,898	782	15,034	38,714
Europe	7,633	40	21,444	29,117
North and South America	11,352	269	15,801	27,422
Total	92,951	1,219	61,574	155,744

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segments

	31 December 2019	31 December 2018
Head Office	8,963	7,455
Bohai Rim	5,201	5,077
Yangtze River Delta	5,899	5,140
Pearl River Delta	3,129	4,216
Western	4,550	4,149
Central	3,687	4,102
Northeastern	2,470	2,151
Overseas	8	8
Total	33,907	32,298

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue days

	31 December 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	8,851	8,268
– between 6 months and 1 year (inclusive)	13,642	13,049
– over 1 year	11,414	10,981
Total	33,907	32,298
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.33%	0.34%
– between 6 months and 1 year (inclusive)	0.50%	0.54%
– over 1 year	0.42%	0.45%
Total	1.25%	1.33%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(c) Collateral of loans and advances past due but not impaired

	31 December 2019	31 December 2018
Covered portion of loans and advances past due but not impaired	6,357	7,790
Uncovered portion of loans and advances past due but not impaired	18,947	16,346
Total loans and advances past due but not impaired	25,304	24,136
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	16,258	27,886

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in mainland China. As at 31 December 2019, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.

Independent Auditor's Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity; • Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights; • Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2020, gross loans and advances to customers amounted to RMB3,017.968 billion, representing 56.22% of total assets, and impairment allowance for loans and advances to customers amounted to RMB76.127 billion), impairment of loans and advances is considered a key audit matter. Relevant disclosures are included in Note III 1, Note V 16 and Note V50 (a) to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • In response to the macroeconomic changes, the COVID-19 pandemic implications and the supporting policies from government authorities, assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and any significant increase in credit risk. • Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions and the weight of multiple macroeconomic scenarios; and • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and • Evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and the impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2020, financial assets and financial liabilities measured at fair value amounted to RMB652.100 billion and RMB25.782 billion respectively, representing 12.15% and 0.53% of total assets and total liabilities, respectively. Financial instruments which required either direct (i.e. prices) or indirect (i.e. derived from prices) inputs, hence categorised within Level 2 of the fair value hierarchy, represented 56.98% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 1.72% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter. Relevant disclosures are included in Note III 2 and Note V 51(c) to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to the valuation of financial instruments, including relevant data quality and IT systems involved. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the financial statements adequately presented the risk of the Group.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of, and disclosures about, structured entities	
The Group has established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, this is considered a key audit matter. Relevant disclosures are included in Note III 6 and Note V 43 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 2020 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2020	2019
Interest income		221,475	210,044
Interest expense		(110,778)	(108,126)
Net interest income	1	110,697	101,918
Fee and commission income		27,005	25,977
Fee and commission expense		(2,682)	(2,808)
Net fee and commission income	2	24,323	23,169
Net trading gains	3	484	585
Dividend income		15	42
Net gains arising from investment securities	4	5,203	4,878
Net gains on derecognition of financial assets measured at amortised cost		591	22
Net foreign exchange gains		310	1,339
Other net operating income		1,082	986
Operating income		142,705	132,939
Operating expenses	5	(40,271)	(38,429)
Credit impairment losses	8	(56,733)	(48,965)
Other impairment losses		(199)	(382)
Operating profit		45,502	45,163
Losses on investment of joint ventures		(5)	–
Profit before tax		45,497	45,163
Income tax	9	(7,592)	(7,722)
Net profit		37,905	37,441
Net profit attributable to:			
Equity shareholders of the Bank		37,824	37,354
Non-controlling interests		81	87
		37,905	37,441
Earnings per share			
Basic earnings per share (in RMB/share)	10	0.68	0.68
Diluted earnings per share (in RMB/share)	10	0.61	0.62

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2020	2019
Net profit		37,905	37,441
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits		22	(180)
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		2	6
– Related income tax effect	23(b)	–	(2)
Subtotal		24	(176)
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		(636)	3,158
– Changes in allowance for expected credit losses		(219)	409
– Reclassified to the profit or loss upon disposal		(774)	(1,982)
– Related income tax effect	23(b)	406	(374)
– Exchange differences on translation of financial statements		(148)	48
Subtotal		(1,371)	1,259
Other comprehensive income, net of tax		(1,347)	1,083
Total comprehensive income		36,558	38,524
Total comprehensive income attributable to:			
Equity shareholders of the Bank		36,480	38,436
Non-controlling interests		78	88
		36,558	38,524

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

Consolidated Statement of Financial Position

As at 31 December 2020

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2020	31 December 2019
Assets			
Cash and deposits with the central bank	11	360,287	364,340
Deposits with banks and other financial institutions	12	46,059	31,358
Precious metals		9,353	10,826
Placements with banks and other financial institutions	13	69,290	60,270
Derivative financial assets	14	25,264	13,805
Financial assets held under resale agreements	15	43,592	6,835
Loans and advances to customers	16	2,942,435	2,644,136
Finance lease receivables	17	100,788	83,723
Financial investments	18	1,670,415	1,433,546
– Financial assets at fair value through profit or loss		304,908	211,406
– Debt instruments at fair value through other comprehensive income		222,807	180,005
– Equity instruments at fair value through other comprehensive income		875	623
– Financial investments measured at amortised cost		1,141,825	1,041,512
Investment in joint ventures	19	257	–
Property, plant and equipment	20	23,301	19,342
Right-of-use assets	21	11,137	11,684
Goodwill	22	1,281	1,281
Deferred tax assets	23	19,587	16,306
Other assets	24	45,064	35,979
Total assets		5,368,110	4,733,431
Liabilities and equity			
Liabilities			
Due to the central bank	26	241,110	224,838
Deposits from banks and other financial institutions	27	469,345	444,320
Placements from banks and other financial institutions	28	161,879	166,225
Financial liabilities at fair value through profit or loss	29	4	100
Derivative financial liabilities	14	25,778	13,893
Financial assets sold under repurchase agreements	30	14,182	25,603
Deposits from customers	31	3,480,667	3,017,888
Accrued staff costs	32	15,169	13,667
Taxes payable	33	8,772	9,322
Lease liabilities	34	10,762	11,069
Debt securities issued	35	440,870	371,904
Other liabilities	36	44,574	48,548
Total liabilities		4,913,112	4,347,377

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

Consolidated Statement of Financial Position

As at 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2020	31 December 2019
Equity			
Share capital	37	54,032	52,489
Other equity instruments	38	109,062	70,067
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	–
Capital reserve	39	58,434	53,533
Other comprehensive income	40	1,393	2,737
Surplus reserve	41	26,245	26,245
General reserve	41	67,702	59,417
Retained earnings		136,581	120,494
Total equity attributable to equity shareholders of the Bank		453,449	384,982
Non-controlling interests		1,549	1,072
Total equity		454,998	386,054
Total liabilities and equity		5,368,110	4,733,431

Approved and authorised for issue by the board of directors on 26 March 2021.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Yao Zhongyou
Vice president in charge of Finance
Executive Director

Sun Xinhong
General Manager of
Financial Accounting Department

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

(Expressed in millions of Renminbi, unless otherwise stated)

2020		Attributable to equity shareholders of the Bank											
			Other equity instruments										
	Note V	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2020		52,489	64,906	–	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054
Changes in equity for the year:													
Net profit		–	–	–	–	–	–	–	–	37,824	37,824	81	37,905
Other comprehensive income	40	–	–	–	–	–	(1,344)	–	–	–	(1,344)	(3)	(1,347)
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	400	400
Capital contribution by other equity instrument holders		–	–	39,993	–	–	–	–	–	–	39,993	–	39,993
Conversion of convertible bonds into share capital and capital reserve		1,543	–	–	(998)	4,901	–	–	–	–	5,446	–	5,446
Appropriation of profit:	42												
– Appropriation to general reserve		–	–	–	–	–	–	–	8,285	(8,285)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	–	(11,233)	(11,233)	(1)	(11,234)
– Dividends to preference shareholders		–	–	–	–	–	–	–	–	(2,219)	(2,219)	–	(2,219)
Balance at 31 December 2020		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998

2019		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	37,354	37,354	87	37,441
Other comprehensive income	40	–	–	–	–	1,082	–	–	–	1,082	1	1,083
Capital contribution by other equity instrument holders		–	34,959	–	–	–	–	–	–	34,959	–	34,959
Appropriation of profit:	42											
– Appropriation to surplus reserve		–	–	–	–	–	1,874	–	(1,874)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	5,381	(5,381)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2019		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054

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

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	2020	2019
Cash flows from operating activities		
Net profit	37,905	37,441
Adjustments for:		
Credit impairment losses	56,733	48,965
Other impairment losses	199	382
Depreciation and amortisation	5,164	4,664
Unwinding of discount	(767)	(828)
Dividend income	(15)	(42)
Unrealised foreign exchange losses/(gains)	503	(112)
Net gains on investment securities	(57,032)	(54,632)
Net gains on derecognition of financial assets measured at amortised cost	(591)	(22)
Losses on investments of joint ventures	5	–
Net gains on disposal of trading securities	(733)	(1,021)
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(139)	2,162
Interest expense on debt securities issued	11,669	15,221
Interest expense on lease liabilities	487	489
Net losses on disposal of property, plant and equipment	23	25
Income tax	7,592	7,722
	61,003	60,414
Changes in operating assets		
Net decrease/(increase) in deposits with the central bank, banks and other financial Institutions	1,990	(42,733)
Net decrease in placements with banks and other financial institutions	5,781	20,549
Net increase in financial assets held for trading	(13,763)	(6,928)
Net increase in loans and advances to customers	(349,060)	(331,235)
Net (increase)/decrease in financial assets held under resale agreements	(36,770)	30,913
Net increase in other operating assets	(26,405)	(35,775)
	(418,227)	(365,209)
Changes in operating liabilities		
Net increase/(decrease) in deposits from banks and other financial institutions	25,957	(45,587)
Net (decrease)/increase in placements from banks and other financial institutions	(3,699)	13,820
Net decrease in financial assets sold under repurchase agreements	(11,451)	(14,793)
Net increase/(decrease) in amounts due to the central bank	17,271	(41,570)
Net increase in deposits from customers	452,197	446,317
Income tax paid	(11,297)	(10,239)
Net increase in other operating liabilities	5,403	21,947
	474,381	369,895
Net cash flows from operating activities	117,157	65,100
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	702,616	637,019
Investment income received	55,630	59,415
Proceeds from disposal of Property, plant and equipment and other assets	13	305
Payments on acquisition of investments	(924,959)	(766,714)
Payments on acquisition of Property, plant and equipment, intangible assets and other long-term assets	(6,860)	(4,448)
Net cash flows from investing activities	(173,560)	(74,423)

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

	Note V	2020	2019
Cash flows from financing activities			
Capital injected into subsidiaries by non-controlling shareholders		400	–
Proceeds from issuance of other equity instrument holders		39,993	34,959
Proceeds from insurance of debts		514,774	224,259
Repayments of debts issued		(439,051)	(292,293)
Interest paid on debt securities issued		(12,981)	(15,732)
Dividends paid		(13,453)	(9,902)
Other net cash flows from financing activities		(2,924)	(2,744)
Net cash flows used in financing activities		86,758	(61,453)
Effect of foreign exchange rate changes on cash and cash equivalents		(2,778)	595
Net increase/(decrease) in cash and cash equivalents	46 (a)	27,577	(70,181)
Cash and cash equivalents as at 1 January		117,499	187,680
Cash and cash equivalents as at 31 December	46 (b)	145,076	117,499
Interest received		163,990	161,077
Interest paid (excluding interest expense on debt securities issued)		(90,899)	(93,880)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China (the "PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 19) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"),the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

These financial statements have been approved by the Board of Directors on 26 March 2021.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note III.

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the "Accounting Standards for Business Enterprises-Basic Standard" issued by the Ministry of Finance of the People's Republic of China (the "MOF"), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the "PRC GAAP"). There is no difference in the net profit for the year or total equity as at the end of the year between the Group's consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the Conceptual Framework for Financial Reporting 2018 and the following new standards, amendments and interpretations.

IFRS 3 Amendments	*Definition of a Business*
IAS 1 and IAS 8 Amendments	*Definition of Material*
IFRS 9, IAS 39 and IFRS 7 Amendments	*Interest Rate Benchmark Reform*
IFRS 16 Amendment	*COVID-19-Related Rent Concessions*

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2020 (continued)

The amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the yaer of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The amendments must be applied retrospectively.

IFRS 16 Amendment provides for rent relief during COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease changes in IFRS 16 for rent relief granted due to the impact of COVID-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020, and earlier adoption is permitted. The Group has adopted the amendments from 1 January 2020.

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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020

		Effective for annual periods beginning on or after
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments	*Interest Rate Benchmark Reform – Phase 2*	1 January 2021
IFRS 3 Amendments	*Reference to the Conceptual Framework*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	*Accounting policies disclosures*	1 January 2023
IAS 8 Amendments	*Definition of accounting estimates*	1 January 2023
IFRS 17 and Amendments	*Insurance Contracts*	1 January 2023
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 (issued in May 2020)	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*	1 January 2022

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address the accounting issues that arise when financial instruments that reference Interbank Offered Rates ("IBOR") transition to nearly RFRs. The amendments include a practical expedient for modifications, which permits contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate. The amendments also permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. In addition, while IFRS 9 and IAS 39 require that a risk component (or a designated portion) is "separately identifiable" to be eligible for hedge accounting, the amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Additional disclosures are required for adoption.

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (continued)

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments to IAS 1 *Presentation of Financial Statements* and IFRS *Practice Statement 2* provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 8 introduces a new definition of 'accounting estimates'. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

IFRS 17 *Insurance Contracts* and IFRS 17 amendments replaced IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (continued)

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2018-2020 were issued in May 2020, including an amendment to IFRS 9 *Financial Instruments*, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the "10 per cent" test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 *Leases*, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2 Consolidation (continued)

2.1 Subsidiaries (continued)

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

2.2 Joint Ventures

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3 Cash and cash equivalents

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

4 Foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in "Other comprehensive income". Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in "Other comprehensive income". Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the statement of profit or loss.

Assets and liabilities of foreign operations are translated to Renminbi at the spot exchange rates at the end of the year. Equity items, excluding "Retained Earnings", are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders' equity with respect to a foreign operation are transferred to profit or loss in the year when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

5.1 Recognition and de-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

(1) the contractual rights to the cash flows from the financial asset expire; or

(2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flows collected to a third party in full and on time under the "pass-through agreement" and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in a conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished - that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

5.2 Classification and measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial asset (continued)

Business models

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to determine whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification:

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in “other comprehensive income”, except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when an accounting mismatch can be eliminated or significantly reduced, financial assets can be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as a financial asset designated at fair value through profit or loss, it cannot be reclassified as other financial asset; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swaps to manage the associated interest rate risk.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss, other financial liabilities or designated as effective hedging instruments at initial recognition. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial liabilities, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

5.4 Impairment of financial instruments

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 50(a)).

5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

In terms of the hedge accounting method, the Group's hedge is classified as:

(1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk);

(2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognised definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Gains or losses arising from hedging instruments are recognised in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognised in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

For the fair value hedges related to the debt instrument measured at amortised cost, the adjustment of the book value of the hedged item should be amortised by the effective interest rate method during the remaining period of the hedge and recognised in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognised hedge gains or losses are amortised in the same way and recognised in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortised fair value is recognised in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedge

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognised in other comprehensive income, and the ineffective part shall be recognised in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognised in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognised in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.7 Convertible corporate bonds

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to share capital is recognised in capital surplus under "Capital reserve".

5.8 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined at the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

5.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the year of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are not reported as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

8 Property, plant and equipment

Property, plant and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's property, plant and equipment mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

8 Property, plant and equipment (continued)

8.1 Premises, electronic equipment and others

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property, plant and equipment are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value(%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

8.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

8.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

9 Leases

9.1 Lease classification

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.2 Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes the periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise the corresponding option.

9.3 As lessee

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. In calculating the present value of the lease payments after modification, the revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For the impact on the adjustments of a lease liability, the Group accounts for the remeasurement by:

(1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease or shorten the lease term, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or

(2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.3 As lessee (continued)

The incremental borrowing rate of lessee

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

Short-term leases and leases of low-value assets

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

9.4 As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets. In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.5 Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises:

(1) the amount of the initial measurement of the lease liability;

(2) any lease payments made at or before the commencement date of the lease less any lease incentives received;

(3) any initial direct cost incurred when the Group is a lessee; and

(4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

9.6 Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the amounts expected to be payable under a residual value guarantee; (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iii) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

11 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 13). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

12 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

13 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: property, plant and equipment, right-of-use assets, construction in progress, intangible assets, goodwill and investments in subsidiaries and joint ventures.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

13 Provision for impairment losses on non-financial assets (continued)

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognise the impairment loss in the statement of profit or loss. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

14 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

14.1 Short-term employee benefits

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

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

14.2 Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

14 Employee benefits (continued)

14.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

– When the Group can no longer withdraw an offer of those benefits; and

– When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

14.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

15 Other provisions and contingent liabilities

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

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

16 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amounts. No provision for impairment loss is made for entrusted loans.

17 Other equity instruments

Preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payable are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

Perpetual bonds

The perpetual bonds issued by the Group do not include the contractual obligations to pay cash or other financial assets to other parties or exchange financial assets or financial liabilities with other parties under potential adverse conditions; and perpetual bonds issued includes no terms and arrangement that the bonds must or will alternatively be settled in the Group's own equity instruments. The perpetual bonds issued by the Group are divided into equity instruments. The handling fees and commissions incurred in issuing the perpetual bonds are divided into equity instruments, and the transaction costs are deducted from equity. The interest on perpetual bond is recognized as profit distribution at the time of declaration.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

18 Income recognition

The income should be recognised when the Group's performance obligation in the contract is fulfilled, which refers the revenue is recognised when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

18.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

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

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

18.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

18.3 Other income

Other income is recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

19 Expenses recognition

19.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

19.2 Other expenses

Other expenses are recognised on an accrual basis.

20 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

20 Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

21 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

22 Related parties

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

23 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- management overlay
- modification of contractual cash flows

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values of these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure that the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and the discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

5 Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax: value-added tax is charged at 6% and 13% on taxable added value.

(b) City construction tax: city construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge: education surcharge is calculated as 3% of business tax.

(d) Income tax: the income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A."), the Luxembourg subsidiary, is 19%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2020	2019
Interest income arising from			
Deposits with the central bank		5,073	5,020
Deposits with banks and other financial institutions		616	1,470
Placements with banks and other financial institutions		1,083	3,208
Loans and advances to customers	(a)		
– Corporate loans and advances		76,214	70,854
– Personal loans and advances		77,477	72,578
– Discounted bills		2,295	2,020
Finance lease receivables		5,524	4,444
Financial assets held under resale agreements		964	2,377
Investments		52,229	48,073
Subtotal		221,475	210,044
Interest expenses arising from			
Due to the central bank		6,414	8,012
Deposits from banks and other financial institutions		10,271	12,712
Placements from banks and other financial institutions		4,270	6,520
Deposits from customers			
– Corporate customers		58,045	47,074
– Individual customers		19,643	16,880
Financial assets sold under repurchase agreements		466	1,707
Debt securities issued		11,669	15,221
Subtotal		110,778	108,126
Net interest income		110,697	101,918

Note:

(a) *The interest income arising from impaired financial assets for the year ended 31 December 2020 amounted to RMB767 million (2019: RMB828 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2020	2019
Fee and commission income		
Bank card service fees	12,245	14,163
Agency services fees	3,288	2,744
Wealth management service fees	2,518	634
Settlement and clearing fees	1,701	1,538
Underwriting and advisory fees	1,626	1,909
Custody and other fiduciary business fees	1,614	1,446
Acceptance and guarantee fees	1,529	1,360
Others	2,484	2,183
Subtotal	27,005	25,977
Fee and commission expense		
Bank card transaction fees	1,842	1,908
Settlement and clearing fees	150	144
Others	690	756
Subtotal	2,682	2,808
Net fee and commission income	24,323	23,169

3 Net trading gains

	2020	2019
Trading financial instruments		
– Derivatives	(369)	(355)
– Debt securities	836	920
Subtotal	467	565
Financial instruments designated at fair value through profit or loss	(2)	(1)
Precious metal contracts	19	21
Total	484	585

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	2020	2019
Net gains arising from financial investments at fair value through profit or loss	5,016	4,622
Net losses arising from debt instruments at fair value through other comprehensive income	(785)	(1,915)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	198	189
Net revaluation gains reclassified from other comprehensive income on disposal	774	1,982
Total	5,203	4,878

5 Operating expenses

	Note	2020	2019
Staff costs			
– Salaries and bonuses		13,003	12,759
– Pension and annuity		1,611	2,167
– Housing allowances		991	881
– Staff welfares		574	443
– Supplementary retirement benefits		154	110
– Others		2,910	2,041
Subtotal		19,243	18,401
Premises and equipment expenses			
– Depreciation of right-of-use assets		2,677	2,429
– Depreciation of Property, plant and equipment		1,651	1,485
– Amortisation of intangible assets		524	400
– Rental and property management expenses		492	565
– Interest expense on lease liabilities		487	489
– Amortisation of other long-term assets		312	350
Subtotal		6,143	5,718
Tax and surcharges		1,483	1,400
Other general and administrative expenses	(a)	13,402	12,910
Total		40,271	38,429

Note:

(a) Auditors' remuneration for the year ended 31 December 2020 was RMB9.90 million (2019: RMB9.50 million).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows:

		2020							
				Discretionary bonuses			Contributions to social pension schemes	Other welfares	
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	RMB'000	RMB'000	Total RMB'000
Executive directors									
Lu Hong		–	1,520	740	–	2,260	46	111	2,417
Liu Jin	(i)	–	298	223	–	521	12	111	644
Non-executive directors									
Li Xiaopeng		–	–	–	–	–	–	–	–
Wu Lijun	(ii)	–	–	–	–	–	–	–	–
Liu Chong		–	–	–	–	–	–	–	–
Yu Chunling		–	–	–	–	–	–	–	–
Independent non-executive directors									
Li Yinquan	(ii)	–	215	–	–	215	–	–	215
Xu Hongcai		–	430	–	–	430	–	–	430
Wang Liguo		–	420	–	–	420	–	–	420
Shao Ruiqing		–	426	–	–	426	–	–	426
Hong Yongsen		–	430	–	–	430	–	–	430
Supervisors									
Li Xin		–	1,600	660	–	2,260	46	111	2,417
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Wang Zhe		330	–	–	–	330	–	–	330
Qiao Zhimin		340	–	–	–	340	–	–	340
Xu Keshun		–	734	1,572	–	2,306	46	111	2,463
Sun Jianwei		–	736	1,095	–	1,831	46	111	1,988
Shang Wencheng		–	704	1,280	–	1,984	44	111	2,139

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

		2020							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former non-executive directors									
Cai Yunge	(ii)	–	–	–	–	–	–	–	–
Wang Xiaolin	(ii)	–	–	–	–	–	–	–	–
Shi Yongyan	(ii)	–	–	–	–	–	–	–	–
Dou Hongquan	(ii)	–	–	–	–	–	–	–	–
He Haibin	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive directors									
Fok Oi Ling	(ii)	215	–	–	–	215	–	–	215
Feng Lun	(ii)	360	–	–	–	360	–	–	360

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2019							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive director								
Lu Hong	–	952	1,228	–	2,180	44	126	2,350
Non-executive directors								
Li Xiaopeng	–	–	–	–	–	–	–	–
Cai Yunge	–	–	–	–	–	–	–	–
Wang Xiaolin	–	–	–	–	–	–	–	–
Shi Yongyan	–	–	–	–	–	–	–	–
Dou Hongquan	–	–	–	–	–	–	–	–
He Haibin	–	–	–	–	–	–	–	–
Liu Chong	–	–	–	–	–	–	–	–
Yu Chunling	–	–	–	–	–	–	–	–
Independent non-executive directors								
Fok Oi Ling	370	–	–	–	370	–	–	370
Xu Hongcai	271	–	–	–	271	–	–	271
Wang Liguo	360	–	–	–	360	–	–	360
Shao Ruiqing	150	–	–	–	150	–	–	150
Hong Yongmiao	93	–	–	–	93	–	–	93
Supervisors								
Li Xin	–	984	1,195	–	2,179	44	126	2,349
Yin Lianchen	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Wu Gaolian	–	–	–	–	–	–	–	–
Wang Zhe	290	–	–	–	290	–	–	290
Qiao Zhimin	75	–	–	–	75	–	–	75
Xu Keshun	–	363	570	–	933	21	64	1,018
Sun Jianwei	–	364	456	–	820	18	64	902
Shang Wencheng	–	348	519	–	867	21	64	952

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2019							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former executive director								
Ge Haijiao	–	200	150	–	350	16	105	471
Former non-executive directors								
Fu Dong	–	–	–	–	–	–	–	–
Zhao Wei	–	–	–	–	–	–	–	–
Former independent non-executive director								
Qiao Zhimin	284	–	–	–	284	–	–	284
Xie Rong	216	–	–	–	216	–	–	216
Feng Lun	343	–	–	–	343	–	–	343
Former Supervisors								
Sun Xinhong	–	348	570	–	918	–	–	918
Jiang Ou	–	349	456	–	805	–	–	805
Huang Dan	–	264	519	–	783	–	–	783
Yu Erniu	–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

Notes:

(i) On 25 March 2020, the CIRC approved Mr. Liu Jin's qualification as an executive director of the Bank.

(ii) On 25 March 2020, the CIRC approved Mr. Wu Lijun's qualifications as a director and the vice chairman of the Bank.

On 26 March 2020, Mr. Li Yinquan was elected as an independent director of the Bank at the First Extraordinary Shareholders' General Meeting in 2020, and on 11 June 2020, the CIRC approved his qualification as an independent director.

On 23 September 2020, due to work adjustment, Mr. Cai Yunge resigned as a non-executive director, a member of the risk Management Committee of the board of directors and a member of the Audit Committee of the board of directors.

On 28 July 2020, Mr. Wang Xiaolin resigned as a non-executive director of the Bank, the chairman and a member of the risk Management Committee of the board of directors, a member of the Strategy Committee of the board of directors and a member of the Compensation Committee of the board of directors due to the change of equity and personal work adjustment of the Bank.

On July 28 2020, Mr. Shi Yongyan resigned as a non-executive director, a member of the Nomination Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to the change of equity and personal work adjustment of the Bank.

On 28 July 2020, Mr. Dou Hongquan resigned as a non-executive director, a member of the Strategy Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to the change of equity and personal work adjustment of the Bank.

On 27 July 2020, Mr. He Haibin resigned as a non-executive director, a member of the Audit Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to work adjustment.

On 11 June 2020, Ms. Fok Oi Ling ceased to be an independent director, the chairman and a member of the Connected Transaction Control Committee of the board of directors, a member of the Audit Committee of the board of directors, a member of the Nomination Committee of the board of directors and a member of the Remuneration Committee of the board of directors due to the expiration of her term of office.

On 30 July 2019, after the election of the Second Interim Shareholders' General Meeting of the bank in 2019, Mr. Feng Lun was no longer an independent director of the bank. Mr. Feng Lun continued to perform his duties until his qualification for replacing his independent director was approved by the CBRC.

(iii) The total compensation package for these directors and supervisors for the year ended 31 December 2020 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2020.

The above directors' and supervisors' emoluments for the year ended 31 December 2020 were calculated in accordance with their actual tenure.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Individuals with highest emoluments

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	2,492	1,899
Discretionary bonuses	23,092	27,512
Contributions to pension schemes	205	248
Others	499	488
Total	26,288	30,147

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2020	2019
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	1	–
RMB4,500,001-5,000,000	2	2
RMB5,000,001 and above	2	3

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

8 Credit impairment losses

	2020	2019
Loans and advances to customers		
– measured at amortised cost	53,197	47,821
– measured at fair value through other comprehensive income	156	(35)
Debt instruments at fair value through other comprehensive income	(334)	439
Financial investments measured at amortised cost	772	(314)
Finance lease receivables	973	752
Others	1,969	302
Total	56,733	48,965

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Income tax

(a) Income tax:

	Note V	2020	2019
Current tax		10,917	13,727
Deferred tax	23(b)	(2,876)	(5,887)
Adjustments for prior year	9(b)	(449)	(118)
Total		7,592	7,722

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2020	2019
Profit before tax		45,497	45,163
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		11,374	11,291
Effect of different tax rates applied by certain subsidiaries		(10)	(5)
Non-deductible expenses			
– Staff costs		136	88
– Impairment losses on assets		982	527
– Others		321	309
Subtotal		1,439	924
Non-taxable income	(i)	(4,762)	(4,370)
Subtotal		8,041	7,840
Adjustments for prior year		(449)	(118)
Income tax		7,592	7,722

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Net profit attributable to equity holders of the Bank	37,824	37,354
Less: Dividends on preference shares declared	2,219	1,450
Net profit attributable to ordinary shareholders of the Bank	35,605	35,904
Weighted average number of ordinary shares in issue (in million shares)	52,746	52,489
Basic earnings per share (in RMB/share)	0.68	0.68

Weighted average number of ordinary shares in issue (in million shares)

	2020	2019
Issued ordinary shares as at 1 January	52,489	52,489
Add: Weighted average number of new issued ordinary shares in current year	257	–
Weighted average number of ordinary shares in issue	52,746	52,489

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2020	2019
Net profit attributable to ordinary shareholders of the Bank	35,605	35,904
Add: Interest expense on convertible bonds, net of tax	850	899
Net profit used to determine diluted earnings per share	36,455	36,803
Weighted average number of ordinary shares in issue (in million shares)	52,746	52,489
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,313	7,264
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,059	59,753
Diluted earnings per share (in RMB/share)	0.61	0.62

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Cash and deposits with the central bank

	Notes	31 December 2020	31 December 2019
Cash on hand		4,471	4,355
Deposits with the central bank			
– Statutory deposit reserves	(a)	293,540	297,528
– Surplus deposit reserves	(b)	56,132	57,546
– Foreign currency risk reserves	(c)	2,305	3,732
– Fiscal deposits		3,693	1,050
Subtotal		360,141	364,211
Accrued interest		146	129
Total		360,287	364,340

Notes:

(a) *The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:*

	31 December 2020	*31 December 2019*
Reserve ratio for RMB deposits	*9.00%*	*10.50%*
Reserve ratio for foreign currency deposits	*5.00%*	*5.00%*

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2020, the foreign currency risk reserve ratio was 0% (31 December 2019: 20%).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Deposits in Mainland China		
– Banks	29,185	12,868
– Other financial institutions	314	528
Deposits outside Mainland China		
– Banks	16,980	18,399
Subtotal	46,479	31,795
Accrued interest	59	6
Total	46,538	31,801
Less: Provision for impairment losses	(479)	(443)
Net balances	46,059	31,358

13 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Placements in Mainland China		
– Banks	14,502	4,160
– Other financial institutions	17,702	29,777
Placements outside Mainland China		
– Banks	37,216	26,291
Subtotal	69,420	60,228
Accrued interest	179	213
Total	69,599	60,441
Less: Provision for impairment losses	(309)	(171)
Net balances	69,290	60,270

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting

Derivative financial instruments included forward, swap, and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure that the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting year, while they do not represent exposure at risk.

(a) Analysed by nature of contract

	31 December 2020		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	1,110,897	5,821	(6,340)
Currency derivatives			
– Foreign exchange forwards	21,022	523	(610)
– Foreign exchange swap and cross-currency interest rate swaps	1,055,992	18,144	(18,499)
– Foreign exchange options	20,981	774	(246)
Credit derivatives	1,405	2	(83)
Total	2,210,297	25,264	(25,778)

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivative			
– Interest rate swaps	1,298,443	3,655	(3,680)
Currency derivatives			
– Foreign exchange forwards	29,168	229	(197)
– Foreign exchange swap and cross-currency interest rate swaps	1,365,001	9,483	(9,557)
– Foreign exchange options	78,260	392	(386)
Credit derivatives	4,254	46	(73)
Total	2,775,126	13,805	(13,893)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amount

	31 December 2020	31 December 2019
Counterparty default risk-weighted assets		
– Interest rate derivatives	2,504	492
– Currency derivatives	4,808	3,449
– Credit derivatives	21	317
Credit value adjustment risk-weighted assets	2,277	1,710
Total	9,610	5,968

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment ("CVA"). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged item is fixed interest bonds. As at 31 December 2020, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB3,286 million (31 December 2019: RMB14 million), in the above hedging instrument, derivative financial assets was RMB2 million (31 December 2019: Nil), derivative financial liabilities was RMB118 million (31 December 2019: RMB95 thousands).

In 2020, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting (continued)

(d) IBOR Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the year 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 Group has fair value hedge accounting relationships that are exposed to the US dollar LIBOR. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships may be entered into, while others may survive the market-wide benchmarks reform. The hedge items that are affected by the adoption of the temporary exceptions in hedge accounting relationships are presented in the statement of financial position as"Financial investments".

As at 31 December 2020, the notional amount of interest rate derivatives designated in fair value hedge accounting relationships represent the extent of the fair value hedge accounting's risk exposure managed by the Group that is directly affected by market-wide benchmark reform and impacted by the temporary exceptions is RMB3.286 billion.

In August 2020, IASB issued Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2. The Group will adopt the amendments from 1 January 2021.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2020	31 December 2019
In Mainland China		
– Banks	13,262	2,000
– Other financial institutions	30,331	4,702
Outside Mainland China		
– Other financial institutions	5	126
Subtotal	43,598	6,828
Accrued interest	3	8
Total	43,601	6,836
Less: Provision for impairment losses	(9)	(1)
Net balances	43,592	6,835

(b) Analysed by type of security held

	31 December 2020	31 December 2019
Bonds		
– Government bonds	20,074	2,062
– Other debt securities	23,524	4,766
Subtotal	43,598	6,828
Accrued interest	3	8
Total	43,601	6,836
Less: Provision for impairment losses	(9)	(1)
Net balances	43,592	6,835

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers

(a) Analysed by nature

	31 December 2020	31 December 2019
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,627,339	1,463,630
Discounted bills	652	488
Personal loans and advances		
– Personal housing mortgage loans	492,444	414,211
– Personal business loans	171,336	158,871
– Personal consumption loans	173,565	140,545
– Credit cards	445,935	443,881
Subtotal	1,283,280	1,157,508
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	29,938	26,403
Discounted bills	68,273	64,175
Subtotal	98,211	90,578
Total	3,009,482	2,712,204
Accrued interest	8,486	8,160
Gross loans and advances to customers	3,017,968	2,720,364
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)	(76,228)
Net loans and advances to customers	2,942,435	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)	(438)

As at the end of the year, part of the above loans and advances to customers was pledged for repurchase agreements. See Note V 25(a).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2020		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	313,427	10.41%	106,816
Water, environment and public utility management	294,595	9.79%	121,503
Real estate	224,450	7.46%	154,223
Leasing and commercial services	189,785	6.31%	66,502
Wholesale and retail trade	127,522	4.24%	49,657
Construction	107,987	3.59%	32,520
Finance	97,132	3.23%	4,765
Transportation, storage and postal services	88,535	2.94%	37,660
Agriculture, forestry, husbandry and fishery	54,100	1.80%	17,062
Production and supply of electricity, gas and water	45,532	1.51%	12,163
Others	114,212	3.79%	36,048
Subtotal of corporate loans and advances	1,657,277	55.07%	638,919
Personal loans and advances	1,283,280	42.64%	653,526
Discounted bills	68,925	2.29%	65,161
Total	3,009,482	100.00%	1,357,606
Accrued interest	8,486		
Gross loans and advances to customers	3,017,968		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)		
Net loans and advances to customers	2,942,435		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)		

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	270,177	9.96%	102,716
Water, environment and public utility management	261,465	9.64%	111,707
Real estate	211,918	7.81%	130,785
Leasing and commercial services	170,068	6.27%	65,501
Wholesale and retail trade	113,140	4.17%	42,016
Construction	94,793	3.50%	35,149
Transportation, storage and postal services	87,226	3.22%	36,653
Finance	76,907	2.84%	12,380
Production and supply of power, gas and water	45,948	1.69%	13,517
Agriculture, forestry, husbandry and fishery	41,459	1.53%	12,962
Others	116,932	4.31%	45,051
Subtotal of corporate loans and advances	1,490,033	54.94%	608,437
Personal loans and advances	1,157,508	42.68%	550,653
Discounted bills	64,663	2.38%	62,914
Total	2,712,204	100.00%	1,222,004
Accrued interest	8,160		
Gross loans and advances to customers	2,720,364		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)		
Net loans and advances to customers	2,644,136		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)		

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at 31 December 2020 and for the year ended 31 December 2020, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2020					
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Impairment charged during the year	Written-off during the year
Manufacturing	13,608	(3,378)	(5,591)	(6,106)	2,689	1,816

(c) Analysed by type of collateral

	31 December 2020	31 December 2019
Unsecured loans	941,130	852,885
Guaranteed loans	710,746	637,315
Secured loans		
– By tangible assets other than monetary assets	1,017,960	862,021
– By monetary assets	339,646	359,983
Total	3,009,482	2,712,204
Accrued interest	8,486	8,160
Gross loans and advances to customers	3,017,968	2,720,364
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)	(76,228)
Net loans and advances to customers	2,942,435	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)	(438)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	31 December 2020		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	652,565	21.69%	266,093
Central	532,348	17.69%	296,164
Pearl River Delta	396,086	13.16%	263,189
Bohai Rim	387,332	12.87%	223,419
Western	373,595	12.41%	212,662
Northeastern	117,580	3.91%	80,952
Overseas	98,819	3.28%	9,916
Head Office	451,157	14.99%	5,211
Total	3,009,482	100.00%	1,357,606

	31 December 2019		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	556,102	20.49%	219,717
Central	447,249	16.49%	256,676
Bohai Rim	349,559	12.89%	199,916
Western	348,706	12.86%	200,481
Pearl River Delta	341,541	12.59%	220,143
Northeastern	121,928	4.50%	80,011
Overseas	96,174	3.55%	38,005
Head Office	450,945	16.63%	7,055
Total	2,712,204	100.00%	1,222,004

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2020			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	5,383	(9,100)	(2,930)	(3,140)
Central	5,225	(5,561)	(3,418)	(3,006)
Bohai Rim	6,160	(2,592)	(2,499)	(3,355)
Western	3,365	(3,400)	(3,326)	(1,786)
Pearl River Delta	4,699	(4,955)	(3,685)	(2,843)
Total	24,832	(25,608)	(15,858)	(14,130)

	31 December 2019			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	6,831	(6,439)	(4,847)	(3,625)
Central	5,031	(4,094)	(2,461)	(3,218)
Bohai Rim	5,797	(2,159)	(2,435)	(3,032)
Western	4,951	(2,849)	(4,212)	(2,707)
Pearl River Delta	4,155	(4,219)	(1,829)	(1,811)
Total	26,765	(19,760)	(15,784)	(14,393)

For the definition of regional divisions, see Note V 49(b).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue years

	31 December 2020				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,474	12,760	1,200	30	28,464
Guaranteed loans	5,221	2,964	3,535	582	12,302
Secured loans					
– By tangible assets other than monetary assets	10,367	5,765	4,176	1,386	21,694
– By monetary assets	1,287	284	564	1	2,136
Subtotal	31,349	21,773	9,475	1,999	64,596
Accrued interest	276	–	–	–	276
Total	31,625	21,773	9,475	1,999	64,872
As a percentage of gross loans and advances to customers	1.05%	0.72%	0.31%	0.07%	2.15%

	31 December 2019				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	15,557	11,118	323	33	27,031
Guaranteed loans	4,954	4,953	3,726	609	14,242
Secured loans					
– By tangible assets other than monetary assets	5,692	4,973	4,421	1,429	16,515
–By monetary assets	1,434	1,449	837	36	3,756
Subtotal	27,637	22,493	9,307	2,107	61,544
Accrued interest	69	–	–	–	69
Total	27,706	22,493	9,307	2,107	61,613
As a percentage of gross loans and advances to customers	1.01%	0.83%	0.34%	0.08%	2.26%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	31 December 2020				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,837,009	124,772	47,701	3,009,482	1.59%
Accrued interest	6,649	1,374	463	8,486	
Gross loans and advances to customers	2,843,658	126,146	48,164	3,017,968	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(31,192)	(21,037)	(23,304)	(75,533)	
Net loans and advances to customers	2,812,466	105,109	24,860	2,942,435	

	31 December 2019				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,546,902	123,090	42,212	2,712,204	1.56%
Accrued interest	6,701	1,158	301	8,160	
Gross loans and advances to customers	2,553,603	124,248	42,513	2,720,364	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,060)	(27,574)	(24,594)	(76,228)	
Net loans and advances to customers	2,529,543	96,674	17,919	2,644,136	

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(24,060)	(27,574)	(24,594)	(76,228)
Transfer to Stage 1	(2,112)	2,049	63	–
Transfer to Stage 2	988	(1,072)	84	–
Transfer to Stage 3	216	10,315	(10,531)	–
Charge for the year	(9,488)	(7,133)	(42,506)	(59,127)
Release for the year	3,260	2,378	292	5,930
Disposal	–	–	20,310	20,310
Write-off and transfer out	–	–	36,013	36,013
Recovery of loans and advances written off	–	–	(3,202)	(3,202)
Unwinding of discount on allowance	–	–	767	767
Exchange fluctuation and others	4	–	–	4
As at 31 December 2020	(31,192)	(21,037)	(23,304)	(75,533)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1	(2,089)	2,038	51	–
Transfer to Stage 2	742	(787)	45	–
Transfer to Stage 3	156	2,233	(2,389)	–
Charge for the year	(3,899)	(10,693)	(38,804)	(53,396)
Release for the year	4,365	899	311	5,575
Disposal	–	–	13,826	13,826
Write-off and transfer out	–	–	26,576	26,576
Recovery of loans and advances written off	–	–	(2,428)	(2,428)
Unwinding of discount on allowance	–	–	828	828
As at 31 December 2019	(24,060)	(27,574)	(24,594)	(76,228)

Note:

(i) *The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2020, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB594 million (31 December 2019: RMB438 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	31 December 2020	31 December 2019
Rescheduled loans and advances to customers	7,659	11,888
Of which: Rescheduled loans and advances to customers overdue more than 90 days	245	898

17 Finance lease receivables

	31 December 2020	31 December 2019
Minimum finance lease receivables	118,247	99,825
Less: Unearned finance lease income	(15,442)	(14,662)
Present value of minimum lease receivable	102,805	85,163
Accrued interest	1,128	936
Less: Impairment losses	(3,145)	(2,376)
Net balance	100,788	83,723

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2020	31 December 2019
Less than 1 year (inclusive)	32,149	23,619
1 year to 2 years (inclusive)	25,745	20,418
2 years to 3 years (inclusive)	20,825	17,123
3 years to 4 years (inclusive)	15,752	12,628
4 years to 5 years (inclusive)	11,420	9,745
More than 5 years	12,356	16,292
Total	118,247	99,825

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments

	Notes	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss	(a)	304,908	211,406
Debt instruments at fair value through other comprehensive income	(b)	222,807	180,005
Equity instruments at fair value through other comprehensive income	(c)	875	623
Financial investments measured at amortised cost	(d)	1,141,825	1,041,512
Total		1,670,415	1,433,546

(a) Financial assets at fair value through profit or loss

	Notes	31 December 2020	31 December 2019
Debt instruments held for trading	(i)	33,040	18,602
Financial assets designated at fair value through profit or loss	(ii)	1	4
Other financial assets at fair value through profit or loss	(iii)	271,867	192,800
Total		304,908	211,406

(i) Debt instruments held for trading

	Notes	31 December 2020	31 December 2019
Issued by the following governments or institutions:			
In Mainland China			
– Government		80	132
– Banks and other financial institutions		9,291	4,975
– Other institutions	(1)	19,985	9,436
Outside Mainland China			
– Banks and other financial institutions		1,770	2,624
– Other institutions		1,914	1,435
Total	(2)	33,040	18,602
Listed	(3)	4,391	4,716
Of which: listed in Hong Kong		2,194	1,703
Unlisted		28,649	13,886
Total		33,040	18,602

Notes:

(1) *At the end of the year, debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.*

(2) *At the end of the year, some of the debt instruments held for trading were pledged for repurchase agreements. See Note V 25(a).*

(3) *Listed investments include debt instruments traded on a stock exchange.*

18 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(ii) Financial assets designated at fair value through profit or loss

	31 December 2020	31 December 2019
Fixed interest rate personal mortgage loans	1	4

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the reporting year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Fund investments	212,937	159,760
Equity instruments	2,620	2,019
Others	56,310	31,021
Total	271,867	192,800

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	31 December 2020	31 December 2019
In Mainland China			
– Government		59,441	40,880
– Banks and other financial institutions	(1)	75,493	51,640
– Other institutions	(2)	51,310	56,371
Outside Mainland China			
– Government		349	98
– Banks and other financial institutions		12,535	7,574
– Other institutions		19,786	19,777
Subtotal		218,914	176,340
Accrued interest		3,893	3,665
Total	(3)(4)	222,807	180,005
Listed	(5)	50,534	43,019
Of which listed in Hong Kong		33,872	29,884
Unlisted		168,380	133,321
Subtotal		218,914	176,340
Accrued interest		3,893	3,665
Total		222,807	180,005

Notes:

(1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.

(2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at 31 December 2020, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximated to RMB456 million (31 December 2019: RMB826 million).

(4) At the end of the year, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note V 25(a).

(5) Listed investments include debt instruments traded on a stock exchange.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(708)	–	(118)	(826)
Transfer to Stage 3	1	–	(1)	–
Net charge for the year	(292)	–	(15)	(307)
Reversal for the year	543	–	98	641
Exchange fluctuation and others	36	–	–	36
As at 31 December 2020	(420)	–	(36)	(456)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(384)	–	–	(384)
Transfer to Stage 3	2	–	(2)	–
Net charge for the year	(343)	–	(116)	(459)
Reversal for the year	20	–	–	20
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(708)	–	(118)	(826)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2020	31 December 2019
Equity instruments at fair value through other comprehensive income	(i)	875	623
Listed	(ii)	23	21
Of which: listed in Hong Kong		–	–
Unlisted		852	602
Total		875	623

Notes:

(i) *The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2020, the fair value was RMB875 million (31 December 2019: RMB623 million). For the year ended 31 December 2020, the Group has received dividends of RMB14 million from the above equity instruments (2019: RMB11 million).*

(ii) *Listed investments include equity instruments traded on a stock exchange.*

(d) Financial investments measured at amortised cost

	Notes	31 December 2020	31 December 2019
Debt securities and asset-backed instruments	(i)	921,967	773,460
Others	(ii)	207,486	256,649
Subtotal		1,129,453	1,030,109
Accrued interest		17,510	15,786
Total		1,146,963	1,045,895
Less: Provision for impairment losses		(5,138)	(4,383)
Net balance		1,141,825	1,041,512
Listed	(iii)	159,519	139,562
Of which: listed in Hong Kong		21,710	20,905
Unlisted		964,796	886,164
Subtotal		1,124,315	1,025,726
Accrued interest		17,510	15,786
Net balance		1,141,825	1,041,512

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	31 December 2020	31 December 2019
In Mainland China			
– Government		386,220	340,733
– Banks and other financial institutions	(1)	333,697	228,028
– Other institutions	(2)	168,370	183,628
Outside Mainland China			
– Government		4,777	1,891
– Banks and other financial institutions		23,141	5,486
– Other institutions		5,762	13,694
Subtotal		921,967	773,460
Accrued interest		15,621	13,140
Total	(3)	937,588	786,600
Less: Provision for impairment losses		(1,937)	(1,657)
Net balance		935,651	784,943
Fair value		944,985	796,461

Notes:

(1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.

(2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at the end of the year, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note V 25(a).

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments include debt instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial Investments (continued)

(d) Financial investments measured at amortised cost (continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(2,513)	(101)	(1,769)	(4,383)
Transfer to Stage 1	(30)	30	–	–
Transfer to Stage 2	179	(179)	–	–
Transfer to Stage 3	6	47	(53)	–
Charge for the year	(1,003)	(323)	(1,017)	(2,343)
Release for the year	1,412	54	105	1,571
Exchange fluctuation and others	17	–	–	17
As at 31 December 2020	(1,932)	(472)	(2,734)	(5,138)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Transfer to Stage 2	3	(3)	–	–
Transfer to Stage 3	8	–	(8)	–
Charge for the year	–	(98)	(723)	(821)
Release for the year	1,010	–	125	1,135
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(2,513)	(101)	(1,769)	(4,383)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investment in subsidiaries and joint ventures

(a) Investments in subsidiaries

	31 December 2020	31 December 2019
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co., Ltd.	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd.	600	–
Total	12,983	12,383

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd.	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd.	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd.	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd (Note i)	Beijing	1,000	60%	60%	Banking business	Incorporated company

(i) In August 2020, the bank established its subsidiary, Beijing Sunshine Consumer Finance Co., Ltd. ("Sunshine Consumer Finance"), with a registered capital of RMB1 billion. The bank contributed RMB600 million, accounting for 60% of all the equity.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investment in subsidiaries and joint ventures (continued)

(b) Investments in joint ventures

	2020
As at 1 January 2020	–
Increased investment	262
Investment losses under the equity method	(5)
As at 31 December 2020	257

20 Property, plant and equipment

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2020	12,949	5,657	2,210	6,667	4,498	31,981
Additions	276	3,117	405	1,959	488	6,245
Transfers in/(out)	301	(170)	(301)	–	–	(170)
Disposals	–	–	–	(378)	(196)	(574)
Foreign currency conversion difference	–	(477)	–	(1)	(1)	(479)
As at 31 December 2020	13,526	8,127	2,314	8,247	4,789	37,003
Accumulated depreciation						
As at 1 January 2020	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Charge for the year	(402)	(223)	–	(578)	(448)	(1,651)
Transfer out	–	12	–	–	–	12
Disposals	–	–	–	372	169	541
Foreign currency conversion difference	–	37	–	1	1	39
As at 31 December 2020	(4,506)	(582)	–	(5,100)	(3,351)	(13,539)
Provision for impairment						
As at 1 January 2020	(159)	–	–	–	–	(159)
Charge for the year	(4)	–	–	–	–	(4)
As at 31 December 2020	(163)	–	–	–	–	(163)
Net book value						
As at 31 December 2020	8,857	7,545	2,314	3,147	1,438	23,301

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Property, plant and equipment (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	69	170	1,256	871	459	2,825
Transfers in/(out)	1,146	–	(1,146)	–	–	–
Disposals	(3)	(332)	–	(399)	(133)	(867)
Foreign currency conversion difference	–	94	–	–	–	94
As at 31 December 2019	12,949	5,657	2,210	6,667	4,498	31,981
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the year	(404)	(200)	–	(480)	(401)	(1,485)
Disposals	3	38	–	374	125	540
Foreign currency conversion difference	–	(6)	–	–	–	(6)
As at 31 December 2019	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 31 December 2019	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2019	8,686	5,249	2,210	1,772	1,425	19,342

Notes:

(i) *As at 31 December 2020, title deeds were not yet finalised for the premises with a carrying amount of RMB42 million (31 December 2019: RMB45 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 31 December 2020, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB7,545 million (31 December 2019: RMB5,249 million). As at the end of the year, part of the finance lease receivables was pledged for borrowings from banks. See Note V 25(a).*

The net book values of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	31 December 2020	31 December 2019
Held in Mainland China		
– Medium term leases (10 to 50 years)	8,547	8,454
– Short term leases (less than 10 years)	310	232
Total	8,857	8,686

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Right-of-use Assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2020	14,023	66	14,089
Additions	2,524	12	2,536
Charge for the year	(937)	(14)	(951)
Foreign currency conversion difference	(13)	–	(13)
As at 31 December 2020	15,597	64	15,661
Accumulated depreciation			
As at 1 January 2020	(2,388)	(17)	(2,405)
Charge for the year	(2,662)	(15)	(2,677)
Reduction for the year	548	9	557
Foreign currency conversion difference	1	–	1
As at 31 December 2020	(4,501)	(23)	(4,524)
Net book value			
As at 31 December 2020	11,096	41	11,137

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	2,557	8	2,565
Charge for the year	(303)	(3)	(306)
Foreign currency conversion difference	1	–	1
As at 31 December 2019	14,023	66	14,089
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(2,412)	(17)	(2,429)
Reduction for the year	24	–	24
As at 31 December 2019	(2,388)	(17)	(2,405)
Net book value			
As at 31 December 2019	11,635	49	11,684

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Goodwill

	31 December 2020	31 December 2019
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed the "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank's cash flow forecast is 12% (2019: 13%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

23 Deferred tax assets and liabilities

(a) Analysed by nature

	31 December 2020		31 December 2019	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	78,350	19,587	65,221	16,306
Deferred income tax liabilities	–	–	(6)	(1)
Total	78,350	19,587	65,215	16,305

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2020	14,664	(243)	1,884	16,305
Recognised in profit or loss	2,594	40	242	2,876
Recognised in other comprehensive income	66	340	–	406
31 December 2020	17,324	137	2,126	19,587

	Provision for impairment losses (Note (i))	Fair value changes of financial instruments (Note (ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Recognised in profit or loss	5,042	705	140	5,887
Recognised in other comprehensive income	(102)	(274)	–	(376)
31 December 2019	14,664	(243)	1,884	16,305

Notes:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Fair value changes of financial instruments are subject to tax when realised.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Other assets

	Notes	31 December 2020	31 December 2019
Other receivables	(a)	30,903	24,288
Accrued interest		4,661	2,988
Intangible assets		2,160	1,646
Refundable Deposits		1,698	1,326
Long-term deferred expense		896	871
Property, plant and equipment purchase prepayment		703	795
Repossessed assets		390	478
Land use rights		89	88
Others		3,564	3,499
Total		45,064	35,979

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

25 Pledged assets

(a) Assets pledged as collateral

The Group's financial assets as collateral for liabilities include discounted bills, debt securities and property, plant and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks.The carrying amount of the financial assets pledged as securities as at 31 December 2020 is RMB79.936 billion (31 December 2019: RMB86.158 billion)

(b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2020. As at 31 December 2020, the Group's collateral received from banks and other financial institutions has expired (31 December 2019: Nil). As at 31 December 2020, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2019: Nil). These transactions are conducted under standard terms in the normal course of business.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Due to the central bank

	31 December 2020	31 December 2019
Due to the central bank	238,751	221,480
Accrued interest	2,359	3,358
Total	241,110	224,838

27 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Deposits in Mainland China		
– Banks	149,996	170,505
– Other financial institutions	317,300	269,224
Deposits outside Mainland China		
– Banks	226	1,836
Subtotal	467,522	441,565
Accrued interest	1,823	2,755
Total	469,345	444,320

28 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Placements in Mainland China		
– Banks	115,334	89,480
– Other financial institutions	1,004	1,004
Placements outside Mainland China		
– Banks	45,072	74,625
Subtotal	161,410	165,109
Accrued interest	469	1,116
Total	161,879	166,225

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Financial liabilities at fair value through profit or loss

	31 December 2020	31 December 2019
Short position in debt securities	4	100
Total	4	100

30 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2020	31 December 2019
In Mainland China		
– Banks	7,047	23,064
– Other financial institutions	930	–
Outside Mainland China		
– Banks	5,895	2,390
– Other financial institutions	298	131
Subtotal	14,170	25,585
Accrued interest	12	18
Total	14,182	25,603

(b) Analysed by collateral

	31 December 2020	31 December 2019
Debt securities	9,958	14,771
Bank acceptances	4,212	10,814
Subtotal	14,170	25,585
Accrued interest	12	18
Total	14,182	25,603

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Deposits from customers

	31 December 2020	31 December 2019
Demand deposits		
– Corporate customers	850,381	783,859
– Individual customers	274,087	217,892
Subtotal	1,124,468	1,001,751
Time deposits		
– Corporate customers	1,530,885	1,262,657
– Individual customers	526,723	466,413
Subtotal	2,057,608	1,729,070
Pledged deposits	251,964	232,522
Other deposits	3,182	21,682
Subtotal deposits from customers	3,437,222	2,985,025
Accrued interest	43,445	32,863
Total	3,480,667	3,017,888

32 Accrued staff costs

	Notes	31 December 2020	31 December 2019
Salary and welfare payable	(a)	12,626	11,929
Pension payable	(b)	1,310	620
Supplementary retirement benefits payable	(c)	1,233	1,118
Total		15,169	13,667

Notes:

(a) List of salary and welfare payable

As at 31 December 2020, the group reclassified salary and welfare payable and restated the comparative figures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32 Accrued staff costs (continued)

Notes: (continued)

(b) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(c) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Wills Towers Watson Management Consulting (Shenzhen) Co.,Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2020	31 December 2019
Present value of supplementary retirement benefits liability	1,233	1,118

(ii) Movements of SRB of the Group are as follows:

	2020	2019
As at 1 January 2020	1,118	843
Current service costs	110	77
Interest costs	44	33
Recalculation part of the defined benefit plan	(22)	180
Payments made	(17)	(15)
As at 31 December 2020	1,233	1,118

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 40.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32 Accrued staff costs (continued)

Notes: (continued)

(c) Supplementary retirement benefits ("SRB") (continued)

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December 2020	*31 December 2019*
Discount rate	*4.00%*	*4.00%*
Medical cost trend rate	*6.00%*	*5.88%*
Average expected future lifetime	*22.80*	*22.80*

As at 31 December 2020 and 31 December 2019, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

(iv) Sensitivity analysis:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2020	
	Increases	*Decreases*
Discount rate (1% movement)	*(575)*	*631*
Medical cost trend rate (1% movement)	*653*	*(461)*

	31 December 2019	
	Increases	*Decreases*
Discount rate (1% movement)	*(301)*	*330*
Medical cost trend rate (1% movement)	*356*	*(251)*

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (b) and (c) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Taxes payable

	31 December 2020	31 December 2019
Income tax payable	5,617	6,446
Value added tax payable	2,705	2,446
Others	450	430
Total	8,772	9,322

34 Lease liabilities

	31 December 2020	31 December 2019
Within 1 year (inclusive)	2,636	2,611
1 year to 2 years (inclusive)	2,305	2,283
2 years to 3 years (inclusive)	1,893	1,937
3 years to 5 years (inclusive)	2,601	2,711
More than 5 years	2,916	3,292
Total undiscounted lease liabilities	12,351	12,834
Lease liabilities	10,762	11,069

35 Debt securities issued

	Notes	31 December 2020	31 December 2019
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	5,795	55,782
Tier-two capital bonds issued	(c)	41,430	39,983
Convertible bonds issued	(d)	22,884	27,547
Interbank deposits issued	(e)	313,045	199,057
Certificates of deposit issued	(f)	31,762	19,249
Medium term notes	(g)	17,412	20,428
Subtotal		439,028	368,746
Accrued interest		1,842	3,158
Total		440,870	371,904

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(a) Subordinated debts issued

	Notes	31 December 2020	31 December 2019
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) *Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.*

(ii) *As at 31 December 2020, the fair value of the total subordinated debts issued approximated to RMB6,871 million (31 December 2019: RMB6,998 million).*

(b) Financial bonds issued

	Notes	31 December 2020	31 December 2019
Financial fixed rate bonds maturing in February 2020	(i)	–	27,999
Financial fixed rate bonds maturing in July 2020	(ii)	–	21,995
Financial fixed rate bonds maturing in November 2021	(iii)	4,996	4,990
Financial fixed rate bonds maturing in January 2022	(iv)	799	798
Total		5,795	55,782

Notes:

(i) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(ii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iii) *Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.*

(iv) *Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.*

(v) *As at 31 December 2020, the fair value of the total financial bonds issued approximated to RMB5,840 million (31 December 2019: RMB56,058 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(c) Tier-two capital bonds issued

	Notes	31 December 2020	31 December 2019
Tier-two capital fixed rate bonds maturing in March 2027	(i)	27,990	27,988
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	11,995	11,995
Tier-two capital fixed rate bonds maturing in September 2030	(iii)	1,445	–
Total		41,430	39,983

Notes:

(i) Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.

(ii) Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.

(iii) Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 15 September 2025 at the nominal amount.

(iv) As at 31 December 2020, the fair value of the total tier-two capital bonds issued approximated to RMB41,935 million (31 December 2019: RMB40,935 million).

(d) Convertible bonds issued

	31 December 2020	31 December 2019
Fixed rate six years convertible bonds issued in March 2017	22,884	27,547

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V 38	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2020		2,786	–	2,786
Accumulated conversion amount as at 1 January 2020		(1)	–	(1)
Balance as at 1 January 2020		27,547	5,161	32,708
Amortisation during the year		783	–	783
Conversion amount during the year	(iv)	(5,446)	(998)	(6,444)
Balance as at 31 December 2020		22,884	4,163	27,047

Notes:

(i) *Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the year ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including interest for the sixth year.*

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2020, the conversion price is RMB3.76 per share.*

(iv) *As at 31 December 2020, a total of RMB5,801million (31 December 2019: RMB965,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 1,542,813,979 shares (31 December 2019: 228,101 shares).*

(v) *In 2020, a total of RMB300 million interests on the convertible bonds has been paid by the Bank (2019: RMB150 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(e) Interbank deposits issued

In 2020, 329 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB508,600 million (2019: RMB216,490 million). The carrying amount of interbank deposits due in 2020 was RMB392,400 million (2019: RMB285,690 million). As at 31 December 2020, the fair value of its outstanding interbank deposits issued was RMB310,619 million (31 December 2019: RMB196,493 million).

(f) Certificates of deposit issued

As at 31 December 2020, the certificates of deposit were issued by the Bank's Hong Kong branch, Seoul branchm, Sydney branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

(g) Medium term notes

	Notes	31 December 2020	31 December 2019
Medium term notes with fixed rate maturing in 8 March 2020	(i)	–	3,472
Medium term notes with floating rate maturing in 13 June 2020	(ii)	–	3,484
Medium term notes with floating rate maturing in 13 June 2021	(iii)	2,407	2,342
Medium term notes with floating rate maturing in 13 June 2021	(iv)	1,958	2,091
Medium term notes with floating rate maturing in 19 September 2021	(v)	1,958	2,083
Medium term notes with floating rate maturing in 24 June 2022	(vi)	3,262	3,484
Medium term notes with floating rate maturing in 11 December 2022	(vii)	3,262	3,472
Medium term notes with floating rate maturing in 3 August 2023	(viii)	4,565	–
Total		17,412	20,428

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(g) Medium term notes (continued)

Notes:

(i) *Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.*

(ii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.*

(iii) *Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.*

(iv) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.*

(v) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.*

(vi) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.*

(vii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.*

(viii) *Floating rate medium term notes of USD700 million with a term of three years were issued by the Bank's Hong Kong branch on 27 July 2020. The initial coupon rate is 1.10% per annum.*

(ix) *As at 31 December 2020, the fair value of the medium term notes approximated to RMB17,432 million(31 December 2019:RMB20,478 million)*

36 Other liabilities

	Notes	31 December 2020	31 December 2019
Deferred income	(a)	5,222	6,710
Bank loans	(b)	14,302	17,597
Finance leases payable		6,034	4,876
Provisions	(c)	4,280	2,751
Payment and collection clearance accounts		3,364	1,761
Dormant accounts		421	354
Dividend payables		21	21
Others		10,930	14,478
Total		44,574	48,548

Notes:

(a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*

(b) *As at 31 December 2020, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loans is RMB14,302 million (31 December 2019: RMB17,597 million).*

(c) *As at 31 December 2020, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB126 million (31 December 2019: RMB255 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Share capital

The Bank's shareholding structure as at the end of the reporting year is as follows:

	31 December 2020	31 December 2019
Ordinary shares listed in Mainland China (A share)	41,353	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	54,032	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

38 Other equity instruments

	Note V	31 December 2020	31 December 2019
Preference shares (Notes (a), (b), (c), (e))		64,906	64,906
Equity of convertible bonds	35 (d)	4,163	5,161
Perpetual bonds (Notes (d), (e))		39,993	–
Total		109,062	70,067

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion triggering events
Everbright P3					
2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
Subtotal				65,000	
Less:					
Issuing costs				(94)	
Book value				64,906	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(b) Main clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than to the ordinary shareholders.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Triggering Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

Upon the occurrence of a non-viability triggering event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(b) Main clauses (continued)

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant year.

(c) Changes in preference shares outstanding

	1 January 2020		Additions for the year		31 December 2020	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

	1 January 2019		Additions for the year		31 December 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	350	34,959	650	64,906

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instrument (continued)

(d) Main clauses of perpetual bonds

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the "Bonds") which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the above bonds.

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier one capital and to increase its capital adequacy ratio.

(e) Interests attributable to equity instruments' holders

Items	31 December 2020	31 December 2019
Total equity attributable to equity shareholders of the Bank	453,449	384,982
– Equity attributable to ordinary shareholders of the Bank	348,550	320,076
– Equity attributable to preference shareholders of the Bank	64,906	64,906
– Equity attributable to Perpetual bonds of the Bank	39,993	–
Total equity attributable to non- controlling interests	1,549	1,072
– Equity attributable to non-controlling interests of ordinary shares	1,549	1,072
– Equity attributable to non-controlling interests of preference shares	–	–
– Equity attributable to non-controlling interests Perpetual bonds	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Capital reserve

	31 December 2020	31 December 2019
Share premium	58,434	53,533

40 Other comprehensive income

	31 December 2020	31 December 2019
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	16	14
Remeasurement of a defined benefit plan	(281)	(303)
Subtotal	(265)	(289)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	1,739	2,959
– Net change in fair value	928	1,998
– Net change in expected credit loss	811	961
Exchange differences on translation of financial statements	(81)	67
Subtotal	1,658	3,026
Total	1,393	2,737

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the previous year	904	307	4	47	(180)	1,082
As at 1 January 2020	1,998	961	14	67	(303)	2,737
Changes in amount for the year	(1,070)	(150)	2	(148)	22	(1,344)
As at 31 December 2020	928	811	16	(81)	(281)	1,393

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

42 Appropriation of profits

(a) At the Board Meeting held on 26 March 2021, the Board of Directors approved the following profit appropriations for the year ended 31 December 2020:

– The accumulated amount of withdrawal has reached 50% of the Bank registered capital; According to the relevant terms of the company law, the surplus reserve can no longer be withdrawn in this profit distribution;

– Appropriated RMB7,492 million to general reserve;

– The 2021 annual dividend of RMB1,680 million should be paid to the Third preference shareholders in cash dividend RMB4.80 per share before tax base on the copon dividend yield of 4.8%; and

– Declared cash dividends of RMB11,347 million to all ordinary shareholders of 54,032 million shares as at 31 December 2020, representing RMB2.10 per 10 shares before tax.

(b) At the Annual General Meeting of shareholders held on 5 June 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019:

– Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated amount of withdrawal has reached 50% of the Bank's registered capital;

– Appropriated RMB5,380 million to general reserve; and

– Declared cash dividends of RMB11,233 million to all ordinary shareholders' shares, representing RMB2.14 per 10 shares before tax.

(c) At the Board Meeting held on 27 March 2020, the dividend distribution of the Everbright P3 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB769 million before tax, representing RMB2.20 per share before tax, accruing from 18 July 2019, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Appropriation of profits (continued)

(d) At the Board Meeting held on 5 June 2020, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB1,060 million before tax, representing RMB5.30 per share before tax, accruing from 25 June 2019, and are calculated using 5.30% of dividend yield ratio for the Everbright P1.

(e) At the Board Meeting held on 30 July 2020, the dividend distribution of the Everbright P2 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB390 million before tax, representing RMB3.90 per share before tax, accruing from 13 August 2019, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

43 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2020		31 December 2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	211,085	211,085	159,760	159,760
– Asset management plans	30,282	30,282	18,686	18,686
Financial investments measured at amortised cost				
– Asset management plans	205,206	205,206	256,569	256,569
– Asset-backed securities	149,205	149,205	119,439	119,439
Total	595,778	595,778	554,454	554,454

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2020, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

As at 31 December 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB836,273 million (31 December 2019: RMB778,837 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2020 but matured before 31 December 2020 was PMB200 million (2019: RMB771 million).

In 2020, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB2,518 million (2019: RMB634 million).

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. As at 31 December 2020, the balance of above transactions was Nil (31 December 2019: RMB9,106 million, included in "placements with banks and other financial institutions"). In 2020, the amount of interest receivables from the above financing transactions was not material for the Group in the statement of profit or loss.

In addition, please refer to Note V 44 for the interests in the unconsolidated structured entities of asset securitization transactions held by the Group as at 31 December 2020. In 2020, the Group's income from these structured entities was immaterial.

In July 2020, the regulatory authorities made a decision on extending the transition period for the Guiding Opinions on Regulating Asset Management Business of Financial Institutions to the end of 2021 and encouraged orderly disposal of legacy assets in a variety of ways such as undertaking by new wealth management products, market-based transfer, and transferring assets back to the statement of financial position. According to the regulatory requirements, the Group has promoted the disposal of the legacy wealth management business in a pragmatic, efficient, actively and orderly way in order to achieve a smooth transition and stable development of the wealth management business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Involvement with structured entities (continued)

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

44 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases, these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was Nil as at 31 December 2020 (31 December 2019: RMB13 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2020, the Group has no continuing involvement in credit asset-backed securities (31 December 2019: Nil).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Transferred financial assets(continued)

Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2020, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2020, loans with an original carrying amount of RMB1,998 million (31 December 2019: RMB2,590 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2020, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2019: RMB614 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the reporting year, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements are as follows:

	31 December 2020	31 December 2019
Total common equity tier-one capital	349,479	320,793
Share capital	54,032	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	63,990	61,431
Surplus reserve	26,245	26,245
General reserve	67,702	59,417
Retained earnings	136,581	120,494
Qualifying portions of non-controlling interests	929	717
Common equity tier-one capital deductions	(3,457)	(2,930)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(2,160)	(1,646)
Net deferred tax assets arising from operating losses that depend on future profits	(16)	(3)
Net common equity tier-one capital	346,022	317,863
Additional tier-one capital	105,023	65,002
Additional tier-one capital instruments	104,899	64,906
Qualifying portions of non-controlling interests	124	96
Tier-one capital net	451,045	382,865
Tier-two capital	82,485	82,640
Qualifying portions of tier-two capital instruments issued and share premium	44,525	46,683
Excess loan loss provisions	36,566	35,766
Qualifying portions of non-controlling interests	1,394	191
Net capital base	533,530	465,505
Total risk-weighted assets	3,837,489	3,456,054
Common equity tier-one capital adequacy ratio	9.02%	9.20%
Tier-one capital adequacy ratio	11.75%	11.08%
Capital adequacy ratio	13.90%	13.47%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	31 December 2020	31 December 2019
Cash and cash equivalents as at 31 December	145,076	117,499
Less: Cash and cash equivalents as at 1 January	117,499	187,680
Net increase/(decrease) in cash and cash equivalents	27,577	(70,181)

(b) Cash and cash equivalents

	31 December 2020	31 December 2019
Cash on hand	4,471	4,355
Deposits with the central bank	56,132	57,546
Deposits with banks and other financial institutions	40,483	26,581
Placements with banks and other financial institutions	43,990	29,017
Total	145,076	117,499

47 Related party relationships and transactions

(a) Related parity relationships

(i) The ultimate parent company and its subsidiaries

The ultimate parent of the Group is China Investment Corporation set up in China.

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through the China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year. The amount and balance of related parties and transactions between the group and the ultimate parent company and its subsidiaries are listed in Note V 47(b).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(ii) Affiliated companies

The immediate parent of the Group is China Everbright Group Ltd. ("China Everbright Group"). The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note V 47(b).

The affiliated companies that have related party transactions with the Group are as follows:

Related party
– China Everbright Limited (Everbright Limited)
– Everbright Securities Co., Ltd. (Everbright Secrities)
– China Everbright Group Limited
– China Everbright industry (Group) Co., Ltd
– Everbright Financial Holdings Asset Management Co., Ltd
– Everbright Life Insurance Co., Ltd
– Everbright Xinglong Trust Co., Ltd
– Everbright Prudential Fund Management Co., Ltd
– Everbright Futures Co., Ltd
– Everbright Fortune Investment Co., Ltd
– Everbright Capital Investment Co., Ltd
– Everbright happiness International Leasing Co., Ltd
– Everbright Yongming Asset Management Co., Ltd
– China Everbright international Trust and Investment Corporation
– Everbright Jinou Asset Management Co., Ltd
– Everbright Securities Financial Holding Co., Ltd
– China CYTS Group Corporation
– Cachet Pharmaceutical Co., Ltd
– Everbright Technology Co., Ltd
– Everbright happiness international commercial factoring Co., Ltd
– Everbright sunshine Asset Management Co., Ltd
– Hangzhou Jinou Asset Management Co., Ltd
– Guokaitai Industrial Development Co., Ltd
– Zhongqing Chuangyi Investment Management Co., Ltd
– Shenzhen Qianhai Everbright Investment Management Co., Ltd
– Everbright Securities Asset Management Co., Ltd
– Guanghang No. 2 (Tianjin) Leasing Co., Ltd
– Beijing Everbright Jinhui 360 Investment Management Center
– Everbright tesilian (Beijing) Culture Technology Co., Ltd
– Everbright photonics Investment Management Co., Ltd
– Guanghang No. 1 (Tianjin) Leasing Co., Ltd
– Shanghai Guiyun Asset Management Co., Ltd
– China Everbright pension Health Industry Co., Ltd
– Everbright Cultural Investment Co., Ltd
– Everbright Development Investment Co., Ltd
– Everbright Cloud Payment Technology Co., Ltd
– Beijing Everbright Huichen Pension Service Co., Ltd

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(iii) Other related parties

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, and shareholders holding more than 5% shares of the Group.

The other related parties that have related party transactions with the Group are as follows:

Other related parties

– Overseas Chinese Town Holding Company
– China Shipping (Group) Company
– Orient Securities Co., Ltd. Henan Zhongyuan Chemical Co., Ltd
– Jilin TuoCheng Construction Engineering Co., Ltd
– China UnionPay Co., Ltd
– Orient Securities Co., Ltd
– Konka Group Co., Ltd
– China Pacific Property Insurance Co., Ltd
– China Pacific Life Insurance Co., Ltd
– Shenergy Group Co., Ltd.
– COSCO Shipping Development Co., Ltd
– China Ocean Shipping Group Co., Ltd
– Shenneng (Group) Co., Ltd
– Bohai Securities Co., Ltd
– Shanghai gas (Group) Co., Ltd
– China Marine Fuel Co., Ltd
– Shenzhen weipin Zhiyuan Information Technology Co., Ltd
– Shanghai Zhongbo Enterprise Management Development Co., Ltd
– Shanghai Insurance Exchange Co., Ltd
– Beijing Jingneng clean energy power Co., Ltd
– Shijiazhuang Hualin Food Co., Ltd
– Zhengzhou Chemical Light Industry Co.,Ltd
– China Eastern Airlines Group Co., Ltd
– Huadian Fuxin Energy Co., Ltd
– Fujian Bofang Technology Co., Ltd
– China Cinda Asset Management Co., Ltd
– Zhongke Zhiyuan Technology Co., Ltd
– Shanghai international port (Group) Co., Ltd
– CYTS Holding Co., Ltd

The amount and balance of transactions between the Group and other related parties are shown in Notes V 47(b).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions

(i) The ultimate parent company and its subsidiaries

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	2020	2019
Interest income	1,521	1,051
Interest expense	(3,411)	(3,548)

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	31 December 2020	31 December 2019
Deposits with banks and other financial institutions	13,098	9,552
Precious metals	–	51
Placements with banks and other financial institutions	22,233	13,909
Derivative financial assets	7,047	3,764
Financial assets held under resale agreements	15,505	997
Loans and advances to customers	2,599	694
Financial investments	221,493	170,418
Financial assets at fair value through profit or loss	56,471	36,270
Debt instruments at fair value through other comprehensive income	39,852	27,611
Financial investments measured at amortised cost	125,170	106,537
Other assets	3,548	419
Deposits from banks and other financial institutions	98,208	81,621
Placements from banks and other financial institutions	56,025	70,629
Derivative financial liabilities	9,072	3,678
Financial assets sold under repurchase agreements	6,523	2,970
Deposits from customers	51,476	14,586
Other liabilities	249	30

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(ii) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows:

	China Everbright Group (Note V 47(a))	Affiliated companies	Others	Total
Transactions with related parties for year ended 31 December 2020:				
Interest income	–	422	1,242	1,664
Interest expense	(127)	(339)	(444)	(910)
Balances with related parties as at 31 December 2020:				
Placements with banks and other financial institutions	–	3,200	1,000	4,200
Derivative financial assets	–	–	21	21
Financial assets held under resale agreements	–	385	1,900	2,285
Loans and advances to customers	–	5,523	15,356	20,879
Financial investments	105	40,613	2,948	43,666
Financial assets at fair value through profit or loss	–	8,527	1,982	10,509
Debt instruments at fair value through other comprehensive income	105	40	213	358
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	32,046	655	32,701
Other assets	–	5	2,633	2,638
Total	105	49,726	23,858	73,689
Deposits from banks and other financial institutions	–	17,173	9,769	26,942
Derivative financial liabilities	–	–	23	23
Deposits from customers	4,284	9,815	39,412	53,511
Total	4,284	26,988	49,204	80,476
Significant other sheet items with related parties as at 31 December 2020:				
Guarantee granted (Note)	180	–	–	180

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows: (continued)

	China Everbright Group (Note V 47(a))	Affiliated companies	Others	Total
Transactions with related parties for the year ended 31 December 2019:				
Interest income	–	533	501	1,034
Interest expense	(159)	(371)	(331)	(861)
Balances with related parties as at 31 December 2019:				
Placements with banks and other financial institutions	–	508	2,002	2,510
Derivative financial assets	–	–	12	12
Loans and advances to customers	–	7,251	9,064	16,315
Financial investment	178	8,112	98	8,388
Financial assets at fair value through profit or loss	–	7,727	–	7,727
Debt instruments at fair value through other comprehensive income	178	385	–	563
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	113,480	256	113,736
Other assets	–	3,261	–	3,261
Total	178	132,612	11,432	144,222
Deposits from banks and other financial institutions	–	3,147	1,528	4,675
Derivative financial liabilities	–	–	11	11
Deposits from customers	4,652	15,696	35,638	55,986
Other liabilities	–	693	167	860
Total	4,652	19,536	37,344	61,532
Significant other sheet items with related parties as at 31 December 2019:				
Guarantee granted (Note)	180	–	–	180

Note: As at 31 December 2020, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2019: RMB180 million) due to one of the state-owned commercial banks.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iv) Remuneration of directors, supervisors and senior management

	2020 RMB'000	2019 RMB'000
Remuneration	30,687	30,970
Retirement benefits	1,015	1,037
– Basic social pension insurance	486	567

The total compensation packages for senior management of the Group for the year ended 31 December 2020 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2020 financial statements.

(v) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	8,708	8,867
Maximum aggregate amount of relevant loans outstanding during the year	8,738	8,994

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Statement of financial position of the Bank

	Note V	31 December 2020	31 December 2019
Assets			
Cash and deposits with the central bank		360,131	364,184
Deposits with banks and other financial institutions		40,231	28,648
Precious metals		9,353	10,826
Placements with banks and other financial institutions		74,769	60,466
Derivative financial assets		25,262	13,754
Financial assets held under resale agreements		43,587	6,709
Loans and advances to customers		2,939,071	2,642,764
Financial investments		1,658,026	1,425,223
– Financial assets at fair value through profit or loss		299,768	207,634
– Debt instruments at fair value through other comprehensive income		216,324	175,565
– Equity instruments at fair value through other comprehensive income		870	618
– Financial investments measured at amortised cost		1,141,064	1,041,406
Investment in subsidiaries	19	12,983	12,383
Property, plant and equipment		15,698	14,041
Right-of-use assets		11,096	11,599
Goodwill		1,281	1,281
Deferred tax assets		18,444	15,446
Other assets		43,593	34,243
Total assets		5,253,525	4,641,567

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Statement of financial position of the Bank (continued)

	31 December 2020	31 December 2019
Liabilities and equity		
Liabilities		
Due to the central bank	241,059	224,758
Deposits from banks and other financial institutions	473,926	450,716
Placements from banks and other financial institutions	89,948	108,045
Derivative financial liabilities	25,694	13,821
Financial assets sold under repurchase agreements	10,115	24,542
Deposits from customers	3,478,730	3,016,555
Accrued staff costs	14,874	13,494
Taxes payable	7,708	8,729
Lease liabilities	10,723	10,986
Debts securities issued	433,749	366,061
Other liabilities	18,698	22,558
Total liabilities	4,805,224	4,260,265
Equity		
Share capital	54,032	52,489
Other equity instrument	109,062	70,067
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	–
Capital reserve	58,434	53,533
Other comprehensive income	1,509	2,617
Surplus reserve	26,245	26,245
General reserve	66,015	58,523
Retained earnings	133,004	117,828
Total equity	448,301	381,302
Total liabilities and equity	5,253,525	4,641,567

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities

	2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	22,059	57,769	30,869	–	110,697
Internal net interest income/ (expense)	29,615	(15,583)	(14,032)	–	–
Net interest income	51,674	42,186	16,837	–	110,697
Net fee and commission income	6,929	16,331	1,063	–	24,323
Net trading gains	–	–	484	–	484
Dividend income	–	–	1	14	15
Net (losses)/gains arising from investment securities	(56)	7	5,225	27	5,203
Net gains on derecognition of financial assets measured at amortised cost	–	–	591	–	591
Foreign exchange gains/(losses)	268	69	(27)	–	310
Other net operating income	818	85	51	128	1,082
Operating income	59,633	58,678	24,225	169	142,705
Operating expenses	(16,312)	(22,115)	(1,676)	(168)	(40,271)
Credit impairment losses	(22,497)	(33,617)	(619)	–	(56,733)
Other impairment losses	(205)	11	(5)	–	(199)
Losses on investments of joint ventures	–	–	–	(5)	(5)
Profit before tax	20,619	2,957	21,925	(4)	45,497
Other segment information					
– Depreciation and amortisation	2,377	2,583	204	–	5,164
– Capital expenditure	2,675	3,921	264	–	6,860

	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,135,482	1,409,348	1,801,709	703	5,347,242
Segment liabilities	2,755,106	859,093	1,295,799	3,093	4,913,091

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	25,445	55,890	20,583	–	101,918
Internal net interest income/ (expense)	21,510	(17,459)	(4,051)	–	–
Net interest income	46,955	38,431	16,532	–	101,918
Net fee and commission income	6,100	16,115	954	–	23,169
Net trading gains	–	–	585	–	585
Dividend income	–	–	–	42	42
Net (losses)/gains arising from Investment securities	(862)	6	5,638	96	4,878
Net gains on derecognition of financial assets measured at amortised cost	–	–	22	–	22
Foreign exchange gains	297	75	967	–	1,339
Other net operating income	785	56	67	78	986
Operating income	53,275	54,683	24,765	216	132,939
Operating expenses	(15,703)	(20,465)	(2,136)	(125)	(38,429)
Credit impairment losses	(20,562)	(28,306)	(97)	–	(48,965)
Other impairment losses	(340)	(15)	–	(27)	(382)
Profit before tax	16,670	5,897	22,532	64	45,163
Other segment information					
– Depreciation and amortisation	2,072	2,360	232	–	4,664
– Capital expenditure	2,284	1,976	188	–	4,448

	31 December 2019				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,938,565	1,276,983	1,499,765	531	4,715,844
Segment liabilities	2,405,750	779,244	1,157,929	4,432	4,347,355

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2020	31 December 2019
Segment assets		5,347,242	4,715,844
Goodwill	22	1,281	1,281
Deferred tax assets	23	19,587	16,306
Total assets		5,368,110	4,733,431
Segment liabilities		4,913,091	4,347,355
Dividend payables	36	21	21
Deferred tax liabilities		–	1
Total liabilities		4,913,112	4,347,377

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include Property, plant and equipment, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

– "Central" refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(b) Geographical information (continued)

– "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

– "Overseas" refers to the areas serviced by the following subsidiaries and branches of the Bank: Hong Kong, Seoul, Luxembourg, Sydney; and

– "Head Office" refers to the head office of the Bank.

	Operating Income								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Head Office	Overseas	Total
2020	27,558	19,917	23,186	24,855	17,214	6,042	21,384	2,549	142,705
2019	23,837	18,419	20,936	22,031	15,912	6,638	22,908	2,258	132,939

	Non-current Asset (Note(i))								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Head Office	Overseas	Total
31 December 2020	3,813	2,968	3,410	11,137	3,077	1,393	10,395	494	36,687
31 December 2019	3,729	3,244	3,782	8,568	2,843	1,539	8,489	566	32,760

Note:

(i) Including property, plant and equipment, right-of-use assets, intangible assets and land use rights.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Investment Banking Department, Inclusive Finance Department, Credit Card Centre and Retail and Wealth Management Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution".

– The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardized review and approval policies and process in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loans.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

Treasury business

The Group implemented differentiated risk access standards of investments, and ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group has set credit risk limits for different counterparties, taking into consideration factors including industries, single borrowers and ratings. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of the each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Management overlay
- Modification of contract cash flows

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk
The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtors' operation or financial status

- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes to the impact of COVID-19 on these borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition. For borrowers who applied for temporary deferral of principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group did not consider these support measures as triggers of a significant increase in credit risk.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk
The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement
According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments.) and forward-looking information in order to establish the model of PD, LGD and EAD.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Parameters of ECL measurement (continued)
Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information
The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI, investment in property, plant and equipment.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Forward-looking information (continued)
In 2020, the key assumptions the Group has taken include the GDP growth rate, the CPI growth rate, the investment in property, plant and equipment growth rate.

- The GDP growth rate: the predicted value under the base economic scenario during the year of 2021 is 7.20%, the optimistic and pessimistic scenarios will fluctuate up and down 2.29 pct. on the basis of the predicted value in baseline scenario;

- The CPI growth rate: the predicted value under the base economic scenario during the year of 2021 is 3.25%, the optimistic and pessimistic scenarios will fluctuate up and down 1.94 pct. on the basis of the predicted value in baseline scenario;

- The investment in property, plant and equipment growth rate: the predicted value under the base economic scenario during the year of 2021 is 4.00%, the optimistic and pessimistic scenarios will fluctuate up and down 8.58 pct. on the basis of the predicted value in baseline scenario;

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario. The Group adjusted the weight of the pessimistic scenarios, with comprehensive consideration of the impact of the COVID-19 epidemic and other factors on the economic development trend.

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Management overlay
The business failure or default has not appeared given the deferral of loan payments offered to borrowers, and therefore, the potential risks arising from the COVID-19 epidemic may not yet be fully captured by the ECL model. The ECL allowance would reflect the ECL through management overlays by adjusting parameters on a disrupted portfolio basis.

Modification of contractual cash flows
A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1 and the impairment allowance is measured at an amount equal to the 12-months ECL instead of the lifetime ECL.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note V 53(a).

	31 December 2020				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	360,287	–	–	–	360,287
Deposits with banks and other financial institutions	46,059	–	–	–	46,059
Placements with banks and other financial institutions	69,140	–	150	–	69,290
Financial assets held under resale agreements	43,592	–	–	–	43,592
Loans and advances to customers	2,812,466	105,109	24,860	–	2,942,435
Finance lease receivables	96,564	3,970	254	–	100,788
Financial investments	1,352,507	4,876	7,249	305,783	1,670,415
Others (Note)	33,530	–	–	25,264	58,794
Total	4,814,145	113,955	32,513	331,047	5,291,660

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	364,340	–	–	–	364,340
Deposits with banks and other financial institutions	31,358	–	–	–	31,358
Placements with banks and other financial institutions	60,000	270	–	–	60,270
Financial assets held under resale agreements	6,835	–	–	–	6,835
Loans and advances to customers	2,529,543	96,674	17,919	–	2,644,136
Finance lease receivables	80,839	2,869	15	–	83,723
Financial investments	1,215,372	1,375	4,770	212,029	1,433,546
Others (Note)	29,249	–	–	13,848	43,097
Total	4,317,536	101,188	22,704	225,877	4,667,305

Note: Others comprise precious metals (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2020	31 December 2019
Impaired		
Carrying amount	666	366
Provision for impairment losses	(516)	(366)
Subtotal	150	–
Overdue but not impaired		
– grade B to BBB	–	270
Subtotal	–	270
Neither overdue nor impaired		
– grade A to AAA	151,764	73,880
– grade B to BBB	1,123	5,879
– unrated (Note)	5,904	18,434
Subtotal	158,791	98,193
Total	158,941	98,463

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2020	31 December 2019
Impaired		
Carrying amount	1,904	1,662
Provision for impairment losses	(1,179)	(1,038)
Subtotal	725	624
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	24,208	1,033
– grade AA- to AA+	8,296	810
– grade A- to A+	31,773	25,497
– grade lower than A-	23,035	30,001
Subtotal	87,312	57,341
Other agency ratings		
– grade AAA	955,020	740,453
– grade AA- to AA+	105,717	63,240
– grade A- to A+	4,075	548
– grade lower than A-	2,508	2,119
– unrated	55,666	120,451
Subtotal	1,122,986	926,811
Total	1,211,023	984,776

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc.The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from gap risk, basis risk and trading interest rate risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value.The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

Gap risk
Gap risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of the repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Basis risk
Basis risk, is caused by interest rates on different pricing basis on the on-and off- balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

Trading interest rate risk
Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year:

	31 December 2020						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.44%	360,287	16,919	343,368	–	–	–
Deposits with banks and other financial institutions	1.03%	46,059	59	45,301	699	–	–
Placements with banks and other financial institutions	1.81%	69,290	179	55,669	11,305	2,137	–
Financial assets held under resale agreements	1.90%	43,592	3	43,589	–	–	–
Loans and advances to customers	5.37%	2,942,435	29,462	2,277,700	564,325	67,246	3,702
Finance lease receivables	5.89%	100,788	1,381	21,375	51,532	19,700	6,800
Financial investments	4.00%	1,670,415	67,190	315,202	209,932	681,052	397,039
Others	–	135,244	131,989	–	–	–	3,255
Total assets	4.59%	5,368,110	247,182	3,102,204	837,793	770,135	410,796
Liabilities							
Due to the central bank	3.23%	241,110	2,359	20,303	218,448	–	–
Deposits from banks and other financial institutions	2.27%	469,345	1,824	296,698	170,823	–	–
Placements from banks and other financial institutions	2.29%	161,879	475	91,453	69,951	–	–
Financial assets sold under repurchase agreements	1.90%	14,182	12	10,216	3,505	449	–
Deposits from customers	2.30%	3,480,667	50,225	2,008,963	561,854	859,601	24
Debt securities issued	3.04%	440,870	1,842	125,872	265,672	799	46,685
Others	–	105,059	90,129	10,214	3,625	1,091	–
Total liabilities	2.39%	4,913,112	146,866	2,563,719	1,293,878	861,940	46,709
Asset-liability gap	2.20%	454,998	100,316	538,485	(456,085)	(91,805)	364,087

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year (continued):

	31 December 2019						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.46%	364,340	15,487	348,853	–	–	–
Deposits with banks and other financial institutions	1.73%	31,358	6	29,359	1,993	–	–
Placements with banks and other financial institutions	2.97%	60,270	213	42,793	16,775	489	–
Financial assets held under resale agreements	2.51%	6,835	8	6,827	–	–	–
Loans and advances to customers	5.64%	2,644,136	29,609	1,992,591	531,959	86,871	3,106
Finance lease receivables	5.78%	83,723	951	69,524	289	9,195	3,764
Financial investments	4.26%	1,433,546	67,851	234,363	201,092	599,514	330,726
Others	–	109,223	106,094	–	–	–	3,129
Total assets	4.76%	4,733,431	220,219	2,724,310	752,108	696,069	340,725
Liabilities							
Due to the central bank	3.34%	224,838	3,358	7,000	214,480	–	–
Deposits from banks and other financial institutions	2.89%	444,320	2,913	339,180	102,227	–	–
Placements from banks and other financial institutions	3.10%	166,225	1,122	98,731	66,372	–	–
Financial assets sold under repurchase agreements	2.22%	25,603	18	20,422	5,163	–	–
Deposits from customers	2.28%	3,017,888	34,570	1,867,333	645,265	470,708	12
Debt securities issued	3.69%	371,904	3,158	142,222	174,052	5,789	46,683
Others	–	96,599	76,614	12,735	4,195	3,048	7
Total liabilities	2.58%	4,347,377	121,753	2,487,623	1,211,754	479,545	46,702
Asset-liability gap	2.18%	386,054	98,466	236,687	(459,646)	216,524	294,023

* *The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2020, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB96 million (31 December 2019: decrease by RMB969 million), and equity to decrease by RMB5,603 million (31 December 2019: decrease by RMB5,039 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB125 million (31 December 2019: increase by RMB1,017 million), and equity to increase by RMB6,189 million (31 December 2019: increase by RMB5,316 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;

– An interest rate movement of one hundred basis points is based on the assumption of interest rate movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the portfolio of asset and liability;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2020			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	350,913	7,130	2,244	360,287
Deposits with banks and other financial institutions	24,342	15,547	6,170	46,059
Placements with banks and other financial institutions	24,169	37,239	7,882	69,290
Financial assets held under resale agreements	43,587	1	4	43,592
Loans and advances to customers	2,783,150	101,459	57,826	2,942,435
Financial lease receivables	99,987	801	–	100,788
Financial investments	1,571,828	76,004	22,583	1,670,415
Others	128,376	5,527	1,341	135,244
Total assets	5,026,352	243,708	98,050	5,368,110
Liabilities				
Due to the central bank	241,110	–	–	241,110
Deposits from banks and other financial institutions	467,908	1,162	275	469,345
Placements from banks and other financial institutions	73,335	69,320	19,224	161,879
Financial assets sold under repurchase agreements	7,977	2,603	3,602	14,182
Deposits from customers	3,299,893	144,010	36,764	3,480,667
Debt securities issued	391,668	43,604	5,598	440,870
Others	99,325	2,009	3,725	105,059
Total liabilities	4,581,216	262,708	69,188	4,913,112
Net position	445,136	(19,000)	28,862	454,998
Off-balance sheet credit commitments	1,420,403	42,432	13,711	1,476,546
Derivative financial instruments (Note)	7,129	19,193	(25,909)	413

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	353,625	10,258	457	364,340
Deposits with banks and other financial institutions	8,822	15,096	7,440	31,358
Placements with banks and other financial institutions	33,091	23,340	3,839	60,270
Financial assets held under resale agreements	6,708	127	–	6,835
Loans and advances to customers	2,488,590	100,219	55,327	2,644,136
Finance lease receivables	82,800	923	–	83,723
Financial investments	1,345,906	79,341	8,299	1,433,546
Others	98,151	10,053	1,019	109,223
Total assets	4,417,693	239,357	76,381	4,733,431
Liabilities				
Due to the central bank	224,838	–	–	224,838
Deposits from banks and other financial institutions	442,306	1,488	526	444,320
Placements from banks and other financial institutions	55,186	92,685	18,354	166,225
Financial assets sold under repurchase agreements	23,074	2,529	–	25,603
Deposits from customers	2,839,940	146,468	31,480	3,017,888
Debt securities issued	332,159	35,802	3,943	371,904
Others	86,763	7,987	1,849	96,599
Total liabilities	4,004,266	286,959	56,152	4,347,377
Net position	413,427	(47,602)	20,229	386,054
Off-balance sheet credit commitments	1,220,466	53,513	13,517	1,287,496
Derivative financial instruments (Note)	(28,453)	51,603	(17,294)	5,856

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2020	31 December 2019
Exchange rates against RMB for the HK dollar	0.8428	0.8949
Exchange rates against RMB for the US dollar	6.5337	6.9687

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2020, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB4 million (31 December 2019: increase by RMB7 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB4 million (31 December 2019: decrease by RMB7 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;
- At the end of the reporting year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;
- Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2020							
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	299,538	60,749	–	–	–	–	–	360,287
Deposits with banks and other financial institutions	–	40,161	1,100	4,098	700	–	–	46,059
Placements with banks and other financial institutions	150	–	45,942	9,673	11,351	2,174	–	69,290
Financial asset held under resale agreements	–	–	43,592	–	–	–	–	43,592
Loans and advances to customers	42,303	422,190	137,773	174,521	672,559	749,441	743,648	2,942,435
Finance lease receivables	197	67	3,382	4,918	18,663	62,723	10,838	100,788
Financial investments	21,283	214,456	45,807	49,441	210,493	717,712	411,223	1,670,415
Others	69,121	37,604	2,748	4,458	10,652	6,080	4,581	135,244
Total assets	432,592	775,227	280,344	247,109	924,418	1,538,130	1,170,290	5,368,110
Liabilities								
Due to the central bank	–	–	13,195	7,712	220,203	–	–	241,110
Deposits from banks and other financial institutions	–	154,114	70,330	72,828	172,073	–	–	469,345
Placements from banks and other financial institutions	–	6	44,194	47,445	70,234	–	–	161,879
Financial assets sold under repurchase agreements	–	–	7,132	3,093	3,508	449	–	14,182
Deposits from customers	–	1,303,947	289,829	447,446	568,955	870,466	24	3,480,667
Debt securities issued	–	–	5,450	81,580	270,937	34,772	48,131	440,870
Others	–	47,537	4,091	5,735	20,338	19,252	8,106	105,059
Total liabilities	–	1,505,604	434,221	665,839	1,326,248	924,939	56,261	4,913,112
Net position	432,592	(730,377)	(153,877)	(418,730)	(401,830)	613,191	1,114,029	454,998
Notional amount of derivative financial instruments	–	–	326,206	252,135	820,303	767,683	43,970	2,210,297

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2019							
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	301,750	62,590	–	–	–	–	–	364,340
Deposits with banks and other financial institutions	–	28,209	439	717	1,993	–	–	31,358
Placements with banks and other financial institutions	270	–	34,032	8,630	16,841	497	–	60,270
Financial asset held under resale agreements	–	–	6,835	–	–	–	–	6,835
Loans and advances to customers	33,760	409,336	162,556	132,922	635,142	612,104	658,316	2,644,136
Finance lease receivables	4	4	2,277	3,446	13,853	49,946	14,193	83,723
Financial investments	9,100	159,827	37,613	36,928	235,099	614,108	340,871	1,433,546
Others	63,610	28,678	2,015	2,765	5,698	3,325	3,132	109,223
Total assets	408,494	688,644	245,767	185,408	908,626	1,279,980	1,016,512	4,733,431
Liabilities								
Due to the central bank	–	–	7,210	–	217,628	–	–	224,838
Deposits from banks and other financial institutions	–	179,958	73,454	87,280	103,628	–	–	444,320
Placements from banks and other financial institutions	–	6	50,449	48,909	66,861	–	–	166,225
Financial assets sold under repurchase agreements	–	–	15,720	4,715	5,168	–	–	25,603
Deposits from customers	–	1,150,257	366,487	385,159	645,265	470,708	12	3,017,888
Debt securities issued	–	–	17,233	85,324	175,856	46,808	46,683	371,904
Others	–	41,076	8,245	3,294	18,649	20,388	4,947	96,599
Total liabilities	–	1,371,297	538,798	614,681	1,233,055	537,904	51,642	4,347,377
Net position	408,494	(682,653)	(293,031)	(429,273)	(324,429)	742,076	964,870	386,054
Notional amount of derivative financial instruments	–	–	404,966	378,775	1,314,045	673,700	3,640	2,775,126

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the year:

	31 December 2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	241,110	245,941	–	13,216	7,743	224,982	–	–
Deposits from banks and other financial institutions	469,345	473,815	154,386	70,407	73,938	175,084	–	–
Placements from banks and other financial institutions	161,879	164,280	6	44,239	47,871	72,164	–	–
Financial assets sold under repurchase agreements	14,182	14,205	–	7,132	3,099	3,523	451	–
Deposits from customers	3,480,667	3,527,109	1,303,948	294,044	454,407	578,814	895,866	30
Debt securities issued	440,870	469,431	–	6,838	85,830	272,371	51,483	52,909
Other financial liabilities	51,060	53,973	19,315	568	1,774	10,227	14,134	7,955
Total non-derivative financial liabilities	4,859,113	4,948,754	1,477,655	436,444	674,662	1,337,165	961,934	60,894
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(513)	–	2	(3)	(123)	(323)	(66)
Derivative financial instruments settled on gross basis								
– Cash inflow		1,076,507	–	301,281	213,938	514,515	5,694	41,079
– Cash outflow		(1,076,200)	–	(300,960)	(213,583)	(514,822)	(5,759)	(41,076)
Total derivative financial liabilities		307	–	321	355	(307)	(65)	3

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the year (continued):

	31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	224,838	228,879	–	7,224	–	221,655	–	–
Deposits from banks and other financial institutions	444,320	448,811	179,959	75,916	87,926	105,010	–	–
Placements from banks and other financial institutions	166,225	167,904	6	50,558	49,207	68,133	–	–
Financial assets sold under repurchase agreements	25,603	25,667	–	15,723	4,734	5,210	–	–
Deposits from customers	3,017,888	3,049,947	1,150,257	372,046	390,510	655,277	481,840	17
Debt securities issued	371,904	405,350	–	17,555	93,250	182,147	59,086	53,312
Other financial liabilities	76,519	79,880	21,059	8,237	3,298	19,361	21,857	6,068
Total non-derivative financial liabilities	4,327,297	4,406,438	1,351,281	547,259	628,925	1,256,793	562,783	59,397
Derivative financial liabilities								
Derivative financial instruments settled on net basis		327	–	17	108	158	44	–
Derivative financial instruments settled on gross basis								
– Cash inflow		1,388,726	–	363,750	307,177	704,146	13,653	–
– Cash outflow		(1,387,827)	–	(362,637)	(307,299)	(704,213)	(13,678)	–
Total derivative financial liabilities		899	–	1,113	(122)	(67)	(25)	–

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2020			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	348,503	1,159	2,334	351,996
Guarantees, acceptances and other credit commitments	1,074,877	48,265	1,408	1,124,550
Total	1,423,380	49,424	3,742	1,476,546

	31 December 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	312,090	5,474	6,179	323,743
Guarantees, acceptances and other credit commitments	912,051	51,355	347	963,753
Total	1,224,141	56,829	6,526	1,287,496

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the year.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Thomson Reuters' quoted price.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortised cost, except for debt securities investments, are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note V 18.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss, derivative financial liabilities and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of year:

	Carrying value		Fair value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Financial assets				
Debt securities investments measured at amortised cost	935,651	784,943	944,985	796,461
Financial liabilities				
Debt securities issued	440,870	371,904	440,017	371,869

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg, Thomsom Reuters and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated unlisted equity and derivative contracts with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	19,441	–	19,441
– Interest rate derivatives	–	5,819	2	5,821
– Credit derivatives	–	2	–	2
Loan and advances to customers	–	98,211	–	98,211
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,391	28,649	–	33,040
– Financial assets designated at fair value through profit or loss	–	–	1	1
– Other financial assets at fair value through profit or loss	213,781	47,723	10,363	271,867
Debt instruments at fair value through other comprehensive income	51,111	171,696	–	222,807
Equity instruments at fair value through other comprehensive income	23	–	852	875
Precious metals	35	–	–	35
Total	269,341	371,541	11,218	652,100
Liabilities				
Financial liabilities at fair value through profit or loss	4	–	–	4
Derivative financial liabilities				
– Currency derivatives	–	19,355	–	19,355
– Interest rate derivatives	–	6,338	2	6,340
– Credit derivatives	–	83	–	83
Total	4	25,776	2	25,782

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,104	–	10,104
– Interest rate derivatives	–	3,653	2	3,655
– Credit derivatives	–	46	–	46
Loans and advances to customers	–	90,578	–	90,578
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,716	13,886	–	18,602
– Financial assets designated at fair value through profit or loss	–	–	4	4
– Other financial assets at fair value through profit or loss	164,806	23,964	4,030	192,800
Debt instruments at fair value through other comprehensive income	43,527	136,478	–	180,005
Equity instruments at fair value through other comprehensive income	21	–	602	623
Precious metals	43	–	–	43
Total	213,113	278,709	4,638	496,460
Liabilities				
Financial liabilities at fair value through profit or loss	100	–	–	100
Derivative financial liabilities				
– Currency derivatives	–	10,140	–	10,140
– Interest rate derivatives	–	3,678	2	3,680
– Credit derivatives	–	72	1	73
Total	100	13,890	3	13,993

During the year, there were no significant transfers within the fair value hierarchy of the Group.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2020 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2020	2	4,034	602	4,638	(3)	(3)
Total gains or losses:						
– In profit or loss	1	65	–	66	(1)	(1)
Purchases	–	6,396	250	6,646	–	–
Settlements	(1)	(131)	–	(132)	2	2
31 December 2020	2	10,364	852	11,218	(2)	(2)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	1	65	–	66	(1)	(1)

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(5)	(725)	–	(730)	4	4
Purchases	–	1,906	250	2,156	–	–
Settlements	–	(288)	–	(288)	1	1
31 December 2019	2	4,034	602	4,638	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(5)	(725)	–	(730)	4	4

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	161,862	783,123	–	944,985
Financial liabilities				
Debt securities issued	25,558	414,459	–	440,017

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	142,394	654,067	–	796,461
Financial liabilities				
Debt securities issued	31,658	340,211	–	371,869

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity and derivative contracts. These financial instruments are valued using cash flow discount model and market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2020, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December 2020	31 December 2019
Entrusted loans	125,827	139,790
Entrusted funds	125,827	139,790

53 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2020	31 December 2019
Loan commitments		
– Original contractual maturity within one year	16,758	19,855
– Original contractual maturity more than one year (inclusive)	7,939	13,732
Credit card commitments	327,299	290,156
Subtotal	351,996	323,743
Acceptances	769,458	609,169
Letters of guarantee	130,425	128,746
Letters of credit	224,482	225,653
Guarantees	185	185
Total	1,476,546	1,287,496

The Group may be exposed to credit risk in all the credit businesses above. Group management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	31 December 2020	31 December 2019
Credit risk-weighted amount of credit commitments	382,659	380,959

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2020	31 December 2019
Contracted but not paid		
– Purchase of property and equipment	1,962	1,100
Approved but not contracted for		
– Purchase of property and equipment	4,445	2,817
Total	6,407	3,917

(d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2020.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2020	31 December 2019
Redemption commitments	5,918	6,626

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Commitments and contingent liabilities (continued)

(e) Outstanding litigations and disputes

As at 31 December 2020, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,262 million (31 December 2019: RMB1,384 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note V 36). The Group considers that the provisions made are reasonable and adequate.

54 Subsequent Events

The Group has no significant subsequent event.

55 Comparative figures

In accordance with the presenting pattern of the financial statements, the Group has reclassified some comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the Rules on *Liquidity Risk Management of Commercial Banks*, commercial banks' liquidity coverage ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December 2020
Liquidity coverage ratio	150.47%
High Quality Liquid Assets	704,706
Net cash outflows in 30 days from the end of the reporting period	468,333

Liquidity Ratio*

	As at 31 December 2020	Average for The year ended 31 December 2020	As at 31 December 2019	Average for The year ended 31 December 2019
RMB current assets to RMB current liabilities	66.07%	67.65%	72.63%	69.29%
Foreign current assets to foreign current liabilities	127.90%	107.74%	93.29%	79.43%

* *Liquidity ratio is calculated in accordance with the banking level.*

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Leverage Ratio

	31 December 2020
Leverage Ratio	7.03%

Pursuant to the Leverage Ratio Management of Commercial Banks which has been effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

Net Stable Funding Ratio

The net stable fund ratio is designed to ensure that commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 31 December 2020, the Group met the supervision requirement with the net stable funding ratio standing at 107.29%.

Indicators	31 December 2020
Available and stable funds	3,111,968
Required stable funds	2,900,616
Net stable funding ratio	107.29%

2 CURRENCY CONCENTRATIONS

	31 December 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	243,708	50,901	47,149	341,758
Spot liabilities	(262,708)	(47,896)	(21,292)	(331,896)
Forward purchases	545,777	11,904	4,789	562,470
Forward sales	(526,584)	(11,424)	(31,178)	(569,186)
Net long/(short) position	193	3,485	(532)	3,146
Net structural position	3	55	32	90

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	239,357	39,857	36,524	315,738
Spot liabilities	(286,959)	(33,950)	(22,202)	(343,111)
Forward purchases	759,868	20,366	7,268	787,502
Forward sales	(708,265)	(25,171)	(19,757)	(753,193)
Net long position	4,001	1,102	1,833	6,936
Net structural position	–	34	15	49

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include property, plant and equipment.

(Expressed in millions of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central banks, deposits and placements with banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	As at 31 December 2020			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	99,166	7,470	41,939	148,575
– of which attributed to Hong Kong	28,097	2,107	15,229	45,433
Europe	17,617	40	27,957	45,614
North and South America	10,989	312	18,768	30,069
Total	127,772	7,822	88,664	224,258

	As at 31 December 2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	69,367	2,868	32,485	104,720
– of which attributed to Hong Kong	19,907	537	15,350	35,794
Europe	9,874	39	32,268	42,181
North and South America	12,736	–	23,352	36,088
Total	91,977	2,907	88,105	182,989

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segment

	31 December 2020	31 December 2019
Northeastern	5,171	2,470
Bohai Rim	4,784	5,201
Yangtze River Delta	4,608	5,899
Central	3,598	3,687
Pearl River Delta	3,353	3,129
Western	2,586	4,550
Overseas	8	8
Head Office	9,139	8,963
Total	33,247	33,907

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue day

	31 December 2020	31 December 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	8,048	8,851
– between 6 months and 1 year (inclusive)	13,725	13,642
– over 1 year	11,474	11,414
Total	33,247	33,907
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.27%	0.33%
– between 6 months and 1 year (inclusive)	0.45%	0.50%
– over 1 year	0.38%	0.42%
Total	1.10%	1.25%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(c) Collateral of loans and advances past due but not impaired

	31 December 2020	31 December 2019
Covered portion of loans and advances past due but not impaired	9,218	6,357
Uncovered portion of loans and advances past due but not impaired	18,705	18,947
Total loans and advances past due but not impaired	27,923	25,304
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	24,019	16,258

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in Mainland China. As at 31 December 2020, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.

China Everbright Bank Company Limited
Consolidated Statement of Profit and Loss
For the three months ended 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Interest income	55,977	54,772
Interest expense	(28,101)	(27,626)
Net interest income	27,876	27,146
Fee and commission income	8,465	7,916
Fee and commission expense	(641)	(580)
Net fee and commission income	7,824	7,336
Net trading gains	450	234
Net gains arising from investment securities	2,140	2,383
Net gains on derecognition of financial assets measured at amortised cost	214	12
Net foreign exchange gains/(losses)	11	(15)
Other net operating income	252	228
Operating income	38,767	37,324
Operating expenses	(10,252)	(9,694)
Credit impairment losses	(13,957)	(14,514)
Other impairment losses	31	(19)
Operating profit	14,589	13,097
Losses on investment of joint ventures	(28)	-
Profit before tax	14,561	13,097
Income tax	(3,001)	(2,224)
Net profit	11,560	10,873
Net profit attributable to:		
Equity shareholders of the Bank	11,515	10,831
Non-controlling interests	45	42
	11,560	10,873
Earnings per share		
Basic earnings per share (in RMB/share)	0.18	0.19
Diluted earnings per share (in RMB/share)	0.17	0.17

China Everbright Bank Company Limited
Consolidated Statement of Comprehensive Income
For the three months ended 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Net profit	11,560	10,873
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
- Equity instruments at fair value through other comprehensive income		
- Net change in fair value	-	(2)
Subtotal	-	(2)
Items that will be reclassified to profit or loss:		
- Debt instruments at fair value through other comprehensive income		
- Net change in fair value	(628)	2,520
- Changes in allowance for expected credit losses	164	314
- Reclassified to the profit or loss upon disposal	(13)	(146)
- Related income tax effect	99	(684)
- Exchange differences on translation of financial statements	(1)	56
Subtotal	(379)	2,060
Other comprehensive income, net of tax	(379)	2,058
Total comprehensive income	11,181	12,931
Total comprehensive income attributable to:		
Equity shareholders of the Bank	11,136	12,887
Non-controlling interests	45	44
	11,181	12,931

China Everbright Bank Company Limited
Consolidated Statement of Financial Position
As at 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2021	31 December 2020
Assets		
Cash and deposits with the central bank	365,519	360,287
Deposits with banks and other financial institutions	31,999	46,059
Precious metals	9,506	9,353
Placements with banks and other financial institutions	67,037	69,290
Derivative financial assets	19,063	25,264
Financial assets held under resale agreements	28,332	43,592
Loans and advances to customers	3,089,231	2,942,435
Finance lease receivables	106,530	100,788
Financial investments	1,757,059	1,670,415
- Financial assets at fair value through profit or loss	352,121	304,908
- Debt instruments at fair value through other comprehensive income	281,313	222,807
- Equity instruments at fair value through other comprehensive income	875	875
- Financial investments measured at amortised cost	1,122,750	1,141,825
Investment in joint ventures	327	257
Property, plant and equipment	23,162	23,301
Right-of-use assets	10,974	11,137
Goodwill	1,281	1,281
Deferred tax assets	19,735	19,587
Other assets	51,936	45,064
Total assets	5,581,691	5,368,110

(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2021	31 December 2020
Liabilities and equity		
Liabilities		
Due to the central bank	229,486	241,110
Deposits from banks and other financial institutions	444,286	469,345
Placements from banks and other financial institutions	183,152	161,879
Financial liabilities at fair value through profit or loss	1,273	4
Derivative financial liabilities	18,841	25,778
Financial assets sold under repurchase agreements	38,473	14,182
Deposits from customers	3,585,545	3,480,667
Accrued staff costs	14,266	15,169
Taxes payable	10,651	8,772
Lease liabilities	10,502	10,762
Debts securities issued	532,364	440,870
Other liabilities	48,373	44,574
Total liabilities	5,117,212	4,913,112

China Everbright Bank Company Limited
Consolidated Statement of Financial Position (continued)
As at 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2021	31 December 2020
Liabilities and equity (Continued)		
Equity		
Share capital	54,032	54,032
Other equity instrument	109,062	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	58,434	58,434
Other comprehensive income	1,014	1,393
Surplus reserve	26,245	26,245
General reserve	67,742	67,702
Retained earnings	146,376	136,581
Total equity attributable to equity shareholders of the Bank	462,905	453,449
Non-controlling interests	1,574	1,549
Total equity	464,479	454,998
Total liabilities and equity	5,581,691	5,368,110

Approved and authorized for issue by the board of directors on 28 April 2021.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Yao Zhongyou
Vice President in Charge of Finance
Executive Director

Sun Xinhong
General Manager of
Financial Accounting Department

China Everbright Bank Company Limited
Consolidated Cash Flow Statement
For the three months ended 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Cash flows from operating activities		
Net profit	11,560	10,873
Adjustments for:		
Credit impairment losses	13,957	14,514
Other impairment losses	(31)	19
Depreciation and amortization	1,403	1,243
Unwinding of discount	(172)	(176)
Unrealised foreign exchange gains	(32)	(138)
Net gains on investment securities	(14,201)	(14,124)
Net gains on derecognition of financial assets measured at amortised cost	(214)	(12)
Losses on investments of joint ventures	28	-
Net gains on disposal of trading securities	(243)	(386)
Revaluation gains on financial instruments at fair value through profit or loss	(1,098)	(877)
Interest expense on debt securities issued	3,376	3,154
Interest expense on lease liabilities	114	121
Net losses on disposal of property, plant and equipment	4	2
Income tax	3,001	2,224
	17,452	16,437
Changes in operating assets:		
Net (increase)/decrease in deposits with the central bank, banks and other financial institutions	(1,888)	8,521
Net (increase)/decrease in placements with banks and other financial institutions	(1,926)	5,485
Net increase in financial assets held for trading	(41,304)	(18,643)
Net increase in loans and advances to customers	(161,601)	(192,630)
Net decrease/(increase) in financial assets held under resale agreements	15,266	(36,992)
Net increase in other operating assets	(10,224)	(25,528)
	(201,677)	(259,787)

(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Cash flows from operating activities (continued)		
Changes in operating liabilities:		
Net decrease in deposits from banks and other financial institutions	(25,533)	(79,126)
Net increase in placements from banks and other financial institutions	21,118	20,369
Net increase/(decrease) in financial assets sold under repurchase agreements	24,269	(8,215)
Net (decrease)/increase in amount due to the central bank	(12,657)	13,303
Net increase in deposits from customers	106,419	512,423
Income tax paid	(1,070)	(1,586)
Net (decrease)/increase in other operating liabilities	(530)	12,644
	112,016	469,812
Net cash flows from operating activities	(72,209)	226,462
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	212,584	121,906
Investment income received	15,564	13,756
Proceeds from disposal of property, plant and equipment and other long-term assets	142	163
Payments on acquisition of investments	(257,394)	(248,302)
Payments on acquisition of property, plant and equipment, intangible assets and other long-term assets	(637)	(470)
Net cash flows from investing activities	(29,741)	(112,947)

(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Cash flows from financing activities		
Net proceeds from issue of debt securities	155,194	58,891
Repayments of debts issued	(62,767)	(55,325)
Interest paid on debt securities issued	(4,309)	(4,834)
Other net cash flows from financing activities	(870)	(872)
Net cash flows from financing activities	87,248	(2,140)
Effect of foreign exchange rate changes on cash and cash equivalents	(116)	597
Net (decrease)/increase in cash and cash equivalents	(14,818)	111,972
Cash and cash equivalents as at 1 January	145,076	117,499
Cash and cash equivalents as at 31 March	130,258	229,471
Interest received	43,135	41,834
Interest paid (excluding interest expense on debts securities issued)	(24,567)	(22,395)

THE BANK

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China Everbright Center
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United Kingdom

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IMPORTANT NOTICE

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

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

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

Confirmation of your Representation: In order to be eligible to view the Drawdown Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. The Drawdown Offering Circular is being sent at your request and by accepting the e-mail and accessing the Drawdown Offering Circular, you shall be deemed to have represented to Citigroup Global Markets Limited, CLSA Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited, Bank of Communications Co., Ltd. Hong Kong Branch, a joint stock company incorporated in the People's Republic of China with limited liability and DBS Bank Ltd. (together, the "**Joint Global Coordinators**"), and Agricultural Bank of China Limited Hong Kong Branch, Bank of China (Luxembourg) S.A., China Construction Bank (Europe) S.A., CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, Industrial Bank Co., Ltd. Hong Kong Branch, Industrial and Commercial Bank of China (Asia) Limited, Landesbank Baden-Württemberg, China Minsheng Banking Corp., Ltd., Hong Kong Branch, BNP Paribas, The Hongkong and Shanghai Banking Corporation Limited and Mizuho Securities Asia Limited (together with the Joint Global Coordinators, the "**Joint Lead Managers**") that you and any customers you represent are persons outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the Drawdown Offering Circular by electronic transmission.

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

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

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

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A (1) of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 (the "**SF (CMP) Regulations**")) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

CHINA EVERBRIGHT BANK COMPANY LIMITED

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

Issue of U.S.$500,000,000 0.826 per cent. Notes due 2024

by China Everbright Bank Co., Ltd., Luxembourg Branch

issued under the

U.S.$5,000,000,000 Medium Term Note Programme of

China Everbright Bank Company Limited

This Drawdown Offering Circular (the "**Drawdown Offering Circular**") is supplemental to, forms part of and must be read and construed as one document with, the offering circular dated 12 August 2021 (the "**Original Offering Circular**") (a copy of which is attached as Annex I hereto) prepared by China Everbright Bank Company Limited (the "**Bank**"), in connection with the U.S.$5,000,000,000 Medium Term Note Programme described in the Original Offering Circular (the "**Programme**"). This Drawdown Offering Circular is prepared for the U.S.$500,000,000 0.826 per cent. Notes due 2024 (the "**Notes**") to be issued by China Everbright Bank Co., Ltd., Luxembourg Branch, the Luxembourg branch of China Everbright Bank Company Limited, having its registered office at Ravelin Building, 10 Avenue Emile Reuter, L-2420 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B216934 (the "**Issuer**") under the Programme only and does not otherwise modify the Programme. Terms given a defined meaning in the Original Offering Circular shall, unless the context otherwise requires, have the same meaning when used in this Drawdown Offering Circular. To the extent there is any inconsistency between any statement in this Drawdown Offering Circular and any statement in the Original Offering Circular, the statement in this Drawdown Offering Circular shall prevail.

Application will be made to The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") for the listing of and dealing in the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Professional Investors**") only. This document is for distribution to Professional Investors only.

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

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

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

In addition, an application has been made to Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the "**MOX**") for the listing of the Notes by way of debt issues to Professional Institutional Investors (which are (i) individuals that have a portfolio of not less than MOP$8,000,000, or (ii) corporations or partnerships that have either a portfolio of not less than MOP$8,000,000 or total assets of not less than MOP$40,000,000). This Drawdown Offering Circular is for distribution to Professional Institutional Investors only. Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Institutional Investors and understand the risks involved. The Notes are only suitable for Professional Institutional Investors. See also "*Risk Factors – Risks relating to Listing of the Notes in Macau*".

The listing of the Notes on the MOX is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document. The MOX takes no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. Potential investors should exercise caution before making investment decisions. The Macau requirements in relation to Professional Institutional Investors as mentioned in this Drawdown Offering Circular shall be construed as relating to offers and sales of the Notes in Macau only.

Pursuant to the Enterprise Foreign Debt Filing Certificate (《企業借用外債備案登記證明》) (發改辦外資備[2021]286 號) issued by the National Development and Reform Commission of the PRC (the "**NDRC**") wherein a quota of foreign debt (the "**Quota**") was granted by the NDRC on 7 April 2021, separate pre-issuance registration with the NDRC with respect to the Notes is not required as the Notes will be issued within the aforesaid Quota, but the Bank is still required to file with the NDRC the requisite information on the issuance of the Notes after the issuance of such Notes. The Bank intends to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044 號)) issued by the NDRC on 14 September 2015 which came into effect on the same day and any relevant rules and regulations from time to time issued by the NDRC (together, the "NDRC Regulations") and the terms of the Quota.

The Notes will be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for the Notes will not be issued in exchange for interests in the relevant Global Certificate. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*" in the Original Offering Circular.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes may not be offered or sold within the United States except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain restrictions on offers and sales of the Notes and the distribution of the Original Offering Circular, see "*Subscription and Sale*" in the Original Offering Circular. The Notes may be subject to additional selling restrictions as set out in the Pricing Supplement.

The Notes is expected to be assigned a rating of "BBB+" by S&P Global Ratings ("**S&P**"). The Programme has been rated Baa2 by Moody's Investors Service, Inc. ("**Moody's**") and BBB+ by S&P Global Ratings, a division of S&P Global Inc. ("**S&P**"). These ratings are only correct as at the date of this Drawdown Offering Circular. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating organisation.

Investing in the Notes involves certain risks and may not be suitable for all investors. See "*Risk Factors*" herein and in the Original Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Drawdown Offering Circular and the Original Offering Circular and the merits and risks of investing in the Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase the Notes unless they understand and are able to bear risks associated with the Notes.

The sections of the Original Offering Circular entitled "*Risk Factors*", "*Form of Pricing Supplement*", "*Capitalisation and Indebtedness*",, "*Taxation*" and "*General Information*" have been supplemented and/or amended with the information in this Drawdown Offering Circular.

With effect from the date of this Drawdown Offering Circular the information appearing in the Original Offering Circular with respect to the Notes shall be amended and/or supplemented by the inclusion of the information set out below.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Citigroup	**CLSA**	**China Everbright Bank Hong Kong Branch**
CEB International	**Bank of Communications**	**DBS Bank Ltd.**

Joint Bookrunners and Joint Lead Managers

Agricultural Bank of China Limited Hong Kong Branch	**Bank of China**	**China Construction Bank**	**CCB International**
China International Capital Corporation	**Industrial Bank Co., Ltd. Hong Kong Branch**	**ICBC (Asia)**	**Landesbank Baden-Württemberg**
China Minsheng Banking Corp., Ltd., Hong Kong Branch	**BNP PARIBAS**	**HSBC**	**Mizuho Securities**

The date of this Drawdown Offering Circular is 7 September 2021.

IMPORTANT NOTICE

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

This Drawdown Offering Circular includes particulars given in compliance with the Rules and Regulations Governing the Listing of Securities on the MOX for the purpose of giving information with regard to the Issuer and the Notes.

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

The Notes will be issued on the terms set out under "*Terms and Conditions of the Notes*" in the Original Offering Circular, as amended and/or supplemented by the pricing supplement set out in this Drawdown Offering Circular (the "**Pricing Supplement**"). This Drawdown Offering Circular and the Original Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to the Notes, must be read and construed together with the Pricing Supplement. This Drawdown Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of the Original Offering Circular.

The distribution of this Drawdown Offering Circular (together with the Original Offering Circular) and the Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Drawdown Offering Circular (together with the Original Offering Circular) comes are required by the Issuer, the Bank, the Group and Citigroup Global Markets Limited, CLSA Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited, Bank of Communications Co., Ltd. Hong Kong Branch, a joint stock company incorporated in the People's Republic of China with limited liability and DBS Bank Ltd. (together, the "**Joint Global Coordinators**"), and Agricultural Bank of China Limited Hong Kong Branch, Bank of China (Luxembourg) S.A., China Construction Bank (Europe) S.A., CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, Industrial Bank Co., Ltd. Hong Kong Branch, Industrial and Commercial Bank of China (Asia) Limited, Landesbank Baden-Württemberg, China Minsheng Banking Corp., Ltd., Hong Kong Branch, BNP Paribas, The Hongkong and Shanghai Banking Corporation Limited and Mizuho Securities Asia

Limited (together with the Joint Global Coordinators, the "**Joint Lead Managers**") to inform themselves about and to observe any such restrictions. None of the Issuer, the Bank, the Group or the Joint Lead Managers represents that this Drawdown Offering Circular (together with the Original Offering Circular) or the Pricing Supplement may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Bank, the Group or the Joint Lead Managers which would permit a public offering of the Notes or distribution of this Drawdown Offering Circular (together with the Original Offering Circular) or the Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of the Drawdown Offering Circular (together with the Original Offering Circular), the Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

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

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A (1) of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 (the "**SF (CMP) Regulations**")) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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

No person has been authorised by the Issuer, the Bank or the Group to give any information or to make any representation not contained in or not consistent with this Drawdown Offering Circular (read together with the Original Offering Circular) or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Bank, the Group or any of the Joint Lead Managers.

Neither the delivery of this Drawdown Offering Circular (read together with the Original Offering Circular) nor the Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances create any implication that the information contained this Drawdown Offering Circular (read together with the Original Offering Circular) is true subsequent to the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer, the Bank or the Group since the date hereof or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer, the Bank or the Group during the term of the Notes or to advise any investor in the Notes of any information coming to their attention.

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

Neither this Drawdown Offering Circular nor the Original Offering Circular describes all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in the Notes. Each potential purchaser of the Notes should refer to and consider carefully the Pricing Supplement for the Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Drawdown Offering Circular (read together with the Original Offering Circular) and the Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in the Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

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

The Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

In this Drawdown Offering Circular, unless otherwise specified or the context otherwise requires, all references to "**U.S.$**" and to "**U.S. dollars**" are to United States dollars; all references to "**HK$**" and "**Hong Kong dollars**" are to Hong Kong dollars; all references to "**pounds sterling**" and "**£**" are to the lawful currency of the United Kingdom; all references to "**euro**" and "**€**" are to Euros, the lawful currency of the Eurozone; all references to "**S$**" are to Singapore dollars; all references to "**yen**" are to Japanese yen; all references to "**Renminbi**", "**RMB**", "**Chinese Yuan**" and "**CNY**" are to the lawful currency of the PRC; all references to "**United States**" or "**U.S**". are to the United States of America; all references to "**China**", "**Mainland China**" and the "**PRC**" in this Drawdown Offering Circular mean the People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; all references to "**PRC government**" mean the government of the PRC; all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China; all references to "**Macau**" are to the Macau Special Administrative Region of the People's Republic of China; all references to "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland; all references to "**business day**" is a day that is not Saturday, Sunday or a public holiday in Luxembourg; and all references to "**Luxembourg**" are to the Grand Duchy of Luxembourg.

As at the date of this Drawdown Offering Circular, the Bank's audited consolidated financial statements as at and for the years ended 31 December 2020 and 2021, the Bank's unaudited and unreviewed consolidated financial statements as at and for the three months ended 31 March 2021 (the "**2021 First Quarterly Financial Statements**") and the Bank's unaudited and reviewed consolidated financial statements as at and for the six months ended 30 June 2021 (the "**2021 Interim Financial Statements**") are the most recently published financial statements available.

The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020 were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and have been audited by Ernst & Young and are included in the F-pages of the Original Offering Circular and are incorporated by reference into this Drawdown Offering Circular. The Bank adopted new standards, including IFRS 9 – Financial Instruments, IFRS 15 and Amendments – Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note III(1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. As a result, the audited consolidated financial information of the Bank as at and for the year ended 31 December 2018 may not be directly comparable with the audited consolidated financial information of the Bank as at and for the year ended 31 December 2017.

The 2021 Interim Financial Report as at and for the six months ended 30 June 2021 were prepared in accordance with IFRS and have been reviewed by Ernst & Young in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and are included in the F-pages of this Drawdown Offering Circular. Such unaudited and reviewed consolidated interim financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. Such unaudited and reviewed consolidated interim financial information as at and for the six months ended 30 June 2021 should not be taken as an indication of the expected financial condition and results of operations for the Bank for the full financial year ending 31 December 2021.

FORWARD LOOKING STATEMENTS

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

STABILISATION

In connection with the issue of the Notes, one or more of the Joint Lead Managers as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the Pricing Supplement may over allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

INFORMATION INCORPORATED BY REFERENCE

This Drawdown Offering Circular should be read and construed in conjunction with the Original Offering Circular (and the documents incorporated by reference therein) and all amendments and supplements from time to time to this Drawdown Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Drawdown Offering Circular and which shall be deemed to modify or supersede the contents of this Drawdown Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated by reference in, and to form part of, this Drawdown Offering Circular and the Original Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the office of the Issuer at Ravelin Building, 10 Avenue Emile Reuter, L-2420 Luxembourg and from the specified office of the Fiscal Agent set out elsewhere in this Drawdown Offering Circular.

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SUMMARY FINANCIAL INFORMATION OF THE BANK

The summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 set forth below is derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 and should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 and the notes thereto , which are included in the F-pages of the Original Offering Circular and are incorporated by reference into this Drawdown Offering Circular.

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020 were prepared in accordance with IFRS and have been audited by Ernst and Young. The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II(1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018.

The summary unaudited and reviewed consolidated financial information as at and for the six months ended 30 June 2020 and 2021 of the Bank were extracted from the 2021 Interim Financial Statements, included in the interim results of the Bank published on 30 August 2021. The Bank has also adopted new standards namely IFRS 16 – Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases and recognise depreciation and interest expense respectively. According to the transitional regulations, enterprises are not subject to restating comparable figures for previous periods. Therefore, the Bank has disclosed its accounting statements in accordance with IFRS 16 without restating the comparable figures for the end of 2018. Its implementation has no material impact on the financial report of the Bank.

The 2021 Interim Financial Statements (which include the comparative financial information as at and for the six months ended 30 June 2020) included in this Drawdown Offering Circular have been reviewed by Ernst & Young, but have not been audited. Such unaudited and reviewed consolidated interim financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit.

None of the Issuer, the Bank, the Group, the Joint Lead Managers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and reviewed consolidated interim financial information as at and for six months ended 30 June 2020 and 2021, in respect of any financial year for an assessment of the Bank's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and reviewed consolidated interim financial information as at and for six months ended 30 June 2020 and 2021, in respect of any financial year should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2021.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's unaudited and reviewed consolidated financial information as at and for six months ended 30 June 2020 and 2021, which are included in the F-pages of this Drawdown Offering Circular.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the six months ended 30 June		For the six months ended 30 June	
	2020		2021	
	(RMB in millions)	*(U.S.$ in millions)*[(1)]	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
	(Unaudited and reviewed)	*(Unaudited and reviewed)*	*(Unaudited and reviewed)*	*(Unaudited and reviewed)*
Interest income	111,120	17,210	113,085	17,515
Interest expense	(56,454)	(8,744)	(57,188)	(8,857)
Net interest income	54,666	8,467	55,897	8,657
Fee and commission income	15,377	2,382	16,322	2,528
Fee and commission expense	(1,244)	(193)	(1,317)	(204)
Net fee and commission income	14,133	2,189	15,005	2,324
Net trading gains	57	9	1,230	191
Dividend income	1	-	1	-
Net gains arising from investment securities	2,754	427	4,317	669
Net gains on derecognition of financial assets measured at amortised cost	25	4	85	13
Net foreign exchange gains	71	11	82	13
Other net operating income	450	70	534	83
Operating income	72,157	11,176	77,151	11,949
Operating expenses	(19,446)	(3,012)	(21,245)	(3,290)
Operating profit before impairment	52,711	8,164	55,906	8,659
Credit impairment losses	(30,526)	(4,728)	(28,734)	(4,450)
Other impairment losses	(147)	(23)	21	3
Impairment losses on assets[(1)]	(30,673)	(4,751)	(28,713)	(4,447)
Losses on investments in joint ventures	-	-	(7)	(1)
Profit before tax	22,038	3,413	27,186	4,211
Income tax	(3,617)	(560)	(4,680)	(725)
Net profit	18,421	2,853	22,506	3,486
Net profit attributable to:				
Equity shareholders of the Bank	18,363	2,844	22,436	3,475
Non-controlling interests	58	9	70	11
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
– Equity instruments at fair value through other comprehensive income				
– Net change in fair value	1	-	2	-
– Related income tax effect	-	-	(1)	-
Subtotal	1	-	1	-
Items that will be reclassified to profit or loss:				
– Debt instruments at fair value through other comprehensive income				
– Net Change in fair value	507	79	492	76
– Changes in allowance for expected credit losses	(252)	(39)	428	66
– Reclassified to the profit or loss upon disposal	(276)	(43)	(102)	(16)
– Related income tax effect	(1)	-	(212)	(33)

	For the six months ended 30 June		For the six months ended 30 June	
	2020		2021	
	(RMB in millions)	*(U.S.$ in millions)*[(1)]	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
	(Unaudited and reviewed)	*(Unaudited and reviewed)*	*(Unaudited and reviewed)*	*(Unaudited and reviewed)*
– Exchange differences on translation of financial statements	51	8	(36)	(6)
Subtotal	29	5	570	88
Other comprehensive income, net of tax	30	5	571	88
Total comprehensive income	18,451	2,858	23,077	3,574
Net profit attributable to:				
Equity shareholders of the Bank	18,363	2,844	22,436	3,475
Non-controlling interests	58	9	70	11
	18,421	2,853	22,506	3,486
Total comprehensive income attributable to:				
Equity shareholders of the Bank	18,392	2,849	23,007	3,563
Non-controlling interests	59	9	70	11
	18,451	2,858	23,077	3,574
Basic earnings per share (in RMB/Share)	0.31	0.05	0.37	0.06
Diluted earnings per share (in RMB/Share)	0.28	0.04	0.33	0.05

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.4566 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2021.

Consolidated Statement of Financial Position

	As at 31 December				As at 30 June	
	2018	2019	2020		2021	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
	(audited)				**(***unaudited and reviewed***)**	
Assets						
Cash and deposits with the central bank	366,575	364,340	360,287	55,801	377,531	58,472
Deposits with banks and other financial institutions	41,005	31,358	46,059	7,134	33,878	5,247
Precious metals	23,628	10,826	9,353	1,449	6,485	1,004
Placements with banks and other financial institutions	96,685	60,270	69,290	10,732	70,741	10,956
Derivative financial assets	15,212	13,805	25,264	3,913	17,188	2,662
Financial assets held under resale agreements	37,773	6,835	43,592	6,752	96,928	15,012
Loans and advances to customers	2,361,278	2,644,136	2,942,435	455,725	3,167,425	490,572
Finance lease receivables	63,333	83,723	100,788	15,610	110,934	17,181
Financial investments	1,301,080	1,433,546	1,670,415	258,714	1,775,485	274,988
Financial assets at fair value through profit or loss	222,737	211,406	304,908	47,224	364,835	56,506

	As at 31 December				As at 30 June	
	2018	2019	2020		2021	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
	(audited)				**(***unaudited and reviewed***)**	
Debt instruments at fair value through other comprehensive income	153,987	180,005	222,807	34,508	278,779	43,177
Equity instruments at fair value through other comprehensive income	367	623	875	136	1,127	175
Financial investments measured at amortised cost	923,989	1,041,512	1,141,825	176,846	1,130,744	175,130
Investment in joint ventures...........................	-	-	257	40	343	53
Property, plant and equipment	18,241	19,342	23,301	3,609	23,441	3,631
Right-of-use assets...	N/A	11,684	11,137	1,725	10,951	1,696
Goodwill	1,281	1,281	1,281	198	1,281	198
Deferred tax assets	10,794	16,306	19,587	3,034	21,529	3,334
Other assets	20,447	35,979	45,064	6,980	58,656	9,085
Total assets	4,357,332	4,733,431	5,368,110	831,414	5,772,796	894,092

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.4566 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2021.

	As at 31 December				As at 30 June	
	2018	2019	2020		2021	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
	(audited)				*(unaudited and reviewed)*	
Liabilities and equity						
Liabilities						
Due to the central bank	267,193	224,838	241,110	37,343	229,545	35,552
Deposits from banks and other financial institutions	490,091	444,320	469,345	72,692	466,337	72,226
Placements from banks and other financial institutions	152,037	166,225	161,879	25,072	171,372	26,542
Financial liabilities at fair value through profit or loss...	354	100	4	1	172	27
Derivative financial liabilities.................	14,349	13,893	25,778	3,993	16,645	2,578
Financial assets sold under repurchase agreements...	40,411	25,603	14,182	2,197	14,140	2,190
Deposits from customers	2,571,961	3,017,888	3,480,667	539,087	3,692,419	571,883
Accrued staff costs.................................	8,028	13,667	15,169	2,349	15,633	2,421
Taxes payable	5,666	9,322	8,772	1,359	6,546	1,014
Lease liabilities	N/A	11,069	10,762	1,667	10,597	1,641
Debt securities issued	440,449	371,904	440,870	68,282	627,063	97,120
Other liabilities	44,320	48,548	44,574	6,904	58,189	9,012
Total liabilities.......................................	4,034,859	4,347,377	4,913,112	760,944	5,308,658	822,206

	As at 31 December				As at 30 June	
	2018	**2019**	**2020**		**2021**	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)[(1)]*	*(RMB in millions)*	*(U.S.$ in millions)[(1)]*
	(audited)				*(unaudited and reviewed)*	
Equity						
Share capital	52,489	52,489	54,032	8,368	54,032	8,368
Other equity instrument	35,108	70,067	109,062	16,892	109,062	16,892
– Preference shares	29,947	64,906	64,906	10,053	64,906	10,053
– Perpetual bonds	-	-	39,993	6,194	39,993	6,194
Capital reserve	53,533	53,533	58,434	9,050	58,434	9,050
Other comprehensive income	1,655	2,737	1,393	216	1,964	304
Surplus reserve	24,371	26,245	26,245	4,065	26,245	4,065
General reserve	54,036	59,417	67,702	10,486	67,800	10,501
Retained earnings	100,296	120,494	136,581	21,154	145,002	22,458
Total equity attributable to equity shareholders of the Bank	321,488	384,982	453,449	70,230	462,539	71,638
Non-controlling interests	985	1,072	1,549	240	1,599	248
Total equity	322,473	386,054	454,998	70,470	464,138	71,886
Total liabilities and equity	4,357,332	4,733,431	5,368,110	831,414	5,772,796	894,092

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.4566 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2021.

RISK FACTORS

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

The sub-section entitled "*Risk Factors – Risks Relating to the Structure of a Particular Issue of Notes*" on pages 52 to 55 of the Original Offering Circular shall be supplemented with the following:

The Anti-Tax Avoidance Directive

As part of its anti-tax avoidance package, the EU Commission published a draft Anti-Tax Avoidance Directive on 28 January 2016, which was formally adopted by the EU Council on 12 July 2016 in Council Directive (EU) 2016/1164 (the "**ATAD I**"). Council Directive (EU) 2017/952 of 29 May 2017 then amended the ATAD I as regards hybrid mismatches with third countries (the "**ATAD II**").

In this respect, the Luxembourg law dated 21 December 2018 (the "**ATAD I Law**") transposed the ATAD I into Luxembourg legislation. The ATAD I Law may have an impact on the tax position and the performance of the Issuer. Amongst the measures contained in the ATAD I Law is an interest deductibility limitation rule which provides that "exceeding borrowing costs" in excess of the higher of (a) EUR 3,000,000 or (b) 30% of an entity's adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) will not be deductible in the year in which they are incurred but would remain available for carry forward over the five subsequent financial years. "Exceeding borrowing costs" is a defined term which relates to the amount by which the tax-deductible borrowing costs exceed "interest revenues and other equivalent taxable revenues".

Furthermore, the Luxembourg law dated 20 December 2019 (the "**ATAD II Law**") transposed into Luxembourg legislation the ATAD II. With respect to situations of double deductions or deductions without inclusion resulting from hybrid mismatches, the ATAD II Law extends the scope of the ATAD I Law to third countries. The ATAD II Law requires EU Member States to either deny deduction of payments, expenses or losses or include payments as taxable income, in case of hybrid mismatches. It includes situations involving permanent establishments, reverse hybrids, imported mismatches, hybrid transfers and dual residence.

The ATAD II Law applies as of 1 January 2020, except for the provision on reverse hybrid mismatches which will apply as of 1 January 2022.

The exact impact of the above mentioned new rules would need to be monitored on a regular basis, notably in the light of any future guidance from the Luxembourg tax authorities.

Prospective investors in the Notes should consult with their own professional advisers, in particular with their tax advisers as to the tax consequences of the acquisition, ownership and disposal of the Notes, including the effect of any state or local taxes under the tax laws applicable in each country in they are resident or to which they have another relevant nexus.

Risks Relating to Listing of the Notes in Macau

As of the date of this Drawdown Offering Circular, MOX is a relatively new trading platform, having been inaugurated in December 2018. MOX is entitled to amend its trading rules and guidelines in a manner and without notice beyond the control of the Issuer.

Investors should be aware of the potential risks in respect of the listing of the Notes on the MOX and there are not many prior cases of listing of notes on MOX for reference.

PRICING SUPPLEMENT

EU MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of 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, "**EU MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Professional Investors**")) only.

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

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

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

This document is not for distribution to professional investors (as defined in Section 11 of the Guideline on Provision and Distribution of Financial Products (Circular 033/B/2010-DSB/AMCM)) ("**MOX Professional Investors**") only. Investors should not purchase the Notes in the primary or secondary markets unless they are MOX Professional Investors and understand the risks involved. The Notes are only suitable for MOX Professional Investors. The Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the "**MOX**") has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Document to MOX Professional Investors only have been reproduced in this document. Listing of the Notes on the MOX is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document. The MOX takes no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Pricing Supplement dated 7 September 2021

China Everbright Bank Co., Ltd., Luxembourg Branch

(having its registered office at Ravelin Building, 10 Avenue Emile Reuter L-2420 Luxembourg, registered with the Luxembourg Register of Commerce and Companies under number B216934, being a branch of China Everbright Bank Company Limited (the "**Bank**"), a joint stock company incorporated in the People's Republic of China with limited liability)

Issue of U.S.$500,000,000 0.826 per cent. Notes due 2024
under the U.S.$5,000,000,000 Medium Term Note Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the notes (the "**Conditions**") set forth in the offering circular dated 12 August 2021 (the "**Original Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Original Offering Circular and the documents incorporated by reference thereto and the drawdown offering circular dated 7 September 2021 (the "**Drawdown Offering Circular**", and together with the Original Offering Circular, the "**Offering Circular**").

1.	(i)	Issuer:	China Everbright Bank Co., Ltd., Luxembourg Branch
2.	(i)	Series Number:	1
	(ii)	Tranche Number:	1
3.		Specified Currency or Currencies:	U.S. dollar ("**U.S.$**")
4.		Aggregate Nominal Amount:	
	(i)	Series:	U.S.$500,000,000
	(ii)	Tranche:	U.S.$500,000,000
5.	(i)	Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii)	Gross Proceeds	U.S.$500,000,000
6.	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
7.	(i)	Issue Date:	14 September 2021
	(ii)	Interest Commencement Date:	14 September 2021
8.		Maturity Date:	14 September 2024
9.		Interest Basis:	0.826 per cent. Fixed Rate (further particulars specified below)
10.		Redemption/Payment Basis:	Redemption at par
11.		Change of Interest or Redemption/Payment Basis:	Not Applicable
12.		Put/Call Options:	Not Applicable
13.		Date of authorisation for issuance of Notes:	The issue of the Notes thereunder were authorised by Authorisation (2021) No. 331 of the Bank's Office

		passed on 19 April 2021 and Authorisation (2021) No. 343 of the Bank passed on 28 August 2021
14.	Date of the relevant NDRC approval for issuance of Notes:	NDRC pre-issuance registration: Pursuant to the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (Fa Gai Wai Zi [2015] No 2044) (国家发展改革委关于推进企业发行外债备案登记制管理改革的通知(发改外资[2015] 2044 号)) issued by the NDRC and a quota of foreign debt (the "**Quota**") was granted by the NDRC on 7 April 2021.
15.	Listing:	Application will be made to The Stock Exchange of Hong Kong Limited (expected effective listing date: 15 September 2021). Application will be made to the Chongwa (Macao) Financial Asset Exchange Co., Ltd. (expected effective listing date: 15 September 2021).
16.	Method of Distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	Fixed Rate Note Provisions		Applicable
	(i)	Rate of Interest:	0.826 per cent. per annum payable semi-annually in arrear
	(ii)	Interest Payment Date(s):	14 March and 14 September in each year
	(iii)	Fixed Coupon Amount(s):	U.S.$4.13 per Calculation Amount
	(iv)	Broken Amount(s):	Not Applicable
	(v)	Day Count Fraction:	30E/360
	(vi)	Determination Dates:	Not Applicable

	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18.	Floating Rate Note Provisions	Not Applicable
19.	Zero Coupon Note Provisions:	Not Applicable
20.	Index-Linked Interest Note/other variable-linked interest Note Provisions	Not Applicable
21.	Dual Currency Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

22.	Call Option	Not Applicable
23.	Put Option	Not Applicable
24.	Final Redemption Amount of each Note	U.S.$1,000 per Calculation Amount
25.	Early Redemption Amount	
	(i) Early Redemption Amount (Tax)	U.S.$1,000 per Calculation Amount
	(ii) Early Termination Amount	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	Form of Notes:	Registered Notes: Global Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Certificate
27.	Additional Financial Centre(s) or other special provisions relating to payment dates:	Luxembourg
28.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	Not Applicable
30.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not Applicable
31.	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
32.	Consolidation provisions:	The provisions in Condition 19 (Further Issues) apply

33.	Any applicable currency disruption/ fallback provisions:	Not Applicable
34.	Other terms or special conditions:	Contractual Recognition of Bail-In and Contractual Recognition of Stay (see Annex herein)

DISTRIBUTION

35.	(i)	If syndicated, names of Managers:	Citigroup Global Markets Limited CLSA Limited China Everbright Bank Co., Ltd., Hong Kong Branch CEB International Capital Corporation Limited Bank of Communications Co., Ltd. Hong Kong Branch, a joint stock company incorporated in the People's Republic of China with limited liability DBS Bank Ltd. Agricultural Bank of China Limited Hong Kong Branch Bank of China (Luxembourg) S.A. China Construction Bank (Europe) S.A. CCB International Capital Limited China International Capital Corporation Hong Kong Securities Limited Industrial Bank Co., Ltd. Hong Kong Branch Industrial and Commercial Bank of China (Asia) Limited Landesbank Baden-Württemberg China Minsheng Banking Corp., Ltd., Hong Kong Branch BNP Paribas The Hongkong and Shanghai Banking Corporation Limited Mizuho Securities Asia Limited
	(ii)	Stabilisation Manager(s) (if any):	Citigroup Global Markets Limited
36.		If non-syndicated, name and address of Dealer:	Not Applicable
37.		Total commission and concession:	The Issuer has agreed to pay the Managers a management commission based on the gross subscription moneys of the Notes
38.		U.S. Selling Restrictions:	Reg. S Category 1; TEFRA not applicable
39.		Prohibition of Sales to EEA Retail Investors:	Not Applicable
40.		Prohibition of Sales to UK Retail Investors:	Not Applicable
41.		Additional selling restrictions:	Not Applicable

OPERATIONAL INFORMATION

42.	ISIN Code:	XS2378772417
43.	Common Code:	237877241

44.	CMU Instrument Number:	Not Applicable
45.	LEI	The Legal Entity Identifier of the Bank is 549300U6PKQ4H1P34E17
46.	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	Not Applicable
47.	Delivery:	Delivery against payment
48.	Additional Paying Agent(s) (if any):	Not Applicable
49.	Registrar (if other than Citibank, N.A., London Branch):	Not Applicable
GENERAL		
50.	Private Bank Rebate/Commission:	Not Applicable
51.	The aggregate principal amount of Notes issued has been translated into United States dollars at the rate of [•], producing a sum of (for Notes not denominated in United States dollars):	Not Applicable
52.	Ratings:	The Notes to be issued have been rated: S&P: BBB+

FINANCIAL/TRADING POSITION

Unless otherwise disclosed in this Drawdown Offering Circular, since 31 December 2020, there has been no material adverse change in the financial position or prospects, nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

STABILISING

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

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on The Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme.

This Pricing Supplement comprises the final terms required for issue and admission to trading on the MOX of the Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme.

LISTING APPLICATION

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer.

This document includes particulars given in compliance with the Rules and Regulations Governing the Listing of Securities on the MOX for the purpose of giving information with regard to the Issuer.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Signed on behalf of China Everbright Bank Co., Ltd., Luxembourg Branch:

By: …………………………………………
Duly authorised

By: …………………………………………
Duly authorised

ANNEX

CONTRACTUAL RECOGNITION OF BAIL-IN

Notwithstanding and to the exclusion of any other term of the Notes or any other agreement, arrangement or understanding between the Issuer and any holder of Notes (which for the purposes of this Condition includes any holder of a beneficial interest in the Notes), by its acquisition of the Notes, each holder of Notes acknowledges and accepts that any BRRD Liability arising under the Notes may be subject to the exercise of Bail-in Powers by the Relevant Resolution Authority and acknowledges, accepts, consents and agrees to be bound by the effect of:

(a) the effect of the exercise of Bail-in Powers by the Relevant Resolution Authority in relation to any BRRD Liability of the Issuer to any holder of Notes, that (without limitation) may include and result in any of the following, or some combination thereof

(i) the reduction of all, or a portion, of the BRRD Liability or outstanding amounts due thereon;

(ii) the conversion of all, or a portion, of the BRRD Liability into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on another party of such shares, securities or obligations;

(iii) the cancellation of the BRRD Liability;

(iv) the amendment or alteration of any interest, if applicable, thereon, the maturity or the dates on which any payments are due, including by suspending payment for a temporary period;

(b) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of Bail-in Powers by the Relevant Resolution Authority.

"**Bail-in Legislation**" means in relation to a member state of the European Economic Area which has implemented, or which at any time implements, the BRRD, the relevant implementing law, regulation, rule or requirement as described in the EU Bail-in Legislation Schedule from time to time.

"**Bail-in Powers**" means any Write-down and Conversion Powers as defined in the EU Bail-in Legislation Schedule, in relation to the relevant Bail-in Legislation.

"**BRRD**" means Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms.

"**BRRD Liability**" means a liability in respect of which the relevant Write Down and Conversion Powers in the applicable Bail-in Legislation may be exercised.

"**EU Bail-in Legislation Schedule**" means the document described as such, then in effect, and published by the Loan Market Association (or any successor person) from time to time at the LMA website under EU Bail-in Legislation Schedule.

"**Relevant Resolution Authority**" means the resolution authority with the ability to exercise any Bail-in Powers in relation to the Issuer.

CONTRACTUAL RECOGNITION OF STAY

Where a BRRL Stay Power is exercised by a Relevant Resolution Authority in relation to the Issuer, each holder of Notes, by its subscription and/or purchase and holding of the Notes, acknowledges and accepts:

(a) that the Notes may be subject to the exercise of BRRL Stay Powers;

(b) to be bound by the effect of the application or exercise of any such BRRL Stay Powers and the conditions of Article 66 of the BRRL; and

(c) confirms that this clause represents the entire agreement with the Issuer on the potential impact of BRRL Stay Powers in respect of the Notes, to the exclusion of any other agreement, arrangement or understanding between the parties.

In accordance with Article 66 (Exclusion of certain contractual terms in resolution) of the BRRL, each holder of Notes, by its subscription and/or purchase and holding of the Notes, further acknowledges and agrees that the application or exercise of any such BRRL Stay Powers (or any third country resolution procedure recognised or decided to be recognised as foreseen in article 66 (2) of the BRRL or application of BRRL Stay Powers based on recognition of such procedure) shall not, per se, be deemed to be a enforcement event within the meaning of Article 1 of the Law of 5 August 2005 on financial collateral arrangements, as amended, or as insolvency proceeding within the meaning of Article 107 of the Law of 10 November 2009 on payment services, as amended or a non-performance of a contractual obligation and that each holder of Notes shall not, per se, be entitled to take any of the steps outlined under Article 66(3) of BRRL.

For the purposes of this section (*Contractual Recognition of Stay*), the relevant definitions included in the above section (*Contractual Recognition of Bail-In*) will apply as well as the following:

"**BRRL Stay Powers**" means the powers of a Relevant Resolution Authority to suspend or restrict rights and obligations under:

(a) Article 34-1 (Power to suspend payment or delivery obligations);

(b) Article 67 (Power to suspend payment or delivery obligations);

(c) Article 68 (Power to restrict the enforcement of any security interest); and

(d) Article 69 (Power to temporarily suspend any termination right)

of the BRRL.

"**BRRL**" means the Luxembourg law of 18 December 2015 on the default of credit institutions and certain investment firms (as amended).

CAPITALISATION AND INDEBTEDNESS

The section headed "Capitalisation" on page 106 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

As at 30 June 2021, the Bank had an issued share capital of RMB54,032 million divided into approximately 12,679 million H shares of RMB1.00 each and approximately 41,353 million A shares of RMB1.00 each.

The following table sets out the Bank's consolidated capitalisation and indebtedness as at 30 June 2021 and as adjusted to give effect to the issuance of the Notes prior to deducting the commissions and other estimated expenses payable by the Group in connection with this offering.

This table should be read in conjunction with the audited consolidated financial statements of the Bank and related notes thereto included elsewhere in the Original Offering Circular:

	As at 30 June 2021			
	Actual		**As adjusted**	
	(RMB in millions)	*(U.S.$ in millions)*(1)	*(RMB in millions)*	*(U.S.$ in millions)*(1)
Debt				
Debt securities issued	627,063	97,120	627,063	97,120
Notes to be issued hereby	-	-	3,228	500
Shareholders' Equity				
Share capital	54,032	8,368	54,032	8,368
Other equity instrument	109,062	16,892	109,062	16,892
Capital reserve	58,434	9,050	58,434	9,050
Other comprehensive income	1,964	304	1,964	304
Surplus reserve	26,245	4,065	26,245	4,065
General reserve	67,800	10,501	67,800	10,501
Retained earnings	145,002	22,458	145,002	22,458
Total equity attributable to equity shareholders of the Bank	462,539	71,638	462,539	71,638
Non-controlling interests	1,599	248	1,599	248
Total equity	464,138	71,886	464,138	71,886
Total capitalisation(4)	1,083,958	167,884	1,087,186	168,384

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.4566 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2021.

(2) For convenience only, all translations from Euro into Renminbi are made at the rate of RMB7.6742 to € 1.00, based on the exchange rates published by the European Central Bank on 30 June 2021.

(3) For convenience only, all translations from Euro into U.S. dollars are made at the rate of U.S.$1.1884 to € 1.00, based on the exchange rates published by the European Central Bank on 30 June 2021.

(4) Total capitalisation equals the sum of debt and total equity.

Unless otherwise disclosed in this Drawdown Offering Circular, there has not been any material change in the Bank's capitalisation and indebtedness since 30 June 2021.

DESCRIPTION OF THE ISSUER

The following section entitled "*Description of the Issuer*" shall supplement the Original Offering Circular:

The Issuer is a branch of the Bank in Luxembourg. For further details on the Bank, please refer to the section entitled "Description of the Bank" in the Original Offering Circular.

The Issuer was registered with the Luxembourg Register of Commerce and Companies on 8 August 2017 and is registered under number B216934. The registered office of the Issuer is at Ravelin Building, 10 Avenue Emile Reuter, L-2420 Luxembourg.

The Issuer was granted its banking licence as a credit institution by the Luxembourg Ministry of Finance on 1 August 2017 and from the Commission de Surveillance du Secteur Financier (the "**CSSF**") on 22 August 2017. The Issuer is authorised and regulated by the China Banking Regulatory Commission and is authorised in Luxembourg in accordance with Article 32 of the Luxembourg law of 5 April 1993 on the financial sector, as amended (the "**Banking Act 1993**") and is under the supervision of the CSSF. The Issuer appears on the list of the entities authorised and supervised by the CSSF which is available on the CSSF's website: www.cssf.lu. The Issuer has a full banking licence as a branch of a credit institution having its head office in a third country, outside the European Union, to perform banking activities pursuant to Article 32 of the Banking Act 1993 including the provision of products and services in commercial banking, in particular Chinese customers looking to invest in Europe and European customers with business interests in China.

Regulated Activities and Business Activity

In Luxembourg, the Issuer is authorised by the CSSF to carry out the following regulated activities and services:

The Issuer's three main business lines are: corporate banking, treasury business and bond investment. The Issuer's corporate banking products include trade finance, bilateral and syndicated letter of credit facilities. The Issuer's treasury business focusses on funding using money market deposit and trading foreign exchange spot and swaps. The Issuer invests in debt securities in order to maintain its liquidity portfolio and to comply with applicable regulatory liquidity requirements.

RECENT DEVELOPMENTS OF THE BANK

The following section entitled "*Recent Developments of the Bank*" shall supplement the Original Offering Circular:

2021 Interim Results Announcement

On 30 August 2021, the 2021 Interim Results Announcement of the Bank (the "**2021 Interim Results Announcement**") was published on the website of the Hong Kong Stock Exchange.

- *Summary of Management Discussion and Analysis*

In terms of supporting the economy, the Bank fully supports inclusive finance and has achieved the regulatory target of "Two Increases and Two Controls" as planned. It developed green finance and facilitated green and low-carbon transformation. The growth rate of green loans was 1 percentage point higher than that of the Bank's total loans, and the growth rate of loans to the clean energy industry was 11 percentage points higher than that of the Bank's total loans. It provided better services for manufacturing enterprises, implementing a whitelist policy for key manufacturing customers and expanding the authorization of loan pricing. It also actively assisted in the development of private enterprises, with both quality and efficiency of private enterprise services further improving. The Bank's "Cloud Fee Payment" platform provides customers with over 11,000 service items, with the focuses on social security, non-tax revenue, fee payment, capital supervision and other application scenarios. Besides, the "Mass Craftsmen Card" was promoted to provide wage guarantees for migrant workers.

In terms of coordinating scale and profit growth, all business indicators show that the Bank maintained a sound momentum. Specifically, assets grew steadily with decreasing deposit cost; financial indicators were stable and improved, where operating income and net profit grew well, and the return on weighted average equity increased by 1.01 percentage points year on year; overseas institutions showed a good prospect continuously.

In terms of wealth management services and the development of key businesses, the Bank put more emphasis on the guiding role of wealth management. Its retail banking businesses realised a leapfrogging development with AUM exceeding RMB2 trillion and the operating income accounting for 41.46% of the Bank's total. The number of wealth management customers exceeded 1 million for the first time, and that of CEB Mobile Banking, "Sunshine Life" and "Cloud Fee Payment" App users reached 155 million in total. The corporate banking businesses achieved record-breaking growth, with corporate deposits standing at a historic high, while corporate deposits and loans ranked among the best in both amount and growth rate among peers. New driving engines were formed through intra-Everbright coordination, including "Enjoy Sunshine"-branded CEB health and elderly care and other featured elderly care financial services and "Everbright Supermarket" opening more outlets successfully.

In terms of fintech innovations, the Bank continued to deepen the digital transformation of retail banking. As a result, the substitution rate of retail electronic transaction channels was 98.83%, customer satisfaction rate of remote services reached 99.52%, and monthly active customers of mobile banking increased by 32.48% year on year; the special mobile banking version for private banking customers was launched as an online operation system to improve the AUM of long tail customers; more technologies were applied to corporate banking businesses and hit digital products, making the substitution rate of corporate electronic transaction channels climb to 93.94%; Corporate Mobile Banking V1.0 was launched, enriching its strategic scope of mobile finance; Everbright Dual Chain (Blockchain-powered supply chain finance), also called "Guang Xin Tong", was among the first to be integrated into PBOC's fin-tech innovation management service platform, and Logistics Express (Wu Liu Tong) won the gold prize of "Special Innovation Award" in China Financial Digital Technology Innovation Competition.

In terms of risk management, the asset quality maintained a good momentum of steady growth, and the risk resistance capabilities were intensified, with decreasing non-performing loan ratio, ratio of special mention loans and ratio of overdue loans and increasing provision coverage ratio. The Bank improved risk control system and mechanism, and further strengthened unified credit management. In particular, it established a penetrating risk monitoring mechanism for large-value credit customers to prevent the concentration risk of large-value credits, and strictly controlled businesses that were included in local governments' hidden debts. The Bank also deepened research on key industries and equipped itself with a team managing risk policies across the Bank. Additionally, it formulated and fully implemented the work plan of "peaking carbon emissions and achieving carbon neutrality", and integrated green finance requirements into the whole process of investment and financing management.

- *Summary of the 2021 Interim Results*

The Group's total assets for the six months ended 30 June 2021 increased to RMB5,772,796 million, representing an increase of 7.54 per cent., as compared with that as at 31 December 2020. The total liabilities registered RMB5,308,658 million, representing an increase of 8.05 per cent., as compared with that as at 31 December 2020. The balance of deposits was reported RMB3,692,419 million, up by 6.08 per cent., as compared with that as at 31 December 2020. Total loans and advances to customers reached to RMB3,238,622 million, representing an increase of 7.61 per cent. over the end of the previous year.

During the six months ended 30 June 2021, the Group realised a net profit of RMB22,506 million, representing a year-on-year increase of 22.18 per cent. Its operating income was RMB77,151 million, representing a year-on-year increase of 6.92 per cent. The Group's net interest income realised for the six months ended 30 June 2021 was RMB55,897 million, representing a year-on-year increase of 2.25 per cent., as compared with the corresponding period in 2020 and accounting for 72.45 per cent. of the total operating income of the Group.

During the six months ended 30 June 2021, the Group's net fee and commission income was RMB15,005 million, representing a year-on-year increase of 6.17 per cent., as compared with the corresponding period in the 2020 and accounting for 19.45 per cent. of the total operating income.

During the six months ended 30 June 2021, the Group incurred operating expenses of RMB21,245 million, representing a year-on-year increase of 9.25 per cent. Its credit impairment losses were RMB28,713 million, representing a year-on-year decrease of 6.39 per cent.

As at the end of the six months ended 30 June 2021, the non-performing loans of the Group totalled RMB44,128 million, representing an increase of RMB2,462 million, as compared with 31 December 2020. Its non-performing loan ratio was 1.36 per cent., decreased by 0.02 per cent. as compared with 31 December 2020. Its provision coverage ratio was 184.06 per cent, representing an increase of 1.35 percentage point as compared with 31 December 2020. As at the end of the six months ended 30 June 2021, the Group recorded a liquidity coverage ratio of 144.97 per cent., against a liquidity coverage ratio of 150.47 per cent. as compared with 31 December 2020.

As at the end of the six months ended 30 June 2021, the Group's consolidated capital adequacy ratio reached 13.45 per cent. Its consolidated tier-1 capital adequacy ratio was reported 11.39 per cent., while its consolidated common equity tier-1 capital adequacy ratio was reported 8.79 per cent., all of which met the regulatory requirements. As at the end of six months ended 30 June 2021, the leverage ratio of the Group was 6.85 per cent., representing a decrease of 0.18 percentage point as compared with 31 December 2020.

The summary consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2020 and 2021 and the summary consolidated statement of the Group's financial position as at 30 June 2021 as included in this Drawdown Offering Circular are derived from the Group's "*Report on Review of Interim Financial Information*" included in the 2021 Interim Results Announcement, which was prepared in accordance with IFRS. These results have not been audited but have been reviewed by the Bank's independent auditors.

None of the Issuer, the Bank, the Group, the Joint Lead Managers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and reviewed consolidated interim financial information as at and for the six months ended 30 June 2020 and 2021 for an assessment of the Bank's financial condition and results of operations. Such unaudited and reviewed consolidated financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and reviewed consolidated interim financial information as at and for the six months ended 30 June 2021 should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2021.

Proposed Appointment of Vice President and Change of Member of the Board Committee

The board of directors (the "**Board**") of the Bank announced at the 30th meeting of the eighth session of the Board convened on 30 August 2021 that Mr. Zhao Ling is appointed as the Vice President of the Bank, and his appointment is subject to the approval by the China Banking and Insurance Regulatory Commission (the "**CBIRC**"). His term of office shall become effective on the date of approval by the CBIRC.

In addition, the Board approved that Mr. Li Wei, a Non-executive Director, will serve as a member of the Risk Management Committee and the Related Party Transactions Control Committee of the eighth session of the Board; Mr. Wang Liguo, an Independent Non-executive Director, will serve as a member of the Risk Management Committee of the eighth session of the Board, and cease to be a member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee; Mr. Li Xiaopeng, a Non-executive Director, will cease to be a member of the Remuneration Committee of the eighth session of the Board. The appointment of Mr. Li Wei shall become effective upon the approval of his director qualification from the CBIRC. The appointment of other Directors shall become effective from the date of the passing of the Board resolution.

Approval of Qualification of Director by the CBIRC

The Bank has recently received the "Approval by China Banking and Insurance Regulatory Commission of Appointment Qualification of Li Wei of China Everbright Bank (《中國銀保監會關於光大銀行李巍任職資格的批復》) (Yin Bao Jian Fu [2021] No. 692), pursuant to which the appointment qualification of Mr. Li Wei as the Director of the Bank was approved. The term of office of Mr. Li Wei as the Non-executive Director of the eighth session of the Board of the Bank commenced on 30 August 2021.

Accordingly, Mr. Li Wei's appointment as a member of the Risk Management Committee and the Related Party Transactions Control Committee of the eighth session of the Board of the Bank as approved by the Board of the Bank shall become effective from 30 August 2021.

TAXATION

The section "Taxation" on pages 165 to 169 of the Original Offering Circular shall be supplemented with the following:

LUXEMBOURG

The paragraphs below are intended as a basic summary of certain tax consequences in relation to the purchase, ownership and disposal of the Notes under Luxembourg law. Investors should consult their professional advisers.

Withholding Tax

Under Luxembourg tax law currently in effect and subject to the exception below, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest) or repayments of principal of the Notes which are not profit sharing.

In accordance with the law of 23 December 2005, as amended, interest payments made by Luxembourg paying agents to individual beneficial owners resident in Luxembourg are currently subject to a 20 per cent. withholding tax. Responsibility for withholding such tax will be assumed by the Luxembourg paying agent.

Income Taxation on Principal, Interest, Gains on Sales or Redemption

Luxembourg tax residency of the Noteholders

Noteholders will not be deemed to be resident, domiciled or carrying on business in Luxembourg solely by reason of holding execution, performance, delivery, exchange and/or enforcement of the Notes.

Taxation of Luxembourg non-residents

Noteholders who are non-residents of Luxembourg and who do not have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected, will not be subject to taxes (income taxes and net wealth tax) or duties in Luxembourg with respect to payments of principal or interest (including accrued but unpaid interest), payments received upon redemption, repurchase or exchange of the Notes or capital gains realised upon disposal or repayment of the Notes.

Taxation of Luxembourg residents

Noteholders who are residents of Luxembourg will not be liable for any Luxembourg income tax on repayment of principal.

Interest received by an individual resident in Luxembourg is, in principle, reportable and taxable at the progressive rate unless the interest has been subject to withholding tax (see above "Withholding Tax") or to a self-applied tax, if applicable. Indeed, in accordance with the Luxembourg law of 23 December 2005, as amended, Luxembourg resident individuals, acting in the framework of their private wealth, can opt to self-declare and pay a 20 per cent. tax on interest payments made by paying agents located in an EU Member State other than Luxembourg or a Member State of the European Economic Area other than an EU Member State.

This withholding tax or self-applied tax represents the final tax liability for the Luxembourg individual resident taxpayers receiving the interest payment in the course of their private wealth. Individual Luxembourg resident Noteholders receiving the interest as business income must include this interest in their taxable basis. If applicable, the 20 per cent. Luxembourg withholding tax levied will be credited against their final income tax liability.

Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes, unless the disposal of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of these Notes. Upon the sale, redemption or exchange of the Notes, accrued but unpaid interest will be subject to the 20 per cent. withholding tax or the self-applied tax, if applicable. Individual Luxembourg resident Noteholders receiving the interest as business income must also include the portion of the price corresponding to this interest in their taxable income. The 20 per cent. Luxembourg withholding tax levied will be credited against their final income tax liability.

Luxembourg resident corporate Noteholders, or Noteholders who have a permanent establishment or a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected, must for income tax purposes include in their taxable income any interest (including accrued but unpaid interest) and the difference between the sale or redemption price and the lower of the cost or book value of the Notes sold or redeemed.

Luxembourg resident corporate Noteholders which are companies benefiting from a special tax regime (such as (a) family wealth management companies subject to the law of 11 May 2007 as amended, (b) undertakings for collective investment subject to the law of 17 December 2010 as amended, (c) specialised investment funds subject to the law of 13 February 2007 as amended, or

(d) reserved alternative investment funds governed by the law of 23 July 2016, provided it is not foreseen in the incorporation documents that (i) the exclusive object is the investment in risk capital and that (ii) article 48 of the aforementioned law of 23 July 2016 applies) are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (i.e., corporate income tax, municipal business tax and net wealth tax) other than the annual subscription tax calculated on their (paid-up) share capital (and share premium) or net asset value.

Net wealth tax

Luxembourg net wealth tax will not be levied on the Notes held by a corporate Noteholder, unless (a) such Noteholder is a Luxembourg resident other than a corporate Noteholder governed by (i) the laws of 17 December 2010 and 13 February 2007 on undertakings for collective investment as amended; (ii) the law of 22 March 2004 on securitisation as amended; (iii) the law of 15 June 2004 on the investment company in risk capital; (iv) the law of 11 May 2007 on family estate management companies as amended; (v) the law of 13 July 2005 on pension-saving company and pension-saving association or (vi) the law of 23 July 2016 on reserved alternative investment funds or (b) the Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative.

Corporate resident Noteholders will however be subject to (a) a minimum net wealth tax of EUR 4,815, if they hold assets such as fixed financial assets, receivables owed to affiliated companies, transferable securities, postal checking accounts, checks and cash, in a proportion that exceeds 90% of their total balance sheet value and if the total balance sheet value of these particular assets exceeds EUR 350,000, or (b) a minimum net wealth tax between EUR 535 and EUR 32,100 based on the total amount of their assets. Despite the above mentioned exceptions, the minimum net wealth tax also applies if the resident corporate Noteholder is a securitisation company governed by the law of 22 March 2004 on securitisation, as amended, or an investment company in risk capital governed by the law of 15 June 2004 on venture capital vehicles, as amended, or a pension-saving company or a pension-saving association, both governed by the law of 13 July 2005, as amended or a reserved alternative investment funds investing in risk capital governed by the law of 23 July 2016.

Other taxes

No stamp, registration, transfer or similar taxes or duties will be payable in Luxembourg by Noteholders in connection with the issue of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer or redemption of the Notes.

However, a registration duty may be due upon the registration of the Notes in Luxembourg on a voluntary basis or if the Notes are either (i) attached as an annex to an act (*annexés à un acte*) that itself is subject to mandatory registration or (ii) deposited in the minutes of a notary (*déposés au rang des minutes d'un notaire*).

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

Noteholders not permanently resident in Luxembourg at the time of death will not be subject to inheritance or other similar taxes in Luxembourg in respect of the Notes. No Luxembourg gift tax is levied upon a gift or donation of the Notes, if the gift is not passed before a Luxembourg notary or recorded in a deed registered in Luxembourg.

GENERAL INFORMATION

The section "General Information" on pages 181 to 183 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

1. LISTING

Application will be made to the Hong Kong Stock Exchange for the listing of, and dealing in, the Notes by way of debt issues to Professional Investors only. The issue price of the Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of the Notes, commence on or about the next business day following the date of listing of the Notes.

Admission to the Hong Kong Stock Exchange and quotation of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer or the Group. The Hong Kong Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

Application has been made to the MOX for the listing of the Notes by way of debt issues to Professional Institutional Investors (which are (i) individuals that have a portfolio of not less than MOP$8,000,000, or (ii) corporations or partnerships that have either a portfolio of not less than MOP$8,000,000 or total assets of not less than MOP$40,000,000).

The listing of the Notes on the MOX is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group. The MOX assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein. The Macau requirements in relation to Professional Institutional Investors as mentioned in this Drawdown Offering Circular shall be construed as relating to offers and sales of the Notes in Macau only.

2. AUTHORISATION

The establishment of the Programme and the issue of the Notes thereunder were authorised by the resolutions of the board of directors of the Bank passed on 27 March 2020 and the shareholders' resolutions of the Bank passed on 5 June 2020, approval from the office meeting of the Bank's president which took place on 21 May 2021, notice from the Bank's Office dated 19 April 2021 and approval from the Bank dated 28 August 2021. Each of the Bank and the Issuer has obtained, or will obtain from time to time, all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of their respective obligations under the Notes. In connection with Notes issued by the Issuer, the relevant Bank Issuer 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 such Issuer may be adversely affected in the event any required registration is not obtained. Each of the Bank and the Issuer does not however expect that any registration would be refused.

3. LEGAL AND ARBITRATION PROCEEDINGS

None of the Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Drawdown Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

4. SIGNIFICANT/MATERIAL CHANGE

The Group has adopted new standards, including IFRS 9 (Financial Instruments), from 1 January 2018. Considering the impact of these standards on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 shareholders' equity at the adoption date, but did not restate comparative periods. The adoption of IFRS 9 has reduced the shareholders' equity by 2.87 per cent. as at 1 January 2018.

Other than as set out above, since 30 June 2021, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group..

5. AUDITOR

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, which are included in the Original Offering Circular, have been audited by Ernst & Young, as stated in its respective reports appearing therein.

The unaudited and reviewed consolidated financial statements of the Bank as at and for the six months ended 30 June 2021, which are included in this Drawdown Offering Circular, have not been audited but have been reviewed by a certified public accountant. Consequently, such unaudited and reviewed consolidated financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit.

6. DOCUMENTS ON DISPLAY

So long as the Notes are outstanding, copies of the following documents may, when published, be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Issuer at Ravelin Building, 10 Avenue Emile Reuter, L-2420 Luxembourg and the specified office of the Fiscal Agent at 20th Floor Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong:

(i) the memorandum and articles of association of the Bank;

(ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020 (together with the audit reports in connection therewith);

(iii) the unaudited and reviewed consolidated financial statements of the Bank as at and for the six months ended 30 June 2021;

(iv) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;

(v) the Pricing Supplement in relation to the Notes;

(vi) the Fiscal Agency Agreement (which contains the forms of the Notes in global and definitive form);

(vii) the Deed of Covenant; and

(viii) a copy of the Original Offering Circular together with this Drawdown Offering Circular and any other documents incorporated herein or therein.

7. CLEARING OF THE NOTES

The Legal Entity Identifier of the Bank is 549300U6PKQ4H1P34E17. The Notes have been accepted for clearance through Euroclear and Clearstream via the following codes:

ISIN: XS2378772417.

Common Code: 237877241.

8. NATIONAL DEVELOPMENT AND REFORM COMMISSION FILINGS

Pursuant to the Enterprise Foreign Debt Filing Certificate (《企業借用外債備案登記證明》) (發改辦外資備 [2021] 286 號) issued by the NDRC and the Quota granted by the NDRC on 7 April 2021, the Bank is not required to complete the pre-issuance registration in respect of the Notes with the NDRC as the Notes will be issued within the Quota, but the Bank is still required to file with the NDRC the requisite information on the issuance of the Notes after the issuance of such Notes. The Bank undertakes to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Regulations and the terms of the Quota.

INDEX TO FINANCIAL STATEMENTS

For the consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020, which have been audited by Ernst & Young in accordance with IFRS, please refer to the Original Offering Circular.

UNAUDITED REVIEWED CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AS AT AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

Note:

The Bank's consolidated financial statements set out here in are reproduced from the Bank's interim results for the six months ended 30 June 2021. Page references referred to in the auditor's reports named above refer to pages set out in such interim or quarterly reports (as the case may be).

China Everbright Bank Company Limited

For the six months ended 30 June 2021

Condensed Consolidated Interim Financial Information (Unaudited)

(Prepared in accordance with International Financial Reporting Standards)

CONTENTS

Report on Review of Interim Financial Information

To the Board of Directors of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the accompanying interim financial information of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (together, the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2021 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong

30 August 2021

Unaudited Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June 2021 Unaudited	2020 Unaudited
Interest income		113,085	111,120
Interest expense		(57,188)	(56,454)
Net interest income	1	55,897	54,666
Fee and commission income		16,322	15,377
Fee and commission expense		(1,317)	(1,244)
Net fee and commission income	2	15,005	14,133
Net trading gains	3	1,230	57
Dividend income		1	1
Net gains arising from investment securities	4	4,317	2,754
Net gains on derecognition of financial assets measured at amortised cost		85	25
Net foreign exchange gains		82	71
Other net operating income		534	450
Operating income		77,151	72,157
Operating expenses	5	(21,245)	(19,446)
Credit impairment losses	6	(28,734)	(30,526)
Other impairment losses		21	(147)
Operating profit		27,193	22,038
Losses on investments in joint ventures		(7)	-
Profit before tax		27,186	22,038
Income tax	7	(4,680)	(3,617)
Net profit		22,506	18,421
Net profit attributable to:			
Equity shareholders of the Bank		22,436	18,363
Non-controlling interests		70	58
		22,506	18,421
Earnings per share			
Basic earnings per share (in RMB/share)	8	0.37	0.31
Diluted earnings per share (in RMB/share)	8	0.33	0.28

The notes form an integral part of these Interim Financial Information.

China Everbright Bank Company Limited
Unaudited Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June 2021 Unaudited	For the six months ended 30 June 2020 Unaudited
Net profit		22,506	18,421
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
- Equity instruments at fair value through other comprehensive income			
- Net change in fair value		2	1
- Related income tax effect	21(b)	(1)	-
Subtotal		1	1
Items that will be reclassified to profit or loss:			
- Debt instruments at fair value through other comprehensive income			
- Net change in fair value		492	507
- Changes in allowance for expected credit losses		428	(252)
- Reclassified to profit or loss upon disposal		(102)	(276)
- Related income tax effect	21(b)	(212)	(1)
- Exchange differences on translation of financial statements		(36)	51
Subtotal		570	29
Other comprehensive income, net of tax		571	30
Total comprehensive income		23,077	18,451
Total comprehensive income attributable to:			
Equity shareholders of the Bank		23,007	18,392
Non-controlling interests		70	59
		23,077	18,451

The notes form an integral part of these Interim Financial Information.

China Everbright Bank Company Limited
Unaudited Condensed Consolidated Statement of Financial Position
As at 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2021 Unaudited	31 December 2020 Audited
Assets			
Cash and deposits with the central bank	9	377,531	360,287
Deposits with banks and other financial institutions	10	33,878	46,059
Precious metals		6,485	9,353
Placements with banks and other financial institutions	11	70,741	69,290
Derivative financial assets	12	17,188	25,264
Financial assets held under resale agreements	13	96,928	43,592
Loans and advances to customers	14	3,167,425	2,942,435
Finance lease receivables	15	110,934	100,788
Financial investments	16	1,775,485	1,670,415
- Financial assets at fair value through profit or loss		364,835	304,908
- Debt instruments at fair value through other comprehensive income		278,779	222,807
- Equity instruments at fair value through other comprehensive income		1,127	875
- Financial investments measured at amortised cost		1,130,744	1,141,825
Investment in joint ventures	17(b)	343	257
Property, plant and equipment	18	23,441	23,301
Right-of-use assets	19	10,951	11,137
Goodwill	20	1,281	1,281
Deferred tax assets	21	21,529	19,587
Other assets	22	58,656	45,064
Total assets		5,772,796	5,368,110

The notes form an integral part of these Interim Financial Information.

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2021	31 December 2020
		Unaudited	Audited
Liabilities and equity			
Liabilities			
Due to the central bank	24	229,545	241,110
Deposits from banks and other financial institutions	25	466,337	469,345
Placements from banks and other financial institutions	26	171,372	161,879
Financial liabilities at fair value through profit or loss	27	172	4
Derivative financial liabilities	12	16,645	25,778
Financial assets sold under repurchase agreements	28	14,140	14,182
Deposits from customers	29	3,692,419	3,480,667
Accrued staff costs	30	15,633	15,169
Taxes payable	31	6,546	8,772
Lease liabilities	32	10,597	10,762
Debt securities issued	33	627,063	440,870
Other liabilities	34	58,189	44,574
Total liabilities		5,308,658	4,913,112

The notes form an integral part of these Interim Financial Information.

China Everbright Bank Company Limited
Unaudited Condensed Consolidated Statement of Financial Position (continued)
As at 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2021 Unaudited	31 December 2020 Audited
Liabilities and equity (Continued)			
Equity			
Share capital	35	54,032	54,032
Other equity instruments	36	109,062	109,062
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	39,993
Capital reserve	37	58,434	58,434
Other comprehensive income	38	1,964	1,393
Surplus reserve	39	26,245	26,245
General reserve	39	67,800	67,702
Retained earnings		145,002	136,581
Total equity attributable to equity shareholders of the Bank		462,539	453,449
Non-controlling interests		1,599	1,549
Total equity		464,138	454,998
Total liabilities and equity		5,772,796	5,368,110

Approved and authorised for issue by the board of directors on 30 August 2021.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Fu Wanjun
Vice president
Executive Director

Sun Xinhong
General Manager of
Financial Accounting Department

The notes form an integral part of these Interim Financial Information.

China Everbright Bank Company Limited
Unaudited Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

For the six months ended 30 June 2021

		Unaudited											
		Attributable to equity shareholders of the Bank											
			Other equity instruments										
	Note III	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2021		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998
Changes in equity for the period:													
Net profit		-	-	-	-	-	-	-	-	22,436	22,436	70	22,506
Other comprehensive income	38	-	-	-	-	-	571	-	-	-	571	-	571
Appropriation of profit:	40												
- Appropriation to general reserve		-	-	-	-	-	-	-	98	(98)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,347)	(11,347)	(20)	(11,367)
- Dividends to preference shareholders		-	-	-	-	-	-	-	-	(2,570)	(2,570)	-	(2,570)
Balance at 30 June 2021		54,032	64,906	39,993	4,163	58,434	1,964	26,245	67,800	145,002	462,539	1,599	464,138

The notes form an integral part of these Interim Financial Information.

China Everbright Bank Company Limited
Unaudited Condensed Consolidated Statement of Changes in Equity (continued)
For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

For the six months ended 30 June 2020

		Unaudited										
		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note III	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2020		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054
Changes in equity for the period:												
Net profit		-	-	-	-	-	-	-	18,363	18,363	58	18,421
Other comprehensive income		-	-	-	-	29	-	-	-	29	1	30
Appropriation of profit:	40											
- Appropriation to general reserve		-	-	-	-	-	-	301	(301)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	(11,233)	(11,233)	-	(11,233)
- Dividends to preference shareholders		-	-	-	-	-	-	-	(1,829)	(1,829)	-	(1,829)
Balance at 30 June 2020		52,489	64,906	5,161	53,533	2,766	26,245	59,718	125,494	390,312	1,131	391,443

The notes form an integral part of these Interim Financial Information.

(Expressed in millions of Renminbi, unless otherwise stated)

For the year of 2020

		Audited											
		Attributable to equity shareholders of the Bank											
			Other equity instruments				Other					Non-	
	Note III	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	controlling interests	Total
Balance at 1 January 2020		52,489	64,906	-	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054
Changes in equity for the year:													
Net profit		-	-	-	-	-	-	-	-	37,824	37,824	81	37,905
Other comprehensive income	38	-	-	-	-	-	(1,344)	-	-	-	(1,344)	(3)	(1,347)
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	400	400
Capital contribution by other equity instrument holders		-	-	39,993	-	-	-	-	-	-	39,993	-	39,993
Conversion of convertible bonds into share capital and capital reserve		1,543	-	-	(998)	4,901	-	-	-	-	5,446	-	5,446
Appropriation of profit:	40												
- Appropriation to general reserve		-	-	-	-	-	-	-	8,285	(8,285)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,233)	(11,233)	(1)	(11,234)
- Dividends to preference shareholders		-	-	-	-	-	-	-	-	(2,219)	(2,219)	-	(2,219)
Balance at 31 December 2020		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998

The notes form an integral part of these Interim Financial Information.

China Everbright Bank Company Limited
Unaudited Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Cash flows from operating activities		
Net profit	22,506	18,421
Adjustments for:		
Credit impairment losses	28,734	30,526
Other impairment losses	(21)	147
Depreciation and amortisation	2,843	2,503
Unwinding of discount	(397)	(372)
Dividend income	(1)	(1)
Unrealised foreign exchange losses/(gains)	78	(114)
Interest income from investment securities and net gains on disposal	(29,076)	(28,267)
Net gains on derecognition of financial assets measured at amortised cost	(85)	(25)
Losses on investments in joint ventures	7	-
Net gains on disposal of trading securities	(753)	(673)
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(1,883)	100
Interest expense on debt securities issued	7,825	5,920
Interest expense on lease liabilities	232	243
Net losses on disposal of property, plant and equipment	14	6
Income tax	4,680	3,617
	34,703	32,031
Changes in operating assets		
Net increase in deposits with the central bank, banks and other financial Institutions	(7,864)	(9,502)
Net (increase)/ decrease in placements with banks and other financial institutions	(7,619)	6,159
Net increase in financial assets held for trading	(36,675)	(39,672)
Net increase in loans and advances to customers	(253,331)	(231,656)
Net increase in financial assets held under resale agreements	(53,322)	(185,652)
Net increase in other operating assets	(23,310)	(28,666)
	(382,121)	(488,989)

The notes form an integral part of these Interim Financial Information.

(Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2021	2020
	Unaudited	Unaudited
Cash flows from operating activities (continued)		
Changes in operating liabilities		
Net (decrease)/increase in deposits from banks and other financial institutions	(3,716)	34,847
Net increase in placements from banks and other financial institutions	9,243	23,679
Net (decrease)/increase in financial assets sold under repurchase agreements	(60)	1,799
Net decrease in amounts due to the central bank	(13,734)	(57,483)
Net increase in deposits from customers	209,867	649,522
Income tax paid	(9,534)	(9,037)
Net increase in other operating liabilities	12,143	1,235
	204,209	644,562
Net cash flows from operating activities	(143,209)	187,604
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	384,825	345,868
Investment income received	30,118	27,786
Proceeds from disposal of property, plant and equipment and other assets	10	2
Payments on acquisition of investments	(452,120)	(507,352)
Payments on acquisition of property, plant and equipment, intangible assets and other long-term assets	(1,647)	(1,238)
Net cash flows from investing activities	(38,814)	(134,934)

The notes form an integral part of these Interim Financial Information.

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June 2021 Unaudited	2020 Unaudited
Cash flows from financing activities			
Proceeds from insurance of debts		298,213	191,640
Repayments of debts issued		(111,824)	(202,571)
Interest paid on debt securities issued		(8,021)	(7,008)
Dividends paid		(2,590)	(10,555)
Other net cash flows from financing activities		(1,557)	(1,514)
Net cash flows used in financing activities		174,221	(30,008)
Effect of foreign exchange rate changes on cash and cash equivalents		(1,010)	831
Net (decrease)/increase in cash and cash equivalents	44(a)	(8,812)	23,493
Cash and cash equivalents as at 1 January		145,076	117,499
Cash and cash equivalents as at 30 June	44(b)	136,264	140,992
Interest received		85,942	84,539
Interest paid (excluding interest expense on debt securities issued)		(44,304)	(45,744)

The notes form an integral part of these Interim Financial Information.

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China (the "PRC") on 18 August 1992. The A shares and H shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013, respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued with the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note III 17(a)) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"),the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

These interim financial information has been approved and authorised for by the board of directors on 30 August 2021.

II BASIS OF PREPARATION

1 Compliance with International Financial Reporting Standards ("IFRSs")

The unaudited interim financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and should be read in conjunction with the annual financial statements for the year ended 31 December 2020.

Except as described in Note II 3 below, the principal accounting policies adopted in the preparation of the unaudited interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31 December 2020.

2 Use of estimates and assumptions

The preparation of the interim financial informations requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions. The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021.

(Expressed in millions of Renminbi, unless otherwise stated)

II BASIS OF PREPARATION (Continued)

3 Significant accounting policies

3.1 *Amendments effective in 2021*

On 1 January 2021, the Group adopted the following amendments.

Amendments to IFRS 9, IAS 39, IFRS 7,IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions*

3.2 *Standards and amendments that are not yet effective and have not been early adopted by the Group in 2021*

		Effective for annual periods beginning on or after
IFAS 16 Amendments	*Covid-19-Related Rent Concessions beyond 30 June 2021*	1 April 2021
IFRS 3 Amendments	*Reference to the Conceptual Framework*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts - Cost of Fulfilling a Contract*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	*Disclosure of Accounting Policies*	1 January 2023
IAS 8 Amendments	*Definition of Accounting Estimates*	1 January 2023
IFRS 17 and Amendments	*Insurance Contracts*	1 January 2023
IAS 12 Amendments	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 (issued in May 2020)	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*	1 January 2022

The adoption of the above standards and amendments did not have any significant impact on the financial performance, financial position and comprehensive income of the Group.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	For the six months ended 30 June 2021	2020
Interest income arising from			
Deposits with the central bank		2,439	2,570
Deposits with banks and other financial institutions		195	461
Placements with banks and other financial institutions		484	667
Loans and advances to customers	(a)		
- Corporate loans and advances		38,051	38,801
- Personal loans and advances		41,335	38,142
- Discounted bills		1,048	1,221
Finance lease receivables		3,094	2,714
Financial assets held under resale agreements		273	497
Investments		26,166	26,047
Subtotal		113,085	111,120
Interest expenses arising from			
Due to the central bank		3,404	3,619
Deposits from banks and other financial institutions		5,832	4,839
Placements from banks and other financial institutions		1,912	2,409
Deposits from customers			
- Corporate customers		28,206	29,166
- Individual customers		9,741	10,202
Financial assets sold under repurchase agreements		268	299
Debt securities issued		7,825	5,920
Subtotal		57,188	56,454
Net interest income		55,897	54,666

Note:

(a) The interest income arising from impaired financial assets for the six months ended 30 June 2021 amounted to RMB397 million (Six months ended 30 June 2020: RMB372 million).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	For the six months ended 30 June	
	2021	2020
Fee and commission income		
Bank card service fees	6,583	6,253
Agency services fees	2,177	2,144
Wealth management service fees	1,961	1,463
Settlement and clearing fees	1,326	1,291
Custody and other fiduciary business fees	1,065	958
Acceptance and guarantee fees	924	985
Underwriting and advisory fees	801	907
Others	1,485	1,376
Subtotal	16,322	15,377
Fee and commission expense		
Bank card transaction fees	884	889
Settlement and clearing fees	90	81
Others	343	274
Subtotal	1,317	1,244
Net fee and commission income	15,005	14,133

3 Net trading gains

	For the six months ended 30 June	
	2021	2020
Trading financial instruments		
- Derivatives	115	(443)
- Debt securities	1,118	476
Subtotal	1,233	33
Precious metal contracts	(3)	24
Total	1,230	57

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Net gains arising from investment securities

	For the six months ended 30 June	
	2021	2020
Net gains arising from financial investments at fair value through profit or loss	4,419	2,855
Net losses arising from debt instruments at fair value through other comprehensive income	(258)	(545)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	54	168
Net revaluation gains reclassified from other comprehensive income on disposal	102	276
Total	4,317	2,754

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Operating expenses

	For the six months ended 30 June	
	2021	2020
Staff costs		
- Salaries and bonuses	8,831	9,108
- Pension and annuity	1,632	557
- Housing allowances	522	471
- Staff welfares	227	173
- Others	1,106	985
Subtotal	12,318	11,294
Premises and equipment expenses		
- Depreciation of right-of-use assets	1,346	1,316
- Depreciation of property, plant and equipment	1,027	779
- Amortisation of intangible assets	315	252
- Interest expense on lease liabilities	232	243
- Rental and property management expenses	196	232
- Amortisation of other long-term assets	155	156
Subtotal	3,271	2,978
Tax and surcharges	821	752
Other general and administrative expenses	4,835	4,422
Total	21,245	19,446

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Credit impairment losses

	For the six months ended 30 June	
	2021	2020
Loans and advances to customers		
- measured at amortised cost	26,446	29,189
- measured at fair value through other comprehensive income	401	86
Debt instruments at fair value through other comprehensive income	24	(344)
Financial investments measured at amortised cost	758	413
Finance lease receivables	322	622
Others	783	560
Total	28,734	30,526

7 Income tax

(a) Income tax:

		For the six months ended 30 June	
	Note III	2021	2020
Current tax		6,911	7,489
Deferred tax	21(b)	(2,155)	(3,413)
Adjustments for prior year	7(b)	(76)	(459)
Total		4,680	3,617

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Income tax (continued)

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	For the six months ended 30 June 2021	For the six months ended 30 June 2020
Profit before tax		27,186	22,038
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		6,797	5,510
Effect of different tax rates applied by certain subsidiaries		-	(3)
Non-deductible expenses and others		539	882
Non-taxable income	(i)	(2,580)	(2,313)
Subtotal		4,756	4,076
Adjustments for prior year		(76)	(459)
Income tax		4,680	3,617

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30 June	
	2021	2020
Net profit attributable to equity holders of the Bank	22,436	18,363
Less: Dividends on preference shares declared	2,570	1,829
Net profit attributable to ordinary shareholders of the Bank	19,866	16,534
Weighted average number of ordinary shares in issue (in million shares)	54,032	52,489
Basic earnings per share (in RMB/share)	0.37	0.31

Weighted average number of ordinary shares in issue (in million shares)

	For the six months ended 30 June	
	2021	2020
Issued ordinary shares as at 1 January	54,032	52,489
Weighted average number of ordinary shares in issue	54,032	52,489

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Basic and diluted earnings per ordinary share (continued)

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	For the six months ended 30 June	
	2021	2020
Net profit attributable to ordinary shareholders of the Bank	19,866	16,534
Add: interest expense on convertible bonds, net of tax for the six months ended 30 June	384	462
Net profit used to determine diluted earnings per share	20,250	16,996
Weighted average number of ordinary shares in issue (in million shares)	54,032	52,489
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	6,436	7,556
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,468	60,045
Diluted earnings per share (in RMB/share)	0.33	0.28

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Cash and deposits with the central bank

	Notes	30 June 2021	31 December 2020
Cash on hand		7,524	4,471
Deposits with the central bank			
- Statutory deposit reserves	(a)	303,750	293,540
- Surplus deposit reserves	(b)	60,857	56,132
- Fiscal deposits and others		5,265	5,998
Subtotal		377,396	360,141
Accrued interest		135	146
Total		377,531	360,287

Notes:

(a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	30 June 2021	31 December 2020
Reserve ratio for RMB deposits	9.00%	9.00%
Reserve ratio for foreign currency deposits	7.00%	5.00%

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks overseas are determined by local jurisdictions.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2021	31 December 2020
Deposits in Mainland China		
- Banks	16,021	29,185
- Other financial institutions	1,419	314
Deposits outside Mainland China		
- Banks	16,943	16,980
Subtotal	34,383	46,479
Accrued interest	19	59
Total	34,402	46,538
Less: Provision for impairment losses	(524)	(479)
Net balances	33,878	46,059

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2021	31 December 2020
Placements in Mainland China		
- Banks	6,737	14,502
- Other financial institutions	17,609	17,702
Placements outside Mainland China		
- Banks	46,586	37,216
Subtotal	70,932	69,420
Accrued interest	157	179
Total	71,089	69,599
Less: Provision for impairment losses	(348)	(309)
Net balances	70,741	69,290

12 Derivatives and hedge accounting

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure that the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the period. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the period, they do not represent exposure at risk.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Derivatives and hedge accounting (continued)

(a) Analysed by nature of contract

	30 June 2021		
	Notional amount	Fair value Assets	Fair value Liabilities
Interest rate derivatives			
- Interest rate swaps	1,002,612	4,889	(5,169)
- International futures	39	-	-
Currency derivatives			
- Foreign exchange forwards	38,313	428	(482)
- Foreign exchange swap and cross-currency interest rate swaps	818,039	11,337	(10,904)
- Foreign exchange options	28,012	534	(90)
Total	1,887,015	17,188	(16,645)

	31 December 2020		
	Notional amount	Fair value Assets	Fair value Liabilities
Interest rate derivative			
- Interest rate swaps	1,110,897	5,821	(6,340)
Currency derivatives			
- Foreign exchange forwards	21,022	523	(610)
- Foreign exchange swap and cross-currency interest rate swaps	1,055,992	18,144	(18,499)
- Foreign exchange options	20,981	774	(246)
Credit derivatives	1,405	2	(83)
Total	2,210,297	25,264	(25,778)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amount

	30 June 2021	31 December 2020
Counterparty default risk-weighted assets		
- Interest rate derivatives	1,710	2,504
- Currency derivatives	3,097	4,808
- Credit derivatives	-	21
Credit value adjustment risk-weighted assets	2,195	2,277
Total	7,002	9,610

The risk-weighted assets for counterparty credit risk (“CCR”) of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment (“CVA”). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedge accounting

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged item is fixed interest bonds. As at 30 June 2021, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB3,313 million (31 December 2020: RMB3,286 million), in the above hedging instrument, derivative financial assets amounted to RMB25 million (31 December 2020: RMB2 million), derivative financial liabilities amounted to RMB39 million (31 December 2020: RMB118 million).

For the six months ended 30 June 2021, the fair value changes recognised in profit or loss attributed to the ineffective hedging were not significant.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Derivatives and hedge accounting (continued)

(d) IBOR Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from the 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 Group has fair value hedge accounting relationships that are exposed to the US dollar LIBOR. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships may be entered into, while others may survive the market-wide benchmarks reform. The hedge items that are affected by the adoption of the temporary exceptions in hedge accounting relationships are presented in the statement of financial position as "Derivative financial instruments".

As at 30 June 2021, the notional amount of interest rate derivatives designated in fair value hedge accounting relationships representing the extent of the fair value hedge accounting's risk exposure managed by the Group that is directly affected by market-wide benchmark reform and impacted by the temporary exceptions is RMB3.313 billion (31 December 2020: RMB3.286 billion).

In August 2020, the IASB issued Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2. The Group has adopted the amendments from 1 January 2021.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	30 June 2021	31 December 2020
In Mainland China		
- Banks	12,091	13,262
- Other financial institutions	84,620	30,331
Outside Mainland China		
- Banks	181	-
- Other financial institutions	28	5
Subtotal	96,920	43,598
Accrued interest	13	3
Total	96,933	43,601
Less: Provision for impairment losses	(5)	(9)
Net balances	96,928	43,592

(b) Analysed by type of security held

	30 June 2021	31 December 2020
Bonds		
- Government bonds	8,392	20,074
- Other debt securities	85,459	23,524
Bank acceptance bills	3,069	-
Subtotal	96,920	43,598
Accrued interest	13	3
Total	96,933	43,601
Less: Provision for impairment losses	(5)	(9)
Net balances	96,928	43,592

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers

(a) Analysed by nature

	30 June 2021	31 December 2020
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,732,542	1,627,339
Discounted bills	845	652
Personal loans and advances		
- Personal housing mortgage loans	536,437	492,444
- Personal business loans	184,969	171,336
- Personal consumption loans	199,198	173,565
- Credit cards	442,284	445,935
Subtotal	1,362,888	1,283,280
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	62,828	29,938
Discounted bills	79,519	68,273
Subtotal	142,347	98,211
Total	3,238,622	3,009,482
Accrued interest	9,030	8,486
Gross loans and advances to customers	3,247,652	3,017,968
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(80,227)	(75,533)
Net loans and advances to customers	3,167,425	2,942,435
Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income	(995)	(594)

As at the end of the reporting period, part of the above loans and advances to customers was pledged for repurchase agreements. See Note III 23(a).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(b) Analysed by economic sector

	30 June 2021		
	Amount	Percentage	Loans and advances secured by collateral
Water, environment and public utility management	323,322	9.98%	131,741
Manufacturing	322,660	9.96%	105,273
Real estate	225,155	6.95%	157,047
Leasing and commercial services	208,877	6.45%	64,110
Finance	142,305	4.39%	6,640
Wholesale and retail trade	133,416	4.12%	58,827
Construction	123,809	3.82%	38,733
Transportation, storage and postal services	88,689	2.74%	35,606
Agriculture, forestry, husbandry and fishery	56,747	1.75%	19,445
Production and supply of electricity, gas and water	52,338	1.62%	13,286
Others	118,052	3.66%	35,421
Subtotal of corporate loans and advances	1,795,370	55.44%	666,129
Personal loans and advances	1,362,888	42.08%	717,786
Discounted bills	80,364	2.48%	74,260
Total	3,238,622	100.00%	1,458,175
Accrued interest	9,030		
Gross loans and advances to customers	3,247,652		
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(80,227)		
Net loans and advances to customers	3,167,425		
Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income	(995)		

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2020		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	313,427	10.41%	106,816
Water, environment and public utility management	294,595	9.79%	121,503
Real estate	224,450	7.46%	154,223
Leasing and commercial services	189,785	6.31%	66,502
Wholesale and retail trade	127,522	4.24%	49,657
Construction	107,987	3.59%	32,520
Finance	97,132	3.23%	4,765
Transportation, storage and postal services	88,535	2.94%	37,660
Agriculture, forestry, husbandry and fishery	54,100	1.80%	17,062
Production and supply of electricity, gas and water	45,532	1.51%	12,163
Others	114,212	3.79%	36,048
Subtotal of corporate loans and advances	1,657,277	55.07%	638,919
Personal loans and advances	1,283,280	42.64%	653,526
Discounted bills	68,925	2.29%	65,161
Total	3,009,482	100.00%	1,357,606
Accrued interest	8,486		
Gross loans and advances to customers	3,017,968		
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(75,533)		
Net loans and advances to customers	2,942,435		
Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income	(594)		

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(c) Analysed by type of collateral

	30 June 2021	31 December 2020
Unsecured loans	1,028,725	941,130
Guaranteed loans	751,722	710,746
Secured loans		
- By tangible assets other than monetary assets	1,096,803	1,017,960
- By monetary assets	361,372	339,646
Total	3,238,622	3,009,482
Accrued interest	9,030	8,486
Gross loans and advances to customers	3,247,652	3,017,968
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(80,227)	(75,533)
Net loans and advances to customers	3,167,425	2,942,435
Provision for impairment losses on loans and advances to customers at fair value through other comprehensive income	(995)	(594)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	30 June 2021		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	716,420	22.12%	294,500
Central	576,865	17.81%	315,859
Pearl River Delta	438,156	13.53%	279,080
Bohai Rim	425,554	13.14%	238,180
Western	410,051	12.66%	226,373
Northeastern	116,814	3.61%	83,730
Overseas	104,638	3.23%	12,629
Head Office	450,124	13.90%	7,824
Total	3,238,622	100.00%	1,458,175

	31 December 2020		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	652,565	21.69%	266,093
Central	532,348	17.69%	296,164
Pearl River Delta	396,086	13.16%	263,189
Bohai Rim	387,332	12.87%	223,419
Western	373,595	12.41%	212,662
Northeastern	117,580	3.91%	80,952
Overseas	98,819	3.28%	9,916
Head Office	451,157	14.99%	5,211
Total	3,009,482	100.00%	1,357,606

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	30 June 2021			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Pearl River Delta	9,048	(6,208)	(2,757)	(4,114)
Bohai Rim	5,464	(3,469)	(2,191)	(2,613)
Yangtze River Delta	5,196	(10,592)	(3,824)	(2,871)
Central	4,101	(6,630)	(3,326)	(2,311)
Western	3,423	(4,209)	(4,043)	(1,621)
Total	27,232	(31,108)	(16,141)	(13,530)

	31 December 2020			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Bohai Rim	6,160	(2,592)	(2,499)	(3,355)
Yangtze River Delta	5,383	(9,100)	(2,930)	(3,140)
Central	5,225	(5,561)	(3,418)	(3,006)
Pearl River Delta	4,699	(4,955)	(3,685)	(2,843)
Western	3,365	(3,400)	(3,326)	(1,786)
Total	24,832	(25,608)	(15,858)	(14,130)

For the definition of regional divisions, see Note III 47(b).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue period

	30 June 2021				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,362	11,332	1,370	58	27,122
Guaranteed loans	5,078	5,115	2,292	417	12,902
Secured loans					
- By tangible assets other than monetary assets	7,883	9,509	5,246	741	23,379
- By monetary assets	1,178	1,375	324	1	2,878
Subtotal	28,501	27,331	9,232	1,217	66,281
Accrued interest	110	-	-	-	110
Total	28,611	27,331	9,232	1,217	66,391
As a percentage of gross loans and advances to customers	0.88%	0.84%	0.28%	0.04%	2.04%

	31 December 2020				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,474	12,760	1,200	30	28,464
Guaranteed loans	5,221	2,964	3,535	582	12,302
Secured loans					
- By tangible assets other than monetary assets	10,367	5,765	4,176	1,386	21,694
- By monetary assets	1,287	284	564	1	2,136
Subtotal	31,349	21,773	9,475	1,999	64,596
Accrued interest	276	-	-	-	276
Total	31,625	21,773	9,475	1,999	64,872
As a percentage of gross loans and advances to customers	1.05%	0.72%	0.31%	0.07%	2.15%

Overdue loans represent loans of which the whole or part of the principal or interest was overdue for one day or more.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	30 June 2021				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 Loans and advances as a percentage of loans and advances
Loan principal	3,067,317	123,797	47,508	3,238,622	1.47%
Accrued interest	7,185	1,532	313	9,030	
Gross loans and advances to customers	3,074,502	125,329	47,821	3,247,652	
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(36,888)	(22,046)	(21,293)	(80,227)	
Net loans and advances to customers	3,037,614	103,283	26,528	3,167,425	

	31 December 2020				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 Loans and advances as a percentage of loans and advances
Loan principal	2,837,009	124,772	47,701	3,009,482	1.59%
Accrued interest	6,649	1,374	463	8,486	
Gross loans and advances to customers	2,843,658	126,146	48,164	3,017,968	
Less: Provision for impairment losses on loans and advances to customers measured at amortised cost	(31,192)	(21,037)	(23,304)	(75,533)	
Net loans and advances to customers	2,812,466	105,109	24,860	2,942,435	

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	For the six months ended 30 June 2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(31,192)	(21,037)	(23,304)	(75,533)
Transfer to Stage 1	(3,489)	2,534	955	-
Transfer to Stage 2	771	(1,223)	452	-
Transfer to Stage 3	155	3,873	(4,028)	-
Net charge for the period	(3,139)	(6,193)	(17,114)	(26,446)
Write-off and disposal	-	-	24,590	24,590
Recovery of loans and advances written off	-	-	(3,241)	(3,241)
Unwinding of discount on allowance	-	-	397	397
Exchange fluctuation and others	6	-	-	6
As at 30 June 2021	(36,888)	(22,046)	(21,293)	(80,227)

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(24,060)	(27,574)	(24,594)	(76,228)
Transfer to Stage 1	(2,112)	2,049	63	-
Transfer to Stage 2	988	(1,072)	84	-
Transfer to Stage 3	216	10,315	(10,531)	-
Net charge for the year	(6,228)	(4,755)	(42,214)	(53,197)
Write-off and disposal	-	-	56,323	56,323
Recovery of loans and advances written off	-	-	(3,202)	(3,202)
Unwinding of discount on allowance	-	-	767	767
Exchange fluctuation and others	4	-	-	4
As at 31 December 2020	(31,192)	(21,037)	(23,304)	(75,533)

Note:

(i) The above reconciliation of provision for impairment losses only represents provision for impairment losses on loans and advances to customers measured at amortised cost. As at 30 June 2021, the balance of provision for impairment losses on loans and advances to customers at fair value through other comprehensive income was RMB995 million (31 December 2020: RMB594 million).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	30 June 2021	31 December 2020
Rescheduled loans and advances to customers	6,981	7,659
Of which: Rescheduled loans and advances to customers overdue more than 90 days	112	245

15 Finance lease receivables

	30 June 2021	31 December 2020
Finance lease receivables	129,545	118,247
Less: Unearned finance lease income	(16,320)	(15,442)
Present value of minimum lease receivables	113,225	102,805
Accrued interest	1,176	1,128
Less: Impairment losses	(3,467)	(3,145)
Net balance	110,934	100,788

Minimum finance lease receivables analysed by remaining period are listed as follows:

	30 June 2021	31 December 2020
Less than 1 year (inclusive)	35,767	32,149
1 year to 2 years (inclusive)	29,389	25,745
2 years to 3 years (inclusive)	24,307	20,825
3 years to 4 years (inclusive)	17,714	15,752
4 years to 5 years (inclusive)	12,513	11,420
More than 5 years	9,855	12,356
Total	129,545	118,247

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial investments

	Notes	30 June 2021	31 December 2020
Financial assets at fair value through profit or loss	(a)	364,835	304,908
Debt instruments at fair value through other comprehensive income	(b)	278,779	222,807
Equity instruments at fair value through other comprehensive income	(c)	1,127	875
Financial investments measured at amortised cost	(d)	1,130,744	1,141,825
Total		1,775,485	1,670,415

(a) Financial assets at fair value through profit or loss

	Notes	30 June 2021	31 December 2020
Debt instruments held for trading	(i)	71,028	33,040
Financial assets designated at fair value through profit or loss	(ii)	-	1
Other financial assets at fair value through profit or loss	(iii)	293,807	271,867
Total		364,835	304,908

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(i) Debt instruments held for trading

	Notes	30 June 2021	31 December 2020
Issued by the following governments or institutions:			
In Mainland China			
- Government		15,552	80
- Banks and other financial institutions		32,831	9,291
- Other institutions	(1)	21,147	19,985
Outside Mainland China			
- Banks and other financial institutions		553	1,770
- Other institutions		945	1,914
Total	(2)	71,028	33,040
Listed	(3)	3,035	4,391
Of which: listed in Hong Kong		1,867	2,194
Unlisted		67,993	28,649
Total		71,028	33,040

Notes:

(1) At the end of the reporting period, debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(2) At the end of the reporting period, some of the debt instruments held for trading were pledged for repurchase agreements. See Note III 23(a).

(3) Listed investments include debt instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(ii) Financial assets designated at fair value through profit or loss

	30 June 2021	31 December 2020
Fixed interest rate personal mortgage loans	-	1

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the reporting period, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	30 June 2021	31 December 2020
Fund investments	232,651	212,937
Equity instruments	2,971	2,620
Others	58,185	56,310
Total	293,807	271,867

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	30 June 2021	31 December 2020
In Mainland China			
- Government		105,290	59,441
- Banks and other financial institutions	(1)	77,028	75,493
- Other institutions	(2)	55,301	51,310
Outside Mainland China			
- Government		97	349
- Banks and other financial institutions		27,241	12,535
- Other institutions		9,396	19,786
Subtotal		274,353	218,914
Accrued interest		4,426	3,893
Total	(3)(4)	278,779	222,807
Listed	(5)	56,286	50,534
Of which listed in Hong Kong		37,627	33,872
Unlisted		218,067	168,380
Subtotal		274,353	218,914
Accrued interest		4,426	3,893
Total		278,779	222,807

Notes:

(1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.

(2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at 30 June 2021, the provision for impairment losses on the debt instruments at fair value through other comprehensive income approximated to RMB482 million (31 December 2020: RMB456 million).

(4) At the end of the reporting period, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits. See Note III 23(a).

(5) Listed investments include debt instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	For the six months ended 30 June 2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(420)	-	(36)	(456)
Transfer to Stage 2	46	(46)	-	-
Net charge for the period	(24)	-	-	(24)
Exchange fluctuation and others	(2)	-	-	(2)
As at 30 June 2021	(400)	(46)	(36)	(482)

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(708)	-	(118)	(826)
Transfer to Stage 3	1	-	(1)	-
Net charge for the year	251	-	83	334
Exchange fluctuation and others	36	-	-	36
As at 31 December 2020	(420)	-	(36)	(456)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial investments (continued)

(c) Equity instruments at fair value through other comprehensive income

	Notes	30 June 2020	31 December 2020
Equity instruments at fair value through other comprehensive income	(i)	1,127	875
Listed	(ii)	25	23
Of which: listed in Hong Kong		-	-
Unlisted		1,102	852
Total		1,127	875

Notes:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 30 June 2021, the fair value was RMB1,127 million (31 December 2020: RMB875 million). For the six months ended 30 June 2021, the Group has not received dividends from the above equity instruments (for the six months ended 30 June 2020: Nil).

(ii) Listed investments include equity instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial investments (continued)

(d) Financial investments measured at amortised cost

	Notes	30 June 2021	31 December 2020
Debt securities and asset-backed instruments	(i)	968,541	921,967
Others	(ii)	151,917	207,486
Subtotal		1,120,458	1,129,453
Accrued interest		16,143	17,510
Total		1,136,601	1,146,963
Less: Provision for impairment losses		(5,857)	(5,138)
Net balance		1,130,744	1,141,825
Listed	(iii)	161,522	159,519
Of which: listed in Hong Kong		18,620	21,710
Unlisted		953,079	964,796
Subtotal		1,114,601	1,124,315
Accrued interest		16,143	17,510
Net balance		1,130,744	1,141,825

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	30 June 2021	31 December 2020
In Mainland China			
- Government		373,755	386,220
- Banks and other financial institutions	(1)	385,831	333,697
- Other institutions	(2)	183,257	168,370
Outside Mainland China			
- Government		4,416	4,777
- Banks and other financial institutions		10,757	23,141
- Other institutions		10,525	5,762
Subtotal		968,541	921,967
Accrued interest		14,502	15,621
Total	(3)	983,043	937,588
Less: Provision for impairment losses		(2,529)	(1,937)
Net balance		980,514	935,651
Fair value		991,197	944,985

Notes:

(1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.

(2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at the end of the year, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note III 23(a).

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments include debt instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Financial Investments (continued)

(d) Financial investments measured at amortised cost (continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	For the six months ended 30 June 2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(1,932)	(472)	(2,734)	(5,138)
Transfer to Stage 2	183	(183)	-	-
Transfer to Stage 3	67	626	(693)	-
Net charge for the period	89	(236)	(611)	(758)
Exchange fluctuation and others	39	-	-	39
As at 30 June 2021	(1,554)	(265)	(4,038)	(5,857)

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(2,513)	(101)	(1,769)	(4,383)
Transfer to Stage 1	(30)	30	-	-
Transfer to Stage 2	179	(179)	-	-
Transfer to Stage 3	6	47	(53)	-
Net charge for the year	409	(269)	(912)	(772)
Exchange fluctuation and others	17	-	-	17
As at 31 December 2020	(1,932)	(472)	(2,734)	(5,138)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investments in subsidiaries and joint ventures

(a) Investments in subsidiaries

	30 June 2021	31 December 2020
Everbright Financial Leasing Co., Ltd.	4,680	4,680
Everbright Wealth Co., Ltd.	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd.	600	600
CEB International Investment Co., Ltd.	2,267	2,267
China Everbright Bank Company Limited (Europe)	156	156
Shaoshan Everbright Rural Bank Co., Ltd	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Total	12,983	12,983

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd. (Everbright Financial Leasing)	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
Everbright Wealth Co., Ltd. (Everbright Wealth)	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd (Sunshine Consumer)	Beijing	1,000	60%	60%	Banking business	Incorporated company
CEB International Investment Co., Ltd. (CEB International)	Hong Kong	2,267	100%	100%	Investment banking	Limited company
China Everbright Bank Company Limited (Europe) (CEB Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Shaoshan Everbright Rural Bank Co., Ltd (Shaoshan Everbright Bank)	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd. (Huai'an Everbright Bank)	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd. (Ruijin Everbright Bank)	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investments in subsidiaries and joint ventures (continued)

(b) Investments in joint ventures

	For the six months ended 30 June 2021
As at 1 January 2021	257
Increased investment	93
Investment losses under the equity method	(7)
As at 30 June 2021	343

18 Property, plant and equipment

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2021	13,526	8,127	2,314	8,247	4,789	37,003
Additions	6	811	68	296	84	1,265
Transfers in/(out)	5	-	(5)	-	-	-
Disposals	-	-	-	(273)	(71)	(344)
Foreign currency conversion difference	-	(82)	-	-	-	(82)
As at 30 June 2021	13,537	8,856	2,377	8,270	4,802	37,842
Accumulated depreciation						
As at 1 January 2021	(4,506)	(582)	-	(5,100)	(3,351)	(13,539)
Charge for the period	(213)	(146)	-	(438)	(230)	(1,027)
Disposals	-	-	-	259	63	322
Foreign currency conversion difference	-	6	-	-	-	6
As at 30 June 2021	(4,719)	(722)	-	(5,279)	(3,518)	(14,238)
Provision for impairment						
As at 1 January 2021	(163)	-	-	-	-	(163)
As at 30 June 2021	(163)	-	-	-	-	(163)
Net book value						
As at 30 June 2021	8,655	8,134	2,377	2,991	1,284	23,441

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Property, plant and equipment (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2020	12,949	5,657	2,210	6,667	4,498	31,981
Additions	276	3,117	405	1,959	488	6,245
Transfers in/(out)	301	(170)	(301)	-	-	(170)
Disposals	-	-	-	(378)	(196)	(574)
Foreign currency conversion difference	-	(477)	-	(1)	(1)	(479)
As at 31 December 2020	13,526	8,127	2,314	8,247	4,789	37,003
Accumulated depreciation						
As at 1 January 2020	(4,104)	(408)	-	(4,895)	(3,073)	(12,480)
Charge for the year	(402)	(223)	-	(578)	(448)	(1,651)
Transfer out	-	12	-	-	-	12
Disposals	-	-	-	372	169	541
Foreign currency conversion difference	-	37	-	1	1	39
As at 31 December 2020	(4,506)	(582)	-	(5,100)	(3,351)	(13,539)
Provision for impairment						
As at 1 January 2020	(159)	-	-	-	-	(159)
Charge for the year	(4)	-	-	-	-	(4)
As at 31 December 2020	(163)	-	-	-	-	(163)
Net book value						
As at 31 December 2020	8,857	7,545	2,314	3,147	1,438	23,301

Notes:

(i) As at 30 June 2021, title deeds were not yet finalised for the premises with a carrying amount of RMB40 million (31 December 2020: RMB42 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.

(ii) As at 30 June 2021, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB8,134 million (31 December 2020: RMB7,545 million). As at the end of the reporting period, part of the finance lease receivables was pledged for borrowings from banks. See Note III 23(a).

The net book values of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	30 June 2021	31 December 2020
Held in Mainland China		
- Medium term leases (10 to 50 years)	8,363	8,547
- Short term leases (less than 10 years)	292	310
Total	8,655	8,857

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Right-of-use assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2021	15,597	64	15,661
Additions	1,315	1	1,316
Deductions	(505)	(19)	(524)
Foreign currency conversion difference	(11)	-	(11)
As at 30 June 2021	16,396	46	16,442
Accumulated depreciation			
As at 1 January 2021	(4,501)	(23)	(4,524)
Additions	(1,344)	(2)	(1,346)
Deductions	374	2	376
Foreign currency conversion difference	3	-	3
As at 30 June 2021	(5,468)	(23)	(5,491)
Net book value			
As at 30 June 2021	10,928	23	10,951

	Premises	Transportation and others	Total
Cost			
As at 1 January 2020	14,023	66	14,089
Additions	2,524	12	2,536
Deductions	(937)	(14)	(951)
Foreign currency conversion difference	(13)	-	(13)
As at 31 December 2020	15,597	64	15,661
Accumulated depreciation			
As at 1 January 2020	(2,388)	(17)	(2,405)
Additions	(2,662)	(15)	(2,677)
Deductions	548	9	557
Foreign currency conversion difference	1	-	1
As at 31 December 2020	(4,501)	(23)	(4,524)
Net book value			
As at 31 December 2020	11,096	41	11,137

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Goodwill

	30 June 2021	31 December 2020
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed the "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

21 Deferred tax assets and liabilities

(a) Analysed by nature

	30 June 2021		31 December 2020	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	86,115	21,529	78,350	19,587
Deferred income tax liabilities	-	-	-	-
Total	86,115	21,529	78,350	19,587

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2021	17,324	137	2,126	19,587
Recognised in profit or loss	877	(449)	1,727	2,155
Recognised in other comprehensive income	(101)	(112)	-	(213)
As at 30 June 2021	18,100	(424)	3,853	21,529

	Provision for impairment losses (Note (i))	Fair value changes of financial instruments (Note (ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2020	14,664	(243)	1,884	16,305
Recognised in profit or loss	2,594	40	242	2,876
Recognised in other comprehensive income	66	340	-	406
As at 31 December 2020	17,324	137	2,126	19,587

Notes:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the period. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the period, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Fair value changes of financial instruments are subject to tax when realised.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets

	Note	30 June 2021	31 December 2020
Other receivables	(a)	43,435	30,903
Accrued interest		5,667	4,661
Intangible assets		2,186	2,160
Refundable deposits		1,693	1,698
Purchase prepayment for property, plant and equipment		1,087	703
Long-term deferred expense		857	896
Repossessed assets		364	390
Land use rights		86	89
Others		3,281	3,564
Total		58,656	45,064

Note*:*

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

23 Pledged assets

(a) Assets pledged as collateral

The Group's assets as collateral for liabilities include discounted bills, debt securities and property, plant and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks.The carrying amount of the assets pledged as securities as at 30 June 2021 is RMB82.651 billion (31 December 2020: RMB79.936 billion)

(b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in the six months ended 30 June 2021. As at 30 June 2021, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2020: Nil). These transactions are conducted under standard terms in the normal course of business.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Due to the central bank

	30 June 2021	31 December 2020
Due to the central bank	225,017	238,751
Accrued interest	4,528	2,359
Total	229,545	241,110

25 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2021	31 December 2020
Deposits in Mainland China		
- Banks	151,418	149,996
- Other financial institutions	310,778	317,300
Deposits outside Mainland China		
- Banks	1,610	226
Subtotal	463,806	467,522
Accrued interest	2,531	1,823
Total	466,337	469,345

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2021	31 December 2020
Placements in Mainland China		
- Banks	116,423	115,334
- Other financial institutions	3,165	1,004
Placements outside Mainland China		
- Banks	51,065	45,072
Subtotal	170,653	161,410
Accrued interest	719	469
Total	171,372	161,879

27 Financial liabilities at fair value through profit or loss

	30 June 2021	31 December 2020
Short position in debt securities	172	4
Total	172	4

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	30 June 2021	31 December 2020
In Mainland China		
- Banks	6,614	7,047
- Other financial institutions	565	930
Outside Mainland China		
- Banks	6,386	5,895
- Other financial institutions	553	298
Subtotal	14,118	14,170
Accrued interest	22	12
Total	14,140	14,182

(b) Analysed by collateral

	30 June 2021	31 December 2020
Debt securities	12,555	9,958
Bank acceptances bills	1,563	4,212
Subtotal	14,118	14,170
Accrued interest	22	12
Total	14,140	14,182

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Deposits from customers

	30 June 2021	31 December 2020
Demand deposits		
- Corporate customers	946,004	850,381
- Individual customers	249,168	274,087
Subtotal	1,195,172	1,124,468
Time deposits		
- Corporate customers	1,549,153	1,530,885
- Individual customers	585,271	526,723
Subtotal	2,134,424	2,057,608
Pledged deposits	314,864	251,964
Other deposits	2,629	3,182
Subtotal deposits from customers	3,647,089	3,437,222
Accrued interest	45,330	43,445
Total	3,692,419	3,480,667

30 Accrued staff costs

	Notes	30 June 2021	31 December 2020
Salary and welfare payable		13,419	12,626
Pension and annuity payable	(a)	981	1,310
Supplementary retirement benefits payable	(b)	1,233	1,233
Total		15,633	15,169

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Accrued staff costs (continued)

Notes:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary, Wills Towers Watson Management Consulting (Shenzhen) Co., Ltd..

Except for (a) and (b) above, the Group has no other major responsibilities for the payment of employee retirement benefits and other post-retirement benefits.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Taxes payable

	30 June 2021	31 December 2020
Income tax payable	2,918	5,617
Value added tax payable	3,155	2,705
Others	473	450
Total	6,546	8,772

32 Lease liabilities

	30 June 2021	31 December 2020
Within 1 year (inclusive)	2,674	2,636
1 year to 2 years (inclusive)	2,328	2,305
2 years to 3 years (inclusive)	1,810	1,893
3 years to 5 years (inclusive)	2,579	2,601
More than 5 years	2,718	2,916
Total undiscounted lease liabilities	12,109	12,351
Lease liabilities	10,597	10,762

33 Debt securities issued

	Notes	30 June 2021	31 December 2020
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	47,237	5,795
Tier-two capital bonds issued	(c)	41,432	41,430
Convertible bonds issued	(d)	23,195	22,884
Interbank deposits issued	(e)	443,396	313,045
Certificates of deposit issued	(f)	43,147	31,762
Medium term notes	(g)	20,312	17,412
Subtotal		625,419	439,028
Accrued interest		1,644	1,842
Total		627,063	440,870

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Debt securities issued (Continued)

(a) Subordinated debts issued

	Note	30 June 2021	31 December 2020
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.

(ii) As at 30 June 2021, the fair value of the total subordinated debts issued approximated to RMB6,838 million (31 December 2020: RMB6,871 million).

(b) Financial bonds issued

	Notes	30 June 2021	31 December 2020
Financial fixed rate bonds maturing in November 2021	(i)	4,998	4,996
Financial fixed rate bonds maturing in January 2022	(ii)	800	799
Financial fixed rate bonds maturing in March 2024	(iii)	39,985	-
Financial floating rate bonds maturing in May 2024	(iv)	1,454	-
Total		47,237	5,795

Notes:

(i) Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.

(ii) Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.

(iii) Fixed rate financial bonds for small and micro enterprise loans in 2021 of RMB40.00 billion with a term of three years were issued by Everbright Financial on 22 March 2021. The coupon rate is 3.45% per annum.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Debt securities issued (continued)

(b) Financial bonds issued (continued)

(iv) Floating rate financial bonds of AUD0.30 billion with a term of three years were issued by Everbright Financial Sydney Branch on 18 May 2021. The initial coupon rate is 0.68% per annum.

(v) As at 30 June 2021, the fair value of the total financial bonds issued approximated to RMB47,530 million (31 December 2020: RMB5,840 million).

(c) Tier-two capital bonds issued

	Notes	30 June 2021	31 December 2020
Tier-two capital fixed rate bonds maturing in March 2027	(i)	27,990	27,990
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	11,996	11,995
Tier-two capital fixed rate bonds maturing in September 2030	(iii)	1,446	1,445
Total		41,432	41,430

Notes:

(i) Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.

(ii) Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.

(iii) Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 18 September 2025 at the nominal amount.

(iv) As at 30 June 2021, the fair value of the total tier-two capital bonds issued approximated to RMB41,968 million (31 December 2020: RMB41,935 million).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Debt securities issued (continued)

(d) Convertible bonds issued

	30 June 2021	31 December 2020
Fixed rate six years convertible bonds issued in March 2017	23,195	22,884

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Liability component	Equity component Note III 36	Total
Nominal value of convertible bonds	24,826	5,174	30,000
Direct transaction costs	(64)	(13)	(77)
Balance as at the issuance date	24,762	5,161	29,923
Accumulated amortisation as at 1 January 2021	3,569	-	3,569
Accumulated conversion amount as at 1 January 2021	(5,447)	(998)	(6,445)
Balance as at 1 January 2021	22,884	4,163	27,047
Amortisation during the period	311	-	311
Balance as at 30 June 2021	23,195	4,163	27,358

Notes:

(i) Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including interest for the sixth year.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

Notes: (continued)

(ii) During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.

(iii) Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 30 June 2021, the conversion price is RMB3.76 per share.

(iv) As at 30 June 2021, a total of RMB5,801 million (31 December 2020: RMB5,801 million) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 1,542,819,820 shares (31 December 2020: 1,542,813,979 shares).

(v) For the six months ended 30 June 2021, a total of RMB363 million interest on the convertible bonds has been paid by the Bank (six months ended 30 June 2020: RMB300 million).

(e) Interbank deposits issued

For the six months ended 30 June 2021, 114 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB249,330 million (six months ended 30 June 2020: RMB191,640 million). The carrying amount of interbank deposits due in the six months ended 30 June 2021 was RMB117,360 million (six months ended 30 June 2020: RMB168,960 million). As at 30 June 2021, the fair value of its outstanding interbank deposits issued was RMB437,822 million (31 December 2020: RMB310,619 million).

(f) Certificates of deposit issued

As at 30 June 2021, the certificates of deposit were issued by the Bank's Hong Kong Branch, Seoul Branch, Sydney branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Debt securities issued (continued)

(g) Medium term notes

	Notes	30 June 2021	31 December 2020
Medium term notes with floating rate maturing on 13 June 2021	(i)	-	2,407
Medium term notes with floating rate maturing on 13 June 2021	(ii)	-	1,958
Medium term notes with floating rate maturing on 19 September 2021	(iii)	1,935	1,958
Medium term notes with floating rate maturing on 24 June 2022	(iv)	3,224	3,262
Medium term notes with floating rate maturing on 11 December 2022	(v)	3,224	3,262
Medium term notes with floating rate maturing on 3 August 2023	(vi)	4,514	4,565
Medium term notes with fixed rate maturing on 11 March 2024	(vii)	3,546	-
Medium term notes with fixed rate maturing on 15 June 2024	(viii)	3,869	-
Total		20,312	17,412

Notes:

(i) Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.

(ii) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.

(iii) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.

(iv) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.

(v) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Debt securities issued (continued)

(g) Medium term notes (continued)

Notes: (continued)

(vi) Floating rate medium term notes of USD700 million with a term of three years were issued by the Bank's Hong Kong branch on 27 July 2020. The initial coupon rate is 1.10% per annum.

(vii) Fixed rate medium term notes of USD550 million with a term of three years were issued by the Bank's Hong Kong branch on 4 March 2021. The coupon rate is 0.93% per annum.

(viii) Fixed rate medium term notes of USD600 million with a term of three years were issued by the Bank's Hong Kong branch on 8 June 2021. The coupon rate is 0.84% per annum.

(ix) As at 30 June 2021, the fair value of the medium term notes approximated to RMB20,348 million (31 December 2020: RMB17,432 million)

34 Other liabilities

	Notes	30 June 2021	31 December 2020
Deferred income	(a)	4,136	5,222
Bank loans	(b)	11,169	14,302
Finance leases payable		6,694	6,034
Provisions	(c)	4,923	4,280
Payment and collection clearance accounts		5,807	3,364
Dormant accounts		439	421
Dividend payables		11,368	21
Others		13,653	10,930
Total		58,189	44,574

Notes:

(a) Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.

(b) As at 30 June 2021, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loans is RMB11,169 million (31 December 2020: RMB14,302 million).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Other liabilities (continued)

(c) Provisions

	30 June 2021	31 December 2020
Expected credit losses on off-balance sheet items	4,729	4,099
Litigation losses	129	126
Others	65	55
Total	4,923	4,280

The movement of the provision was as follows:

	For the six Months ended 30 June 2021	31 December 2020
As at 1 January 2021	4,280	2,751
Net charge for the period / year	651	1,640
Payments for the period / year	(8)	(111)
As at 30 June 2021 / 31 December 2020	4,923	4,280

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Share capital

The Bank's shareholding structure as at the end of the reporting period is as follows:

	30 June 2021	31 December 2020
Ordinary shares listed in Mainland China (A share)	41,353	41,353
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	54,032	54,032

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

36 Other equity instruments

	Note III	30 June 2021	31 December 2020
Preference shares (Notes (a), (b), (c), (e))		64,906	64,906
Equity of convertible bonds	33(d)	4,163	4,163
Perpetual bonds (Notes (d), (e))		39,993	39,993
Total		109,062	109,062

(a) Preference shares at the end of the period

Issue date	Dividend rate	Issue price (RMB /share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1 2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2 2016-8-8	3.90%	100	100	10,000	Mandatory conversion triggering events
Everbright P3 2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
Subtotal				65,000	
Less: Issuing costs				(94)	
Book value				64,906	

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other equity instruments (continued)

(b) Main clauses of preference shares

(i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than to the ordinary shareholders.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Triggering Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the common equity tier-one capital adequacy ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other equity instruments (continued)

(b) Main clauses of preference shares (continued)

(v) Mandatory conversion trigger events (continued)

Upon the occurrence of a non-viability trigger event (the earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in preference shares outstanding

	1 January 2021		Additions for the period		30 June 2021	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	650	64,906	-	-	650	64,906

	1 January 2020		Additions for the year		31 December 2020	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	650	64,906	-	-	650	64,906

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other equity instruments (continued)

(d) Main clauses of perpetual bonds

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the “Bonds”) which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the above bonds.

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank’s additional tier one capital and to increase its capital adequacy ratio.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other equity instruments (continued)

(e) Interests attributable to equity instruments' holders

Items	30 June 2021	31 December 2020
Total equity attributable to equity shareholders of the Bank	462,539	453,449
- Equity attributable to ordinary shareholders of the Bank	357,640	348,550
- Equity attributable to preference shareholders of the Bank	64,906	64,906
- Equity attributable to perpetual bonds of the Bank	39,993	39,993
Total equity attributable to non-controlling interests	1,599	1,549
- Equity attributable to non-controlling interests of ordinary shares	1,599	1,549

37 Capital reserve

	30 June 2021	31 December 2020
Share premium	58,434	58,434

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Other comprehensive income

	30 June 2021	31 December 2020
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	17	16
Remeasurement of a defined benefit plan	(281)	(281)
Subtotal	(264)	(265)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	2,345	1,739
- Net change in fair value	1,207	928
- Net change in expected credit losses	1,138	811
Exchange differences on translation of financial statements	(117)	(81)
Subtotal	2,228	1,658
Total	1,964	1,393

Other comprehensive income attributable to equity holders of the Bank in the condensed consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasure -ment of a defined benefit plan	Total
As at 1 January 2020	1,998	961	14	67	(303)	2,737
Changes in amount for the year	(1,070)	(150)	2	(148)	22	(1,344)
As at 1 January 2021	928	811	16	(81)	(281)	1,393
Changes in amount for the period	279	327	1	(36)	-	571
As at 30 June 2021	1,207	1,138	17	(117)	(281)	1,964

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

40 Appropriation of profits

(a) At the Annual General Meeting of Shareholders held on 29 June 2021, the Shareholders approved the following profit appropriations for the year ended 31 December 2020:

- The accumulated amount of withdrawal has reached 50% of the Bank's registered capital; according to the relevant terms of the company law, the surplus reserve can no longer be withdrawn in this profit distribution;
- Appropriated RMB7,492 million to general reserve; and
- Declared cash dividends of RMB11,347 million to all ordinary shareholders of 54,032 million shares as at 31 December 2020, representing RMB2.10 per 10 shares before tax.

(b) At the Board Meeting held on 26 March 2021, the dividend distribution of Everbright P3 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,680 million before tax, representing RMB4.80 per share before tax, accruing from 1 January 2020, and are calculated at 4.80% of dividend yield ratio for Everbright P3;

(c) At the Board Meeting held on 28 May 2021, the dividend distribution of Everbright P1 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB890 million before tax, representing RMB4.45 per share before tax, accruing from 25 June 2020, and are calculated at 4.45% of dividend yield ratio for the Everbright P1;

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Appropriation of profits (continued)

(d) At the Annual General Meeting of Shareholders held on 5 June 2020, the shareholders approved the following appropriations for the year ended 31 December 2019:

- Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated accrued amount has reached 50% of the Bank's registratied capital;
- Appropriated RMB5,380 million to general reserve; and
- Declared cash dividends to all ordinary shareholders of RMB11,233 million, representing RMB2.14 per 10 shares before tax.

(e) At the Board Meeting held on 27 March 2020, the dividend distribution of Everbright P3 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB769 million before tax, representing RMB2.20 per share before tax, accruing from 18 July 2019, and are calculated at 4.80% of dividend yield ratio for Everbright P3.

(f) At the Board Meeting held on 5 June 2020, the dividend distribution of Everbright P1 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,060 million before tax, representing RMB5.30 per share before tax, accruing from 25 June 2019, and are calculated at 5.30% of dividend yield ratio for Everbright P1.

(g) At the Board Meeting held on 30 July 2020, the dividend distribution of Everbright P2 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB390 million before tax, representing RMB3.90 per share before tax, accruing from 13 August 2019, and are calculated at 3.90% of dividend yield ratio for Everbright P2.

41 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the reporting period:

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Involvement with structured entities (continued)

	30 June 2021		31 December 2020	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
- Fund investments	221,791	221,791	211,085	211,085
- Asset management plans	40,736	40,736	30,282	30,282
Financial investments measured at amortised cost				
- Asset management plans	150,231	150,231	205,206	205,206
- Asset-backed securities	145,797	145,797	149,205	149,205
Total	558,555	558,555	595,778	595,778

(b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interest:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interests held by the Group include investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2021, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial position.

As at 30 June 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB877,140 million (31 December 2020: RMB836,273 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2021 but matured before 30 June 2021 was nil (Six months ended 30 June 2020: nil).

For the six months ended 30 June 2021, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB1,961 million (Six months ended 30 June 2020: RMB1,463 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interest: (continued)

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. As at 30 June 2021, the balance of the above transactions was RMB5,010 million, included in “Financial assets held under resale agreements” (31 December 2020: Nil). For the six months ended 30 June 2021, the amount of interest receivables from the above financing transactions was not material for the Group in the statement of profit or loss.

In addition, please refer to Note III 42 for the interests in the unconsolidated structured entities of asset securitisation transactions held by the Group as at 30 June 2021. For the six months ended 30 June 2021, the Group’s income from these structured entities was immaterial.

In July 2020, the regulatory authorities made a decision on extending the transition period for the Guiding Opinions on Regulating Asset Management Business of Financial Institutions to the end of 2021 and encouraged orderly disposal of legacy assets in a variety of ways such as undertaking by new wealth management products, market-based transfer, and transferring assets back to the statement of financial position. According to the regulatory requirements, the Group has promoted the disposal of the legacy wealth management business in a pragmatic, efficient, actively and orderly way in order to achieve a smooth transition and stable development of the wealth management business.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor’s principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group’s returns.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases, these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

<u>Credit assets backed securitisation</u>

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was nil as at 30 June 2021 (31 December 2020: Nil).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group’s continuing involvement. As at 30 June 2021, the Group has no continuing involvement in credit asset-backed securities (31 December 2020: Nil).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Transferred financial assets (continued)

Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 30 June 2021, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 30 June 2021, loans with an original carrying amount of RMB1,998 million (31 December 2020: RMB1,998 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 30 June 2021, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2020: RMB251 million).

43 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Capital management (continued)

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the reporting year, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with *Regulation Governing Capital of Commercial Banks (provisional)* and relevant requirements are as follows:

	30 June 2021	31 December 2020
Total common equity tier-one capital	358,828	349,479
Share capital	54,032	54,032
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	64,561	63,990
Surplus reserve	26,245	26,245
General reserve	67,800	67,702
Retained earnings	145,002	136,581
Qualifying portions of non-controlling interests	1,188	929
Common equity tier-one capital deductions	(3,483)	(3,457)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(2,186)	(2,160)
Net deferred tax assets arising from operating losses that depend on future profits	(16)	(16)
Net common equity tier-one capital	355,345	346,022
Additional tier-one capital	105,057	105,023
Additional tier-one capital instruments	104,899	104,899
Qualifying portions of non-controlling interests	158	124
Tier-one capital net	460,402	451,045
Tier-two capital	83,370	82,485
Qualifying portions of tier-two capital instruments issued and share premium	42,256	44,525
Excess loan loss provisions	39,607	36,566
Qualifying portions of non-controlling interests	1,507	1,394
Net capital base	543,772	533,530
Total risk-weighted assets	4,042,430	3,837,489
Common equity tier-one capital adequacy ratio	8.79%	9.02%
Tier-one capital adequacy ratio	11.39%	11.75%
Capital adequacy ratio	13.45%	13.90%

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Notes to the consolidated cash flow statement

(a) Net increase in cash and cash equivalents

	For the six months ended 30 June	
	2021	2020
Cash and cash equivalents as at 30 June	136,264	140,992
Less: Cash and cash equivalents as at 1 January	145,076	117,499
Net (decrease)/increase in cash and cash equivalents	(8,812)	23,493

(b) Cash and cash equivalents

	30 June 2021	30 June 2020
Cash on hand	7,524	8,032
Deposits with the central bank	60,857	59,672
Deposits with banks and other financial institutions	30,000	38,904
Placements with banks and other financial institutions	37,883	34,384
Total	136,264	140,992

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party relationships and transactions

(a) Related parity relationships

(i) The ultimate parent company and its subsidiaries

The ultimate parent of the Group is China Investment Corporation set up in China.

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year. The amount and balance of related parties and transactions between the Group and the ultimate parent company and its subsidiaries are listed in Note III 45(b).

(ii) Affiliated companies

The immediate parent of the Group is China Everbright Group Ltd. ("China Everbright Group") .The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note III 45(b).

The affiliated companies that have related party transactions with the Group are as follows:

<u>Related parties</u>

– China Everbright Limited (Everbright Limited)
– Everbright Securities Co., Ltd. (Everbright Seurities)
– China Everbright Group Limited
– China Everbright industry (Group) Co., Ltd
– Everbright Financial Holdings Asset Management Co., Ltd
– Everbright Life Insurance Co., Ltd
– Everbright Xinglong Trust Co., Ltd
– Everbright Prudential Fund Management Co., Ltd
– Everbright Futures Co., Ltd

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(ii) Affiliated companies (continued)

The affiliated companies that have related party transactions with the Group are as follows: (continued)

Related parties (continued)

– Everbright Fortune Investment Co., Ltd
– Everbright Capital Investment Co., Ltd
– Everbright happiness International Leasing Co., Ltd
– Everbright Yongming Asset Management Co., Ltd
– Everbright Jinou Asset Management Co., Ltd
– Everbright Securities Financial Holding Co., Ltd
– China CYTS Group Corporation
– Cachet Pharmaceutical Co., Ltd
– Everbright Technology Co., Ltd
– Hangzhou Jinou Asset Management Co., Ltd
– Guokaitai Industrial Development Co., Ltd
– Zhongqing Chuangyi Investment Management Co., Ltd
– Shenzhen Qianhai Everbright Investment Management Co., Ltd
– Everbright Securities Asset Management Co., Ltd
– Guanghang No.2 (Tianjin) Leasing Co., Ltd
– Beijing Everbright Jinhui 360 Investment Management Center
– Everbright Tesilian (Beijing) Culture Technology Co., Ltd
– Everbright Photonics Investment Management Co., Ltd
– Guanghang No.1 (Tianjin) Leasing Co., Ltd
– Shanghai Guiyun Asset Management Co., Ltd
– China Everbright Pension Health Industry Co., Ltd
– Everbright Cultural Investment Co., Ltd
– Everbright Development Investment Co., Ltd
– Everbright Cloud Payment Technology Co., Ltd
– Beijing Everbright Huichen Pension Service Co., Ltd
– Shanghai Everbright Securities Asset Management Co., Ltd
– Everbright Hongrun Investment Management Co., Ltd
– Everbright Yunfu Internet Co., Ltd
– Beijing Huixin Housing Construction Engineering Co., Ltd
– CYTS Jiangsu real estate Co., Ltd
– China Everbright medical and Health Industry Co., Ltd

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(iii) Other related parties

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, and shareholders holding more than 5% shares of the Group.

The other related parties that have related party transactions with the Group are as follows:

Other related parties

– Overseas Chinese Town Holding Company
– China Shipping (Group) Company
– Orient Securities Co., Ltd. Henan Zhongyuan Chemical Co., Ltd
– Jilin TuoCheng Construction Engineering Co., Ltd
– China UnionPay Co., Ltd
– Orient Securities Co., Ltd
– Konka Group Co., Ltd
– China Pacific Insurance (Group) Co., Ltd
– COSCO Shipping Development Co., Ltd
– China Ocean Shipping Group Co., Ltd
– Shenergy Group Co., Ltd.
– Bohai Securities Co., Ltd
– Shanghai Gas (Group) Co., Ltd
– China Marine Fuel Co., Ltd
– Shenzhen Weipin Zhiyuan Information Technology Co., Ltd
– Shanghai Zhongbo Enterprise Management Development Co., Ltd
– Shanghai Insurance Exchange Co., Ltd
– Beijing Jingneng Clean Energy Power Co., Ltd
– Shijiazhuang Hualin Food Co., Ltd
– Zhengzhou Chemical Light Industry Co., Ltd
– China Eastern Airlines Group Co., Ltd
– Huadian Fuxin Energy Co., Ltd
– Fujian Bofang Technology Co., Ltd
– China Cinda Asset Management Co., Ltd
– Zhongke Zhiyuan Technology Co., Ltd
– Shanghai International Port (Group) Co., Ltd
– CYTS Holding Co., Ltd
– Beijing aimaisi Technology Co., Ltd
– China Aircraft Leasing Co., Ltd
– China Shipping Group Investment Co., Ltd
– China Sinochem Group Co., Ltd
– China Minmetals Group Co., Ltd

The amounts and balances of transactions between the Group and other related parties are shown in Note III 45(b).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party relationships and transactions (continued)

(b) Related party transactions

(i) The ultimate parent company and its subsidiaries

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	For the six months ended 30 June	
	2021	2020
Interest income	236	496
Interest expense	(2,270)	(1,577)

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	30 June 2021	31 December 2020
Deposits with banks and other financial institutions	6,753	13,098
Placements with banks and other financial institutions	18,598	22,233
Derivative financial assets	4,459	7,047
Financial assets held under resale agreements	12,842	15,505
Loans and advances to customers	4,720	2,599
Financial investments	236,470	221,493
Financial assets at fair value through profit or loss	67,001	56,471
Debt instruments at fair value through other comprehensive income	35,312	39,852
Financial investments measured at amortised cost	134,157	125,170
Other assets	4,761	3,548
Deposits from banks and other financial institutions	72,139	98,208
Placements from banks and other financial institutions	56,061	56,025
Derivative financial liabilities	4,993	9,072
Financial assets sold under repurchase agreements	2,415	6,523
Deposits from customers	68,520	51,476
Other liabilities	1,189	249

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(ii) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(iii) Affiliated companies and other related parties

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows:

	China Everbright Group (Note III 45(a))	Affiliated companies	Others	Total
Transactions with related parties for the six months ended 30 June 2021:				
Interest income	-	981	724	1,705
Interest expense	(36)	(234)	(215)	(485)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows: (continued)

	China Everbright Group (Note III 45(a))	Affiliated companies	Others	Total
Balances with related parties as at 30 June 2021:				
Placements with banks and other financial institutions	-	1,300	-	1,300
Derivative financial assets	-	-	16	16
Financial assets held under resale agreements	-	6,873	1,105	7,978
Loans and advances to customers	-	7,107	12,797	19,904
Financial investments	-	44,633	1,564	46,197
Financial assets at fair value through profit or loss	-	10,644	504	11,148
Debt instruments at fair value through other comprehensive income	-	141	218	359
Equity instruments at fair value through other comprehensive income	-	-	98	98
Financial investments at amortised cost	-	33,848	744	34,592
Other assets	-	8	2,465	2,473
Total	-	59,921	17,947	77,868
Deposits from banks and other financial institutions	-	21,305	2,969	24,274
Placements from banks and other financial institutions	-	1,300	-	1,300
Derivative financial liabilities	-	-	16	16
Deposits from customers	41	14,260	59,456	73,757
Other liabilities	-	-	1	1
Total	41	36,865	62,442	99,348
Significant other items with related parties as at 30 June 2021:				
Guarantee granted (Note)	180	-	-	180

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows: (continued)

	China Everbright Group (Note III 45(a))	Affiliated companies	Others	Total
Transactions with related parties for the six months ended 30 June 2020:				
Interest income	-	327	287	614
Interest expense	(67)	(177)	(204)	(448)
Balances with related parties as at 31 December 2020:				
Placements with banks and other financial institutions	-	3,200	1,000	4,200
Derivative financial assets	-	-	21	21
Financial assets held under resale agreements	-	385	1,900	2,285
Loans and advances to customers	-	5,523	15,356	20,879
Financial investments	105	40,613	2,948	43,666
Financial assets at fair value through profit or loss	-	8,527	1,982	10,509
Debt instruments at fair value through other comprehensive income	105	40	213	358
Equity instruments at fair value through other comprehensive income	-	-	98	98
Financial investments at amortised cost	-	32,046	655	32,701
Other assets	-	5	2,633	2,638
Total	105	49,726	23,858	73,689
Deposits from banks and other financial institutions	-	17,173	9,769	26,942
Derivative financial liabilities	-	-	23	23
Deposits from customers	4,284	9,815	39,412	53,511
Total	4,284	26,988	49,204	80,476
Significant other items with related parties as at 31 December 2020:				
Guarantee granted (Note)	180	-	-	180

Note: As at 30 June 2021, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2020: RMB180 million) due to one of the state-owned commercial banks.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iv) Remuneration of directors, supervisors and senior management

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Remuneration	14,148	13,198
Retirement benefits	1,950	388
Of which:Basic social pension insurance	272	179

(v) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	30 June 2021	31 December 2020
	RMB'000	RMB'000
Aggregate amount of relevant loans outstanding as at the end of period	6,577	8,708
Maximum aggregate amount of relevant loans outstanding during the period	6,609	8,738

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Statement of financial position of the Bank

	Note III	30 June 2021	31 December 2020
Assets			
Cash and deposits with the central bank		377,327	360,131
Deposits with banks and other financial institutions		29,537	40,231
Precious metals		6,485	9,353
Placements with banks and other financial institutions		79,181	74,769
Derivative financial assets		17,188	25,262
Financial assets held under resale agreements		96,755	43,587
Loans and advances to customers		3,161,385	2,939,071
Financial investments		1,762,441	1,658,026
- Financial assets at fair value through profit or loss		359,415	299,768
- Debt instruments at fair value through other comprehensive income		271,831	216,324
- Equity instruments at fair value through other comprehensive income		1,122	870
- Financial investments measured at amortised cost		1,130,073	1,141,064
Investments in subsidiaries	17(a)	12,983	12,983
Property, plant and equipment		15,248	15,698
Right-of-use assets		10,844	11,096
Goodwill		1,281	1,281
Deferred tax assets		20,388	18,444
Other assets		55,775	43,593
Total assets		5,646,818	5,253,525

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Statement of financial position of the Bank (continued)

	30 June 2021	31 December 2020
Liabilities and equity		
Liabilities		
Due to the central bank	229,428	241,059
Deposits from banks and other financial institutions	469,083	473,926
Placements from banks and other financial institutions	89,102	89,948
Derivative financial liabilities	16,645	25,694
Financial assets sold under repurchase agreements	9,249	10,115
Deposits from customers	3,690,569	3,478,730
Accrued staff costs	15,420	14,874
Taxes payable	5,860	7,708
Lease liabilities	10,493	10,723
Debt securities issued	619,820	433,749
Other liabilities	34,791	18,698
Total liabilities	5,190,460	4,805,224
Equity		
Share capital	54,032	54,032
Other equity instruments	109,062	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	58,434	58,434
Other comprehensive income	2,199	1,509
Surplus reserve	26,245	26,245
General reserve	66,015	66,015
Retained earnings	140,371	133,004
Total equity	456,358	448,301
Total liabilities and equity	5,646,818	5,253,525

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Segment reporting (continued)

(a) Segment profit, assets and liabilities

	For the six months ended 30 June 2021				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,885	31,546	12,466	-	55,897
Internal net interest income/(expense)	13,650	(9,349)	(4,301)	-	-
Net interest income	25,535	22,197	8,165	-	55,897
Net fee and commission income	4,735	9,741	529	-	15,005
Net trading gains	-	-	1,230	-	1,230
Dividend income	-	-	-	1	1
Net gains arising from investment securities	228	-	4,082	7	4,317
Net gains on derecognition of financial assets measured at amortised cost	-	-	85	-	85
Foreign exchange gains/(losses)	201	21	(140)	-	82
Other net operating income	452	26	23	33	534
Operating income	31,151	31,985	13,974	41	77,151
Operating expenses	(9,230)	(10,839)	(1,130)	(46)	(21,245)
Credit impairment losses	(13,019)	(14,853)	(862)	-	(28,734)
Other impairment losses	23	-	(2)	-	21
Losses on investments in joint ventures	-	-	-	(7)	(7)
Segment profit before tax	8,925	6,293	11,980	(12)	27,186
Other segment information					
- Depreciation and amortisation	1,375	1,327	141	-	2,843
- Capital expenditure	697	867	83	-	1,647

	30 June 2021				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,330,204	1,500,029	1,919,008	745	5,749,986
Segment liabilities	2,953,016	908,140	1,432,476	3,658	5,297,290

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Segment reporting (continued)

(a) Segment profit, assets and liabilities (continued)

	For the six months ended 30 June 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,445	27,913	15,308	-	54,666
Internal net interest income/(expense)	13,932	(7,580)	(6,352)	-	-
Net interest income	25,377	20,333	8,956	-	54,666
Net fee and commission income	4,653	8,893	587	-	14,133
Net trading gains	-	-	57	-	57
Dividend income	-	-	-	1	1
Net (losses)/gains arising from investment securities	(35)	1	2,788	-	2,754
Net gains on derecognition of financial assets measured at amortised cost	-	-	25	-	25
Foreign exchange gains/(losses)	120	37	(86)	-	71
Other net operating income	373	19	27	31	450
Operating income	30,488	29,283	12,354	32	72,157
Operating expenses	(8,402)	(9,932)	(1,054)	(58)	(19,446)
Credit impairment losses	(12,214)	(18,195)	(117)	-	(30,526)
Other impairment losses	(112)	(33)	(2)	-	(147)
Segment profit before tax	9,760	1,123	11,181	(26)	22,038
Other segment information					
- Depreciation and amortisation	1,224	1,148	131	-	2,503
- Capital expenditure	525	650	63	-	1,238

	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,135,482	1,409,348	1,801,709	703	5,347,242
Segment liabilities	2,755,106	859,093	1,295,799	3,093	4,913,091

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Segment reporting (continued)

(a) Segment profit, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note III	30 June 2021	31 December 2020
Segment assets		5,749,986	5,347,242
Goodwill	20	1,281	1,281
Deferred tax assets	21	21,529	19,587
Total assets		5,772,796	5,368,110
Segment liabilities		5,297,290	4,913,091
Dividend payables	34	11,368	21
Total liabilities		5,308,658	4,913,112

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Segment reporting (continued)

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qingdao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include property, plant and equipment, right-of-use assets, land use rights and intangible assets. In presenting geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- "Yangtze River Delta" refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

- "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

- "Bohai Rim" refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

- "Central" refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

- "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumqi, Guiyang, Lanzhou, Xining ,Yinchuan and Lhasa;

- "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

- "Overseas" refers to the areas serviced by the following subsidiaries and branches of the Bank: Hong Kong, Seoul, Luxembourg and Sydney; and

- "Head Office" refers to the head office of the Bank.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Segment reporting (continued)

(b) Geographical information (continued)

	Operating income								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
For the six months ended 30 June 2021	14,774	13,564	10,980	13,295	10,467	9,639	3,105	1,327	77,151
For the six months ended 30 June 2020	13,664	11,176	12,293	12,401	9,515	8,527	3,200	1,381	72,157

	Non-current assets (Note(i))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
30 June 2021	3,719	3,409	10,269	11,587	2,908	2,903	1,381	488	36,664
31 December 2020	3,813	3,410	10,395	11,137	2,968	3,077	1,393	494	36,687

Note*:*
(i) Including property, plant and equipment, right-of-use assets, intangible assets and land use rights.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Banking Department, Investment Banking Department, Inclusive Finance Department, Credit Card Centre, Retail Credit Department and Retail and Wealth Management Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

- The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology - Investigation and approval – During and post-lending monitoring - Collection and Resolution".

- The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardised system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardised review and approval policies and process in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loans.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimisation testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

Treasury business

The Group implemented differentiated risk access standards of investments, and ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group has set credit risk limits for different counterparties, taking into consideration factors including industries, single borrowers and ratings. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to the present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: Financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Management overlay
- Modification of contract cash flows

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtors’ operation or financial status
- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor’s contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgements based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes to the impact of COVID-19 on these borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition. For borrowers who applied for temporary deferral of principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group did not consider these support measures as triggers of a significant increase in credit risk.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Criteria for judging significant increases in credit risk (continued)

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments) and forward-looking information in order to establish the model of PD, LGD and EAD.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Parameters of ECL measurement (continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI and investment in property, plant and equipment.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Forward-looking information (continued)

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario. The Group adjusted the weight of the pessimistic scenarios, with comprehensive consideration of the impact of the COVID-19 epidemic and other factors on the economic development trend.

Management overlay

The business failure or default has not appeared given the deferral of loan payments offered to borrowers, and therefore, the potential risks arising from the COVID-19 epidemic may not yet be fully captured by the ECL model. The ECL allowance would reflect the ECL through management overlays by adjusting parameters on a disrupted portfolio basis.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1 and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note III 51(a).

	30 June 2021				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	377,531	-	-	-	377,531
Deposits with banks and other financial institutions	33,878	-	-	-	33,878
Placements with banks and other financial institutions	70,607	-	134	-	70,741
Financial assets held under resale agreements	96,928	-	-	-	96,928
Loans and advances to customers	3,037,614	103,283	26,528	-	3,167,425
Finance lease receivables	106,559	4,122	253	-	110,934
Financial investments	1,392,576	4,263	12,684	365,962	1,775,485
Others (Note)	45,953	-	-	17,188	63,141
Total	5,161,646	111,668	39,599	383,150	5,696,063

	31 December 2020				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	360,287	-	-	-	360,287
Deposits with banks and other financial institutions	46,059	-	-	-	46,059
Placements with banks and other financial institutions	69,140	-	150	-	69,290
Financial assets held under resale agreements	43,592	-	-	-	43,592
Loans and advances to customers	2,812,466	105,109	24,860	-	2,942,435
Finance lease receivables	96,564	3,970	254	-	100,788
Financial investments	1,352,507	4,876	7,249	305,783	1,670,415
Others (Note)	33,530	-	-	25,264	58,794
Total	4,814,145	113,955	32,513	331,047	5,291,660

Note: Others comprise precious metals (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	30 June 2021	31 December 2020
Impaired		
Carrying amount	666	666
Provision for impairment losses	(532)	(516)
Subtotal	134	150
Neither overdue nor impaired		
- grade A to AAA	195,253	151,764
- grade B to BBB	132	1,123
- unrated (Note)	6,029	5,904
Subtotal	201,414	158,791
Total	201,548	158,941

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	30 June 2021	31 December 2020
Impaired		
Carrying amount	2,907	1,904
Provision for impairment losses	(1,674)	(1,179)
Subtotal	1,233	725
Neither overdue nor impaired		
Bloomberg Composite		
- grade AA- to AA+	3,522	32,504
- grade A- to A+	19,162	31,773
- grade lower than A-	15,173	23,035
Subtotal	37,857	87,312
Other agency ratings		
- grade AAA	1,081,485	955,020
- grade AA- to AA+	121,812	105,717
- grade A- to A+	12,836	4,075
- grade lower than A-	18,609	2,508
- unrated	68,035	55,666
Subtotal	1,302,777	1,122,986
Total	1,341,867	1,211,023

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc. The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk

The Group is primarily exposed to interest rate risk arising from gap risk, basis risk and trading interest rate risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value. The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

Gap risk

Gap risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of the repricing timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

Basis risk

Basis risk, is caused by interest rates on different pricing basis on the on-and off-balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury’s investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period:

	30 June 2021						
	Effective interest rate (*)	Total	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.48%	377,531	22,661	354,870	-	-	-
Deposits with banks and other financial institutions	0.86%	33,878	19	30,704	3,155	-	-
Placements with banks and other financial institutions	1.43%	70,741	157	48,507	19,930	2,147	-
Financial assets held under resale agreements	2.09%	96,928	13	96,915	-	-	-
Loans and advances to customers	5.16%	3,167,425	35,060	2,373,522	676,714	79,276	2,853
Finance lease receivables	5.84%	110,934	1,429	18,639	64,284	19,488	7,094
Financial investments	3.77%	1,775,485	320,620	80,844	225,341	710,859	437,821
Others	-	139,874	136,846	-	-	-	3,028
Total assets	4.45%	5,772,796	516,805	3,004,001	989,424	811,770	450,796

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period: (continued)

	30 June 2021						
	Effective interest rate (*)	Total	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Liabilities							
Due to the central bank	2.99%	229,545	4,528	96,603	128,414	-	-
Deposits from banks and other financial institutions	2.51%	466,337	2,531	312,329	149,940	1,537	-
Placements from banks and other financial institutions	1.99%	171,372	725	102,908	67,739	-	-
Financial assets sold under repurchase agreements	1.69%	14,140	22	10,041	2,052	2,025	-
Deposits from customers	2.20%	3,692,419	173,913	1,855,904	744,850	917,735	17
Debt securities issued	2.95%	627,063	1,644	211,926	319,406	47,401	46,686
Others	-	107,782	96,555	-	9,013	1,977	237
Total liabilities	2.34%	5,308,658	279,918	2,589,711	1,421,414	970,675	46,940
Asset-liability gap	2.11%	464,138	236,887	414,290	(431,990)	(158,905)	403,856

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period: (continued)

	31 December 2020						
	Effective interest rate (*)	Total	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.44%	360,287	16,919	343,368	-	-	-
Deposits with banks and other financial institutions	1.03%	46,059	59	45,301	699	-	-
Placements with banks and other financial institutions	1.81%	69,290	179	55,669	11,305	2,137	-
Financial assets held under resale agreements	1.90%	43,592	3	43,589	-	-	-
Loans and advances to customers	5.37%	2,942,435	29,462	2,277,700	564,325	67,246	3,702
Finance lease receivables	5.89%	100,788	1,381	21,375	51,532	19,700	6,800
Financial investments	4.00%	1,670,415	67,190	315,202	209,932	681,052	397,039
Others	-	135,244	131,989	-	-	-	3,255
Total assets	4.59%	5,368,110	247,182	3,102,204	837,793	770,135	410,796

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period: (continued)

	31 December 2020						
	Effective interest rate (*)	Total	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Liabilities							
Due to the central bank	3.23%	241,110	2,359	20,303	218,448	-	-
Deposits from banks and other financial institutions	2.27%	469,345	1,824	296,698	170,823	-	-
Placements from banks and other financial institutions	2.29%	161,879	475	91,453	69,951	-	-
Financial assets sold under repurchase agreements	1.90%	14,182	12	10,216	3,505	449	-
Deposits from customers	2.30%	3,480,667	50,225	2,008,963	561,854	859,601	24
Debt securities issued	3.04%	440,870	1,842	125,872	265,672	799	46,685
Others	-	105,059	90,129	10,214	3,625	1,091	-
Total liabilities	2.39%	4,913,112	146,866	2,563,719	1,293,878	861,940	46,709
Asset-liability gap	2.20%	454,998	100,316	538,485	(456,085)	(91,805)	364,087

* The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 30 June 2021, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB1,465 million (31 December 2020: increase by RMB96 million), and equity to decrease by RMB7,990 million (31 December 2020: decrease by RMB5,603 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,711 million (31 December 2020: increase by RMB125 million), and equity to increase by RMB8,622 million (31 December 2020: increase by RMB6,189 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;

- An interest rate movement of one hundred basis points is based on the assumption of interest rate movement over the next 12 months;

- There is a parallel shift in the yield curve with the changes in interest rates;

- There are no other changes to the portfolio of asset and liability;

- Other variables (including exchange rates) remain unchanged; and

- The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the period are as follows:

	30 June 2021			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	363,135	10,379	4,017	377,531
Deposits with banks and other financial institutions	12,040	12,802	9,036	33,878
Placements with banks and other financial institutions	21,379	46,584	2,778	70,741
Financial assets held under resale agreements	96,720	37	171	96,928
Loans and advances to customers	3,000,902	105,594	60,929	3,167,425
Financial lease receivables	110,182	752	-	110,934
Financial investments	1,674,970	77,666	22,849	1,775,485
Others	133,096	4,337	2,441	139,874
Total assets	5,412,424	258,151	102,221	5,772,796
Liabilities				
Due to the central bank	229,545	-	-	229,545
Deposits from banks and other financial institutions	464,393	284	1,660	466,337
Placements from banks and other financial institutions	95,313	58,081	17,978	171,372
Financial assets sold under repurchase agreements	7,182	2,500	4,458	14,140
Deposits from customers	3,488,780	162,901	40,738	3,692,419
Debt securities issued	562,108	61,437	3,518	627,063
Others	101,483	3,477	2,822	107,782
Total liabilities	4,948,804	288,680	71,174	5,308,658
Net position	463,620	(30,529)	31,047	464,138
Off-balance sheet credit commitments	1,341,336	45,738	18,064	1,405,138
Derivative financial instruments (Note)	(16,335)	43,672	(30,638)	(3,301)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the period are as follows: (continued)

	31 December 2020			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	350,913	7,130	2,244	360,287
Deposits with banks and other financial institutions	24,342	15,547	6,170	46,059
Placements with banks and other financial institutions	24,169	37,239	7,882	69,290
Financial assets held under resale agreements	43,587	1	4	43,592
Loans and advances to customers	2,783,150	101,459	57,826	2,942,435
Finance lease receivables	99,987	801	-	100,788
Financial investments	1,571,828	76,004	22,583	1,670,415
Others	128,376	5,527	1,341	135,244
Total assets	5,026,352	243,708	98,050	5,368,110
Liabilities				
Due to the central bank	241,110	-	-	241,110
Deposits from banks and other financial institutions	467,908	1,162	275	469,345
Placements from banks and other financial institutions	73,335	69,320	19,224	161,879
Financial assets sold under repurchase agreements	7,977	2,603	3,602	14,182
Deposits from customers	3,299,893	144,010	36,764	3,480,667
Debt securities issued	391,668	43,604	5,598	440,870
Others	99,325	2,009	3,725	105,059
Total liabilities	4,581,216	262,708	69,188	4,913,112
Net position	445,136	(19,000)	28,862	454,998
Off-balance sheet credit commitments	1,420,403	42,432	13,711	1,476,546
Derivative financial instruments (Note)	7,129	19,193	(25,909)	413

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	30 June 2021	31 December 2020
Exchange rates against RMB for the HK dollar	0.8317	0.8428
Exchange rates against RMB for the US dollar	6.4583	6.5337

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 30 June 2021, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB16 million (31 December 2020: increase by RMB4 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB16 million (31 December 2020: decrease by RMB4 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;
- At the end of the reporting period, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;
- Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or share price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and

- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2021							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	309,015	68,516	-	-	-	-	-	377,531
Deposits with banks and other financial institutions	-	29,308	1,213	202	3,155	-	-	33,878
Placements with banks and other financial institutions	134	-	40,945	7,473	19,972	2,217	-	70,741
Financial assets held under resale agreements	-	-	96,928	-	-	-	-	96,928
Loans and advances to customers	45,503	418,446	126,983	171,331	815,308	799,038	790,816	3,167,425
Finance lease receivables	82	260	3,202	5,897	20,606	72,353	8,534	110,934
Financial investments	14,994	227,795	32,259	44,372	247,058	761,530	447,477	1,775,485
Others	68,547	51,112	2,013	5,605	3,907	5,649	3,041	139,874
Total assets	438,275	795,437	303,543	234,880	1,110,006	1,640,787	1,249,868	5,772,796

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period: (continued)

	30 June 2021							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Liabilities								
Due to the central bank	-	-	20,577	78,510	130,458	-	-	229,545
Deposits from banks and other financial institutions	-	172,448	52,227	90,185	149,940	1,537	-	466,337
Placements from banks and other financial institutions	-	6	50,990	52,345	68,031	-	-	171,372
Financial assets sold under repurchase agreements	-	-	7,587	2,471	2,057	2,025	-	14,140
Deposits from customers	-	1,346,602	288,349	374,200	754,108	929,142	18	3,692,419
Debt securities issued	-	-	77,344	98,385	323,414	79,788	48,132	627,063
Others	-	62,605	4,728	5,692	9,605	18,829	6,323	107,782
Total liabilities	-	1,581,661	501,802	701,788	1,437,613	1,031,321	54,473	5,308,658
Net position	438,275	(786,224)	(198,259)	(466,908)	(327,607)	609,466	1,195,395	464,138
Notional amount of derivative financial instruments	-	-	259,279	224,953	581,874	818,118	2,791	1,887,015

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period: (continued)

	31 December 2020							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	299,538	60,749	-	-	-	-	-	360,287
Deposits with banks and other financial institutions	-	40,161	1,100	4,098	700	-	-	46,059
Placements with banks and other financial institutions	150	-	45,942	9,673	11,351	2,174	-	69,290
Financial assets held under resale agreements	-	-	43,592	-	-	-	-	43,592
Loans and advances to customers	42,303	422,190	137,773	174,521	672,559	749,441	743,648	2,942,435
Finance lease receivables	197	67	3,382	4,918	18,663	62,723	10,838	100,788
Financial investments	21,283	214,456	45,807	49,441	210,493	717,712	411,223	1,670,415
Others	69,121	37,604	2,748	4,458	10,652	6,080	4,581	135,244
Total assets	432,592	775,227	280,344	247,109	924,418	1,538,130	1,170,290	5,368,110

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period: (continued)

	31 December 2020							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Liabilities								
Due to the central bank	-	-	13,195	7,712	220,203	-	-	241,110
Deposits from banks and other financial institutions	-	154,114	70,330	72,828	172,073	-	-	469,345
Placements from banks and other financial institutions	-	6	44,194	47,445	70,234	-	-	161,879
Financial assets sold under repurchase agreements	-	-	7,132	3,093	3,508	449	-	14,182
Deposits from customers	-	1,303,947	289,829	447,446	568,955	870,466	24	3,480,667
Debt securities issued	-	-	5,450	81,580	270,937	34,772	48,131	440,870
Others	-	47,537	4,091	5,735	20,338	19,252	8,106	105,059
Total liabilities	-	1,505,604	434,221	665,839	1,326,248	924,939	56,261	4,913,112
Net position	432,592	(730,377)	(153,877)	(418,730)	(401,830)	613,191	1,114,029	454,998
Notional amount of derivative financial instruments	-	-	326,206	252,135	820,303	767,683	43,970	2,210,297

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the reporting period:

	30 June 2021							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	229,545	231,746	-	20,599	78,892	132,255	-	-
Deposits from banks and other financial institutions	466,337	474,508	172,524	54,146	92,302	153,997	1,539	-
Placements from banks and other financial institutions	171,372	172,744	6	51,053	52,588	69,097	-	-
Financial assets sold under repurchase agreements	14,140	14,165	-	7,591	2,480	2,063	2,031	-
Deposits from customers	3,692,419	3,740,151	1,346,602	291,074	377,579	767,933	956,939	24
Debt securities issued	627,063	658,983	-	79,184	100,611	329,069	99,414	50,705
Other financial liabilities	64,035	66,529	35,490	2,464	1,140	5,595	14,318	7,522
Total non-derivative financial liabilities	5,264,911	5,358,826	1,554,622	506,111	705,592	1,460,009	1,074,241	58,251
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(278)	-	1	(2)	26	(283)	(20)
Derivative financial instruments settled on gross basis								
- Cash inflow		852,321	-	206,174	200,064	432,212	13,871	-
- Cash outflow		(852,160)	-	(206,474)	(199,231)	(432,598)	(13,857)	-
Total derivative financial liabilities		161	-	(300)	833	(386)	14	-

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the reporting period: (continued)

	31 December 2020							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	241,110	245,941	-	13,216	7,743	224,982	-	-
Deposits from banks and other financial institutions	469,345	473,815	154,386	70,407	73,938	175,084	-	-
Placements from banks and other financial institutions	161,879	164,280	6	44,239	47,871	72,164	-	-
Financial assets sold under repurchase agreements	14,182	14,205	-	7,132	3,099	3,523	451	-
Deposits from customers	3,480,667	3,527,109	1,303,948	294,044	454,407	578,814	895,866	30
Debt securities issued	440,870	469,431	-	6,838	85,830	272,371	51,483	52,909
Other financial liabilities	51,060	53,973	19,315	568	1,774	10,227	14,134	7,955
Total non-derivative financial liabilities	4,859,113	4,948,754	1,477,655	436,444	674,662	1,337,165	961,934	60,894
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(513)	-	2	(3)	(123)	(323)	(66)
Derivative financial instruments settled on gross basis								
- Cash inflow		1,076,507	-	301,281	213,938	514,515	5,694	41,079
- Cash outflow		(1,076,200)	-	(300,960)	(213,583)	(514,822)	(5,759)	(41,076)
Total derivative financial liabilities		307	-	321	355	(307)	(65)	3

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2021			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	357,008	602	2,267	359,877
Guarantees, acceptances and other credit commitments	1,001,323	43,157	781	1,045,261
Total	1,358,331	43,759	3,048	1,405,138

	31 December 2020			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	348,503	1,159	2,334	351,996
Guarantees, acceptances and other credit commitments	1,074,877	48,265	1,408	1,124,550
Total	1,423,380	49,424	3,742	1,476,546

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48 Risk management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal process deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;

- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

- An independent risk assessment framework based on the internal audit and the compliance review.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker’s quoted price and Thomson Reuters’ quoted price.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value (continued)

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and are due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortised cost, except for debt securities investments, are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note III 17.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss, derivative financial liabilities and debt securities issued. Except for the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of period:

	Carrying value		Fair value	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020
Financial assets				
Debt securities investments measured at amortised cost	980,514	935,651	991,197	944,985
Financial liabilities				
Debt securities issued	627,063	440,870	621,543	440,017

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg, Thomsom Reuters and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated unlisted equity and derivative contracts with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management’s best estimates and the discount rate used is with reference to another instrument that is substantially the same.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	30 June 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
- Currency derivatives	-	12,299	-	12,299
- Interest rate derivatives	-	4,889	-	4,889
Loans and advances to customers	-	142,347	-	142,347
Financial assets at fair value through profit or loss				
- Debt instruments held for trading	3,035	67,993	-	71,028
- Financial assets designated at fair value through profit or loss	233,575	46,807	13,425	293,807
Debt instruments at fair value through other comprehensive income	56,900	221,879	-	278,779
Equity instruments at fair value through other comprehensive income	25	-	1,102	1,127
Precious metals	63	-	-	63
Total	293,598	496,214	14,527	804,339
Liabilities				
Financial liabilities at fair value through profit or loss	172	-	-	172
Derivative financial liabilities				
- Currency derivatives	-	11,476	-	11,476
- Interest rate derivatives	-	5,169	-	5,169
Total	172	16,645	-	16,817

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
- Currency derivatives	-	19,441	-	19,441
- Interest rate derivatives	-	5,819	2	5,821
- Credit derivatives	-	2	-	2
Loans and advances to customers	-	98,211	-	98,211
Financial assets at fair value through profit or loss				
- Debt instruments held for trading	4,391	28,649	-	33,040
- Financial assets designated at fair value through profit or loss	-	-	1	1
- Other financial assets at fair value through profit or loss	213,781	47,723	10,363	271,867
Debt instruments at fair value through other comprehensive income	51,111	171,696	-	222,807
Equity instruments at fair value through other comprehensive income	23	-	852	875
Precious metals	35	-	-	35
Total	269,341	371,541	11,218	652,100
Liabilities				
Financial liabilities at fair value through profit or loss	4	-	-	4
Derivative financial liabilities				
- Currency derivatives	-	19,355	-	19,355
- Interest rate derivatives	-	6,338	2	6,340
- Credit derivatives	-	83	-	83
Total	4	25,776	2	25,782

During the reporting period, there were no significant transfers within the fair value hierarchy of the Group.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the period ended 30 June 2021 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
As at 1 January 2021	2	10,364	852	11,218	(2)	(2)
Total gains or losses:						
- In profit or loss	(1)	54	-	53	1	1
Purchases	-	3,095	250	3,345	-	-
Settlements	(1)	(88)	-	(89)	1	1
As at 30 June 2021	-	13,425	1,102	14,527	-	-
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(1)	54	-	53	1	1

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2020 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
As at 1 January 2020	2	4,034	602	4,638	(3)	(3)
Total gains or losses:						
- In profit or loss	1	65	-	66	(1)	(1)
Purchases	-	6,396	250	6,646	-	-
Settlements	(1)	(131)	-	(132)	2	2
As at 31 December 2020	2	10,364	852	11,218	(2)	(2)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	1	65	-	66	(1)	(1)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	30 June 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	164,130	827,067	-	991,197
Financial liabilities				
Debt securities issued	23,799	597,744	-	621,543

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	161,862	783,123	-	944,985
Financial liabilities				
Debt securities issued	25,558	414,459	-	440,017

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity and derivative contracts. These financial instruments are valued using the cash flow discount model and the market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 30 June 2021, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	30 June 2021	31 December 2020
Entrusted loans	116,779	125,827
Entrusted funds	116,779	125,827

51 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	30 June 2021	31 December 2020
Loan commitments		
- Original contractual maturity within one year	12,810	16,758
- Original contractual maturity more than one year (inclusive)	8,253	7,939
Credit card commitments	338,814	327,299
Subtotal	359,877	351,996
Acceptances	690,881	769,458
Letters of guarantee	127,429	130,425
Letters of credit	226,766	224,482
Guarantees	185	185
Total	1,405,138	1,476,546

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Commitments and contingent liabilities (continued)

(a) Credit commitments (continued)

The Group may be exposed to credit risk in all the credit businesses above. The Group's management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount of credit commitments

	30 June 2021	31 December 2020
Credit risk-weighted amount of credit commitments	397,971	382,659

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of the reporting period, the Group's authorised capital commitments are as follows:

	30 June 2021	31 December 2020
Contracted but not paid		
- Purchase of property and equipment	1,437	1,962
Approved but not contracted for		
- Purchase of property and equipment	3,851	4,445
Total	5,288	6,407

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51 Commitments and contingent liabilities (continued)

(d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 30 June 2021.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the reporting period, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	30 June 2021	31 December 2020
Redemption commitments	5,971	5,918

(e) Outstanding litigations and disputes

As at 30 June 2021, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,511 million (31 December 2020: RMB1,262 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note III 36). The Group considers that the provisions made are reasonable and adequate.

52 Subsequent events

The Group has no significant subsequent events.

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 Liquidity Coverage Ratio, Liquidity Ratio, Leverage Ratio and Net Stable Funding Ratio

Liquidity Coverage Ratio

As stipulated by the Rules on *Liquidity Risk Management of Commercial Banks*, commercial banks' liquidity coverage ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should not be lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	30 June 2021
Liquidity coverage ratio	144.97%
High Quality Liquid Assets	789,952
Net cash outflows in 30 days from the end of the reporting period	544,893

Liquidity Ratio*

	As at 30 June 2021	Average for the six months ended 30 June 2021	As at 31 December 2020	Average for the year ended 31 December 2020
RMB current assets to RMB current liabilities	65.86%	65.22%	66.07%	67.65%
Foreign current assets to foreign current liabilities	131.76%	135.17%	127.90%	107.74%

* Liquidity ratio is calculated in accordance with the banking level.

(Expressed in millions of Renminbi, unless otherwise stated)

1 Liquidity Coverage Ratio, Liquidity Ratio, Leverage Ratio and Net Stable Funding Ratio (continued)

Leverage Ratio

	30 June 2021
Leverage Ratio	6.85%

Pursuant to the Leverage Ratio Management of Commercial Banks which has been effective since 1 April 2015, a minimum leverage ratio of 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

Net Stable Funding Ratio

The net stable funding ratio is designed to ensure that commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable funding ratio is not less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 30 June 2021, the Group met the supervision requirement with the net stable funding ratio standing at 104.90%.

Indicators	30 June 2021
Available and stable funds	3,207,969
Required stable funds	3,058,248
Net stable funding ratio	104.90%

(Expressed in millions of Renminbi, unless otherwise stated)

2 Currency concentrations

	30 June 2021			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	258,151	54,410	47,811	360,372
Spot liabilities	(288,680)	(46,796)	(24,378)	(359,854)
Forward purchases	457,423	11,068	5,813	474,304
Forward sales	(413,751)	(21,463)	(26,056)	(461,270)
Net long/(short) position	13,143	(2,781)	3,190	13,552
Net structural position	-	89	76	165

	31 December 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	243,708	50,901	47,149	341,758
Spot liabilities	(262,708)	(47,896)	(21,292)	(331,896)
Forward purchases	545,777	11,904	4,789	562,470
Forward sales	(526,584)	(11,424)	(31,178)	(569,186)
Net long position	193	3,485	(532)	3,146
Net structural position	3	55	32	90

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include property, plant and equipment.

(Expressed in millions of Renminbi, unless otherwise stated)

3 International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central banks, deposits and placements with banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	As at 30 June 2021			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	97,929	7,531	37,323	142,783
- of which attributed to Hong Kong	33,187	2,245	15,529	50,961
Europe	29,988	-	16,785	46,773
North and South America	8,917	80	17,685	26,682
Total	136,834	7,611	71,793	216,238

	As at 31 December 2020			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	99,166	7,470	41,939	148,575
- of which attributed to Hong Kong	28,097	2,107	15,229	45,433
Europe	17,617	40	27,957	45,614
North and South America	10,989	312	18,768	30,069
Total	127,772	7,822	88,664	224,258

(Expressed in millions of Renminbi, unless otherwise stated)

4 Gross amount of overdue loans and advances

(a) By geographical segment

	30 June 2021	31 December 2020
Northeastern	8,161	5,171
Pearl River Delta	6,570	3,353
Bohai Rim	5,163	4,784
Yangtze River Delta	3,969	4,608
Central	3,636	3,598
Western	2,800	2,586
Overseas	8	8
Head Office	7,473	9,139
Total	37,780	33,247

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue day

	30 June 2021	31 December 2020
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
- between 3 and 6 months (inclusive)	14,634	8,048
- between 6 months and 1 year (inclusive)	12,697	13,725
- over 1 year	10,449	11,474
Total	37,780	33,247
As a percentage of total gross loans and advances		
- between 3 and 6 months (inclusive)	0.45%	0.27%
- between 6 months and 1 year (inclusive)	0.39%	0.45%
- over 1 year	0.32%	0.38%
Total	1.16%	1.10%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(Expressed in millions of Renminbi, unless otherwise stated)

4 Gross amount of overdue loans and advances (continued)

(c) Collateral of loans and advances past due but not impaired

	30 June 2021	31 December 2020
Covered portion of loans and advances past due but not impaired	8,286	9,218
Uncovered portion of loans and advances past due but not impaired	18,379	18,705
Total loans and advances past due but not impaired	26,665	27,923
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	19,932	24,019

5 Exposure to No-bank Institutions

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in Mainland China. As at 30 June 2021, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.

ANNEX I – ORIGINAL OFFERING CIRCULAR DATED 12 AUGUST 2021

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中国光大银行
CHINA EVERBRIGHT BANK

CHINA EVERBRIGHT BANK COMPANY LIMITED

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

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

Medium Term Note Programme

Under the U.S.$5,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), China Everbright Bank Company Limited (the "**Bank**"), or any branch of the Bank located outside of the PRC, as specified as an issuer in the relevant Pricing Supplement, (each such branch of the Bank, a "**Branch Issuer**" and, together with the Bank, each, an "**Issuer**") may, subject to compliance with all relevant laws, regulations and directives, from time to time issue notes (the "**Notes**") under the Programme. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$5,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of a dealer agreement dated 12 August 2021 entered into by the Bank (on behalf of itself and each Branch Issuer) (the "**Dealer Agreement**").

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

Investing in the Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement (as defined in "*Summary of the Programme*") and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with the Notes. The principal risk factors that may affect the ability of the Bank, or as the case may be, the relevant Branch Issuer to fulfil its obligations in respect of the Notes are discussed under "*Risk Factors*" beginning on page 16.

Application has been made to The Stock Exchange of Hong Kong Limited ("**HKSE**") for the listing of the Programme under which Notes may be issued by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only during the 12-month period after the date of this Offering Circular on the HKSE. This document is for distribution to Professional Investors only.

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

HKSE 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 HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the relevant Issuer or the Bank or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the HKSE 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.

Unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Series of Notes will specify whether or not such Series of Notes will be listed on the HKSE (or listed, traded or quoted on or by any other competent authority, other exchange or quotation system). Notice of the aggregate nominal amount of Notes, interest payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined in "*Summary of the Programme*") of Notes will be set out in the Pricing Supplement which, with respect to Notes to be listed on the HKSE, will be delivered to the HKSE, on or before the date of issue of such series of Notes.

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted by the National Development and Reform Commission of the PRC (the "**NDRC**") pursuant to the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises（國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資 [2015] 2044 號））issued by the NDRC which came into effect on 14 September 2015 and any implementation rules, reports, certificates and guidelines and applicable policies as issued by the NDRC from time to time (the "**NDRC Circular**"). After the issuance of such relevant Tranche of Notes, the relevant Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota (as defined in "*Terms and Conditions of the Notes*").

Each Series of Notes in bearer form ("**Bearer Notes**") 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**", together with the temporary Global Note, the "Global Notes"). Notes in registered form will be represented by registered certificates (each a "**Note Certificate**"), one Note Certificate being issued in respect of each holder's entire holding of Registered Notes of one Series. The Notes of each Series in registered form will initially be represented by a global certificate (each a "**Global Certificate**") without interest coupons. The Global Notes and Global Certificates may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), with a common depositary on behalf of Euroclear and Clearstream or with a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU**"), operated by the Hong Kong Monetary Authority and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear an d/or Clearstream or CMU, or delivered outside a clearing system, as agreed between the relevant Issuer and the relevant Dealer.

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

The Programme is expected to be rated "Baa2" by Moody's Investors Service, Inc. ("**Moody's**") and "BBB+" by S&P Global Ratings, a division of S&P Global Inc. ("**S&P**"). Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. A 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 and Dealers

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

Offering Circular dated 12 August 2021

IMPORTANT NOTICE

Each of the relevant Issuer and the Bank (as to itself and the Group (as defined below)), having made all reasonable enquiries, confirms that (i) this Offering Circular (including any supplements thereto, as of their respective dates of publication) contains all information with respect to the Bank and its subsidiaries ("**Group**"), the relevant Issuer and the Notes which is material in the context of the Programme or the issue, sale, distribution and offering of the Notes (including all information required by applicable laws, regulations and the listing rules of the the Hong Kong Stock Exchange and rules of other relevant stock exchange where the Notes are listed), which, according to the particular nature of the Bank, the relevant Issuer, the Group and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank, the relevant Issuer, the Group and of the rights attached to the Notes, (ii) this Offering Circular, at the date of its publication, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, (iii) the statements contained in this Offering Circular, at the date of its publication are in every material particular true and accurate and not misleading and there are no other facts in relation to the Bank, the relevant Issuer, the Group and the Notes the omission of which would in the context of the issue of the Notes make any statement in this Offering Circular, misleading, (iv) the statements of intention, opinion, belief or expectation contained in this Offering Circular are, at the date of its publication, honestly and reasonably made or held and have been reached after considering all relevant circumstances, and (v) all reasonable enquiries have been and will be made by the Bank and the relevant Issuer to ascertain such facts and to verify the accuracy of all such statements in this Offering Circular.

This Offering Circular includes particulars given in compliance with the HKSE Listing Rules for the purposes of giving information with regard to each of the relevant Issuer and the Bank. Each of the relevant Issuer and the Bank accepts full responsibility for the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statements herein misleading.

Listing of the Programme or any Series of Notes on the HKSE is not to be taken as an indication of the merits of the relevant Issuer, the Bank, its subsidiaries and associated companies (if any), the Group, the Programme or such Series of Notes. In making an investment decision, investors must rely on their own examination of the relevant Issuer, the Bank and the terms of the offering of the Notes, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

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

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

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

UK MiFIR product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") 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 UK MiFIR 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 UK MiFIR Product Governance Rules.

PRIIPS/IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA 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 (the "**EEA**"). 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 EU MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU 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 (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PRIIPS/IMPORTANT – UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to 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 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "UK Prospectus Regulation"). Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Each Series of the Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the Pricing Supplement specific to each Series. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of the Notes, must be read and construed together with the relevant Pricing Supplement. This Offering Circular is to be read in conjunction with all documents, which are deemed to be incorporated by reference (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE)

The Pricing Supplement in respect of any Notes may include a legend entitled "*Singapore Securities and Futures Act Product Classification*" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time including by any subsidiary legislation as may be applicable at the relevant time (together, the "**SFA**").

The relevant Issuer or the Bank will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

No person is or has been authorised by the relevant Issuer or the Bank to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the relevant Issuer, the Bank, or any of the Arrangers or the Dealers (as defined in "*Summary of the Programme*") or the Agents (as defined in "*Terms and Conditions of the Notes*"). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by any of the relevant Issuer, the Bank, any Arranger, any Dealer or any Agents that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer and the Bank. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the relevant Issuer, the Bank, any Arranger, any Dealer or any Agents to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the relevant Issuer, the Bank or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the relevant Issuer, the Bank or the Group since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the relevant Issuer, the Bank, the Arrangers, the Dealers or the Agents to inform themselves about and to observe any such restriction.

The Notes are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Offering Circular, see "*Subscription and Sale*" and the relevant Pricing Supplement.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UP ON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the relevant Issuer, the Bank, any Arranger, any Dealer or any Agents makes any representation to any investor in the Notes regarding the legality of its investment under any applicable law. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions.

None of the relevant Issuer, the Bank, the Arrangers, the Dealers or the Agents represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Pricing Supplement, no action has been taken by the relevant Issuer, the Bank, the Arrangers, the Dealers or the Agent which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Japan, the PRC, Hong Kong, Singapore, Macau and Taiwan. See "*Subscription and Sale*" and the relevant Pricing Supplement.

None of the Arrangers, the Dealers or the Agents independently verified the information contained herein. To the fullest extent permitted by law, none of the Arrangers, the Dealers or the Agents accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by any Arranger, Dealer or Agent on its behalf in connection with the relevant Issuer, the Bank, the Programme or the issue and offering of the Notes. Each Arranger, each Dealer and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Neither this Offering Circular nor any financial statements of the Bank or the Group are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the relevant Issuer, the Bank, the Arrangers, the Dealers and the Agents that any recipient of this Offering Circular or any financial statements of the Bank or the Group should purchase the Notes. Each potential investor of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers or the Agents undertakes to review the financial condition or affairs of the relevant Issuer, the Bank or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers or the Agents.

From time to time, in the ordinary course of business, certain of the Dealers and their affiliates have provided advisory and investment banking services, and entered into other commercial transactions with the Bank and its affiliates, including commercial banking services, for which customary compensation has been received. It is expected that the Dealers and their affiliates will continue to provide such services to, and enter into such transactions, with the Bank and its affiliates in the future.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

In making an investment decision, each potential investor must rely on its own examination of the relevant Issuer, the Bank or the Group and the terms of the Notes being offered, including the merits and risks involved. None of the relevant Issuer, the Bank, the Arrangers, the Dealers or the Agents make any representation regarding the legality of investment under any applicable laws.

Potential investors should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with the issue of any Tranche of the Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) 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 for a limited period after the relevant issue date in respect of that Tranche of the Notes. However, stabilisation may not necessarily occur. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

In this Offering Circular, unless otherwise specified, references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to the "**PRC**" or "**China**" are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau, references to "**U.S.$**" or "**U.S. dollars**" are to the lawful currency of the United States of America, references to "**Renminbi**" or "**RMB**" are to the lawful currency of the PRC, and references to "**Hong Kong dollars**" or "**HK$**" are to the lawful currency of Hong Kong.

In this Offering Circular, unless otherwise specified, references to:

the "**Bank**" is to China Everbright Bank Company Limited and, as the context may require, its subsidiaries;

the "**Issuer**" is to the Bank or the relevant Branch Issuer as specified as an issuer in the relevant Pricing Supplement;

the "**branch outlet**" include the head office, branches and outlets and other establishments of the Bank;

a "**business day**" is a day that is not Saturday, Sunday or a public holiday in Hong Kong and Singapore; and

the terms "**associate**", "**subsidiary**" and "**substantial shareholder**" shall have the meanings given to such terms in the HKSE Listing Rules, unless the context otherwise requires.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

For convenience only, this Offering Circular contains translations of certain amounts denominated in Renminbi and U.S. dollars. Unless indicated otherwise, the translations between Renminbi and U.S. dollars were made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Further information on exchange rates are set forth in the section headed "*Exchange Rates*" in this Offering Circular.

As at the date of this Offering Circular, the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020; and the Bank's unaudited and unreviewed consolidated financial statements as at and for the three months ended 31 March 2021 (the "**2021 First Quarterly Financial Statements**") are the most recently published financial statements available.

The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2018 and 2019 were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and have been audited by Ernst & Young and are included in the F-pages and are incorporated by reference into this Offering Circular. The Bank adopted new standards, including IFRS 9 – Financial Instruments, IFRS 15 and Amendments – Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note III (1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018.

The audited consolidated financial statements of the Bank as at and for the year ended 31 December 2020 were prepared in accordance with IFRS and have been audited by Ernst & Young and are included in the F-pages of this Offering Circular. The 2021 First Quarterly Financial Statements as at and for the three months ended 31 March 2021 were prepared in accordance with IFRS and have neither been audited nor reviewed by a certified public accountant and are included in the F-pages of this Offering Circular. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2021 should not be taken as an indication of the expected financial condition and results of operations for the Bank for the full financial year ending 31 December 2021.

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

INFORMATION INCORPORATED BY REFERENCE

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

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

Copies of all such documents which are so deemed to be incorporated by reference in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the office of the Bank at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and from the specified office of the Fiscal Agent (as defined under "*Summary of the Programme*") set out at the end of this Offering Circular.

Each of the Bank and relevant Issuer has given an undertaking to the Dealers that the Bank shall update or amend this Offering Circular (following consultation with the Arrangers who will consult with the Dealers) by the publication of a supplement thereto or a new Offering Circular in a form approved by the Dealers: (i) before agreement is reached for the first issue of Notes by the relevant Issuer occurring after each anniversary of the date of the Dealer Agreement for the purposes of updating all relevant information in the Offering Circular in relation to the financial year of the latest published financial statements of the Bank; and (ii) provided that any Issuer intends to issue Notes under the Programme, in the event that a significant new factor, material mistake or inaccuracy relating to the information included in this Offering Circular arises or is noted which is capable of affecting the assessment of any Notes to be issued under the Programme. Each of the Bank or the relevant Issuer, as the case may be, shall deliver to the Dealers, without charge, from time to time as requested as many copies of any such supplement to the Offering Circular or any such new Offering Circular as the Dealers may reasonably request.

Special Note on Forward-Looking Statements

Certain statements under "*Risk Factors*", "*Business*" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate", "may", "will" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Bank and the plans and objectives of the Bank's management for their future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Bank to differ materially from those expressed or implied by such forward-looking statements. Reliance should not be placed on these forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future. The Bank expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Bank's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*", "*Business*" and elsewhere, important factors that could cause actual results to differ materially from the Bank's expectations. All subsequent written and forward- looking statements attributable to each of the Bank or persons acting on behalf of each of them are expressly qualified in their entirety by such cautionary statements.

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SUMMARY OF THE PROGRAMME

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

"**Bank**"	China Everbright Bank Company Limited. (LEI: 549300U6PKQ4H1P34E17).
"**Issuer**"	The Bank or, a Branch Issuer, specified as issuer in the relevant Pricing Supplement.
"**Programme Size**"	Up to U.S.$5,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in "*Subscription and Sale*")) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
"**Risk Factors**"	Investing in Notes issuable under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Bank, or, the relevant Branch Issuer to fulfil its obligations in respect of the Notes, and risk factors that are material for the assessment of market risks associated with Notes issued under the Programme are discussed under the section "*Risk Factors*" below.
"**Issue Price**"	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly paid Notes may be issued, the issue price of which will be payable in two or more instalments.
"**Status of the Notes**"	The Notes constitute direct, general, unconditional, unsecured and unsubordinated obligations of the relevant Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future, unsecured and unsubordinated obligations of the relevant Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
"**Method of Issue**"	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
"**Clearing Systems**"	Euroclear Bank SA/NV ("**Euroclear**"), Clearstream Banking S.A. ("**Clearstream**"), the Central Moneymarkets Unit Service (the "**CMU**") operated by the Hong Kong Monetary Authority (the "**HKMA**") and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, Fiscal Agent, the CMU Lodging and Paying Agent and the relevant Dealer(s).
"**Form of the Notes**"	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and

	vice versa. No single Series or Tranche may comprise both Bearer Notes and Registered Notes. Each Tranche of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary for Clearstream and/or Euroclear and/or, in respect of CMU Notes, a sub-custodian for the CMU and/ or, as the case may be, any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Global Certificates. Global Certificates representing Registered Notes will be registered in the name of a nominee for one or more of Euroclear and Clearstream and/or, in respect of CMU Notes, the Hong Kong Monetary Authority as the operator of the CMU.
"**Currencies**"	Notes may be denominated in any currency or currencies, agreed between the relevant Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of the Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
"**Denominations**"	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
"**Maturities**"	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or an amount of equivalent value denominated wholly or partly in a currency other than sterling) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") by the relevant Issuer.

"**Notification and Reporting to PBOC or CBIRC**"	Where applicable, the Bank undertakes to (i) duly obtain or complete any approval from, submission, filing or reporting to PBOC or CBIRC in accordance with all applicable PRC laws and regulatory requirements and (ii) provide a notice confirming the same for dissemination to Noteholders and Couponholders in accordance with Condition 20 (*Notices*).
"**NDRC Post-issue Information Report**"	Where the NDRC Circular applies to the Tranche of Notes to be issued, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes to (i) file or cause to be filed with the NDRC the requisite information and documents (the "**NDRC Post-issue Information Report**") within the prescribed timeframe after the Issue Date in accordance with the NDRC Circular and (ii) within ten PRC Business Days after submission of such NDRC Post-issue Information Report, provide a notice confirming the due filing of the NDRC Post-issue Information Report for dissemination to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).
"Benchmark Event"	Notwithstanding the provisions of Condition 7 (*Floating Rate Note Provisions and Index-Linked Interest Note Provisions*), if the Relevant Issuer (in consultation with the Calculation Agent) determines that a Benchmark Event has occurred (or will occur on or prior to the Interest Determination Date relating to the next succeeding Interest Period), when the Rate of Interest (or any relevant component part thereof) remains to be determined by reference to the Reference Rate, then the Benchmark Discontinuation provisions under Condition 7(k) shall apply. "**Benchmark Event**" means: (A) the Reference Rate has ceased to be published for a period of at least five Business Days; or (B) the making of a public statement by the administrator of the Reference Rate that it has ceased, or will cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or (C) the making of a public statement by the supervisor of the administrator of the Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued; or (D) the making of a public statement by the supervisor of the administrator of the Reference Rate that means that such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in circumstances where the same shall be applicable to the Notes; or (E) the making of a public statement by the supervisor of the administrator of the Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of its underlying market, in circumstances where the same shall be applicable to the Notes; or

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

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

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

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

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

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

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

"**Events of Default**" .... Events of Default for the Notes are set out in Condition 14 (*Events of Default*).

"**Cross-acceleration**" .... The Notes will contain a cross-acceleration provision as further described in Condition 14(c) (*Cross-acceleration of Bank, Issuer or Subsidiary*).

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

Where such withholding or deduction is made by the Issuer as a result of the Issuer being deemed to be a PRC tax resident by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax at the rate applicable in the PRC on the date of issue of the first Tranche of the Notes (the "**Applicable Rate**"), the Issuer will pay such additional amounts to the extent required as will result in receipt by the Noteholders and Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.

In the event that the Issuer is required to make a deduction or withholding (i) by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax in excess of the Applicable Rate; or (ii) by or within a Tax Jurisdiction (other than the PRC), the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in

	receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note or Coupon in the circumstances as set out in Condition 13(c) (*Additional Tax Amounts*).
"**Redemption**"......................................	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
"**Optional Redemption**"......................	Notes may be redeemed before their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement as described in Condition 10(c) (*Redemption at the option of the Issuer*) and/or the Noteholders to the extent if at all) specified in Condition 10(e) (*Redemption at the option of Noteholders*).
"**Tax Redemption**"	Early redemption for tax reasons will only be permitted as described in Condition 10(b) (*Redemption for tax reasons*).
"**Listing and Trading**".........................	Application has been made to the HKSE for the listing of the Programme on the HKSE under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the HKSE. Separate application may be made for the listing of the Notes on the HKSE. Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies). Unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the HKSE or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
"**Governing Law**"	The Notes, the Deed of Covenant and the Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes, the Deed of Covenant and the Agency Agreement are governed by English law.
"**Arrangers and Dealers**"....................	CEB International Capital Corporation Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, Citigroup Global Markets Limited and CLSA Limited. The Bank may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. In relation to a particular Tranche of Notes, the relevant Issuer may appoint additional dealers. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers"

	are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
"Issuing and Paying Agent, Registrar and Transfer Agent"……………….	Citibank, N.A., London Branch.
"Fiscal Agent and CMU Lodging and Paying Agent"………………………	Citicorp International Limited.

SUMMARY FINANCIAL INFORMATION OF THE BANK

Financial Information as at, and for the years ended, 31 December 2018, 2019 and 2020

The summary consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020 set forth below is derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 and should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020 and the notes thereto. The Bank's audited consolidated financial statements as at and for the year ended 31 December 2019 and 2020 are included in F-pages of this Offering Circular.

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2018, 2019 and 2020 were prepared in accordance with IFRS and have been audited by Ernst and Young. The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II(1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for years ended 31 December 2018, 2019 and 2020

	For the year ended 31 December			
	2018	**2019**		**2020**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
		(audited)		
Interest income	185,688	210,044	221,475	33,804
Interest expense	(107,524)	(108,126)	(110,778)	(16,908)
Net interest income	78,164	101,918	110,697	16,896
Fee and commission income	22,431	25,977	27,005	4,122
Fee and commission expense	(2,658)	(2,808)	(2,682)	(409)
Net fee and commission income	19,773	23,169	24,323	3,713
Net trading gains	1,071	585	484	74
Dividend income	8	42	15	2
Net gains arising from investment securities	9,862	4,878	5,203	794
Net gains on derecognition of financial assets measured at amortised cost	N/A	22	591	90
Net foreign exchange gains	724	1,339	310	47
Other net operating income	784	986	1,082	165
Operating income	110,386	132,939	142,705	21,781
Operating expenses	(33,706)	(38,429)	(40,271)	(6,147)
Operating profit before impairment	76,680	94,510	102,434	15,634
Credit impairment losses	(35,744)	(48,965)	(56,733)	(8,659)
Other impairment losses	(84)	(382)	(199)	(30)
Impairment losses on assets[(1)]	(35,828)	(49,347)	(56,932)	(8,689)
Losses on investment of joint ventures	-	-	(5)	-
Profit before tax	40,852	45,163	45,497	6,944

	For the year ended 31 December			
	2018	2019		2020
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
		(audited)		
Income tax	(7,131)	(7,722)	(7,592)	(1,159)
Net profit	33,721	37,441	37,905	5,785
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
– Remeasurement of supplementary retirement benefits	(102)	(180)	22	3
– Equity instruments at fair value through other comprehensive income				
– Net change in fair value	3	6	2	–
– Related income tax effect	(1)	(2)	–	–
Items that will be reclassified to profit or loss:				
– Debt instruments at fair value through other comprehensive income				
– Net Change in fair value	2,982	3,158	(636)	(97)
– Changes in allowance for expected credit losses	(311)	409	(219)	(33)
– Reclassified to the profit or loss upon disposal	1,095	(1,982)	(774)	(118)
– Related income tax effect	(957)	(374)	406	62
– Exchange differences on translation of financial statements	67	48	(148)	(23)
Subtotal	2,876	1,259	(1,371)	(209)
Other comprehensive income, net of tax	2,776	1,083	(1,347)	(206)
Total comprehensive income	36,497	38,524	36,558	5,580
Net profit attributable to:				
Equity shareholders of the Bank	33,659	37,354	37,824	5,773
Non-controlling interests	62	87	81	12
	33,721	37,441	37,905	5,785
Total comprehensive income attributable to:				
Equity shareholders of the Bank	36,434	38,436	36,480	5,568
Non-controlling interests	63	88	78	12
	36,497	38,524	36,558	5,580
Basic earnings per share (in RMB/Share)	0.61	0.68	0.68	–
Diluted earnings per share (in RMB/Share)	0.55	0.62	0.61	–

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

Consolidated Statement of Financial Position as at 31 December 2018, 2019 and 2020

	As at 31 December			
	2018	**2019**		**2020**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*(1)
		(audited)		
Assets				
Cash and deposits with the central bank	366,575	364,340	360,287	54,991
Deposits with banks and other financial institutions	41,005	31,358	46,059	7,030
Precious metals	23,628	10,826	9,353	1,428
Placements with banks and other financial institutions	96,685	60,270	69,290	10,576
Derivative financial assets	15,212	13,805	25,264	3,856
Financial assets held under resale agreements	37,773	6,835	43,592	6,653
Loans and advances to customers	2,361,278	2,644,136	2,942,435	449,103
Finance lease receivables	63,333	83,723	100,788	15,383
Financial investments	1,301,080	1,433,546	1,670,415	254,955
Financial assets at fair value through profit or loss	222,737	211,406	304,908	46,538
Debt instruments at fair value through other comprehensive income	153,987	180,005	222,807	34,007
Equity instruments at fair value through other comprehensive income	367	623	875	134
Financial investments measured at amortised cost	923,989	1,041,512	1,141,825	174,277
Investment in joint ventures	–	–	257	39
Property, plant and equipment	18,241	19,342	23,301	3,556
Right-of-use assets	–	11,684	11,137	1,700
Goodwill	1,281	1,281	1,281	196
Deferred tax assets	10,794	16,306	19,587	2,989
Other assets	20,447	35,979	45,064	6,878
Total assets	4,357,332	4,733,431	5,368,110	819,334

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

	As at 31 December			
	2018	**2019**		**2020**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*(1)
		(audited)		
Liabilities and equity				
Liabilities				
Due to the central bank	267,193	224,838	241,110	36,801
Deposits from banks and other financial institutions	490,091	444,320	469,345	71,636
Placements from banks and other financial institutions	152,037	166,225	161,879	24,708

	As at 31 December			
	2018	**2019**		**2020**
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)[(1)]*
		(audited)		
Financial liabilities at fair value through profit or loss	354	100	4	1
Derivative financial liabilities	14,349	13,893	25,778	3,934
Financial assets sold under repurchase agreements	40,411	25,603	14,182	2,165
Deposits from customers	2,571,961	3,017,888	3,480,667	531,254
Accrued staff costs	8,028	13,667	15,169	2,315
Taxes payable	5,666	9,322	8,772	1,339
Lease liabilities	N/A	11,069	10,762	1,643
Debt securities issued	440,449	371,904	440,870	67,290
Other liabilities	44,320	48,548	44,574	6,803
Total liabilities	4,034,859	4,347,377	4,913,112	749,887
Equity				
Share capital	52,489	52,489	54,032	8,247
Other equity instrument	35,108	70,067	109,062	16,646
– Preference shares	29,947	64,906	64,906	9,907
– Perpetual bonds	–	–	39,993	6,104
Capital reserve	53,533	53,533	58,434	8,919
Other comprehensive income	1,655	2,737	1,393	213
Surplus reserve	24,371	26,245	26,245	4,006
General reserve	54,036	59,417	67,702	10,334
Retained earnings	100,296	120,494	136,581	20,846
Total equity attributable to equity shareholders of the Bank	321,488	384,982	453,449	69,211
Non-controlling interests	985	1,072	1,549	236
Total equity	322,473	386,054	454,998	69,447
Total liabilities and equity	4,357,332	4,733,431	5,368,110	819,334

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

Financial Information as at and for the three months ended 31 March 2020 and 2021

The selected unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2020 and 2021 is extracted from the 2021 First Quarterly Financial Statements, included in the quarterly reports of the Bank published on 28 April 2021.

The Bank has also adopted new standards namely IFRS 16 – Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases and recognise depreciation and interest expense respectively. According to the transitional regulations, enterprises are not subject to restating comparable figures for previous periods. Therefore, the Bank has disclosed its accounting statements in accordance with IFRS 16 without restating the comparable figures for the end of 2018. Its implementation has no material impact on the financial report of the Bank.

The 2021 First Quarterly Financial Statements (which include the comparative financial information as at and for the three months ended 31 March 2020) included in this Offering Circular have neither been audited nor reviewed. The 2021 First Quarterly Financial Statements only contain the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of financial position and the consolidated cash flow statement of the Bank and does not contain any financial notes. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review.

None of the relevant Issuer, the Bank, the Group, the Arrangers and the Dealers *or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2020 and 2021, in respect of any financial year for an assessment of the Bank's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2020 and 2021, in respect of any financial year should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2021.*

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's unaudited and unreviewed consolidated financial statements as at and for the three months ended 31 March 2020 and 2021, which are included in the F-pages of this Offering Circular.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2020 and 2021

	For the three months ended 31 March		
	2020		**2021**
	(RMB in millions)	*(RMB in millions)*	*(U.S.$ in millions)*
	(Unaudited and unreviewed)	*(Unaudited and unreviewed)*	*(Unaudited and unreviewed)*
Interest income	54,772	55,977	8,544
Interest expense	(27,626)	(28,101)	(4,289)
Net interest income	27,146	27,876	4,255
Fee and commission income	7,916	8,465	1,292
Fee and commission expense	(580)	(641)	(98)
Net fee and commission income	7,336	7,824	1,194

	For the three months ended 31 March		
	2020		**2021**
	(RMB in millions)	*(RMB in millions)*	*(U.S.$ in millions)*
	(Unaudited and unreviewed)	*(Unaudited and unreviewed)*	*(Unaudited and unreviewed)*
Net trading gains	234	450	69
Dividend income	–	–	–
Net gains arising from investment securities	2,383	2,140	326
Net gains on derecognition of financial assets measured at amortised cost	12	214	33
Net foreign exchange (losses)/gains	(15)	11	2
Other net operating income	228	252	38
Operating income	37,324	38,767	5,917
Operating expenses	(9,694)	(10,252)	(1,565)
Operating profit before impairment	27,630	28,515	4, 352
Credit impairment losses	(14,514)	(13,957)	(2,130)
Other impairment losses	(19)	31	4
Losses on investment of joint ventures	-	(28)	(4)
Profit before tax	13,097	14,561	2,222
Income tax	(2,224)	(3,001)	(458)
Net profit	10,873	11,560	1,764
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits			
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value	(2)	–	–
– Related income tax effect	–	–	–
Subtotal	(2)	–	–
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net Change in fair value	2,520	(628)	(96)
– Changes in allowance for expected credit losses	314	164	25
– Reclassified to the profit or loss upon disposal	(146)	(13)	(2)
– Related income tax effect	(684)	99	15
– Exchange differences on translation of financial statements	56	(1)	0
Subtotal	2,060	(379)	(58)
Other comprehensive income, net of tax	2,058	(379)	(58)
Total comprehensive income	12,931	11,181	1,707

	For the three months ended 31 March		
	2020		2021
	(RMB in millions)	*(RMB in millions)*	*(U.S.$ in millions)*
	(Unaudited and unreviewed)	*(Unaudited and unreviewed)*	*(Unaudited and unreviewed)*
Net profit attributable to:			
Equity shareholders of the Bank	10,831	11,515	1,758
Non-controlling interests	42	45	7
	10,873	11,560	1,764
Total comprehensive income attributable to:			
Equity shareholders of the Bank	12,887	11,136	1,700
Non-controlling interests	44	45	7
	12,931	11,181	1,707
Basic earnings per share (in RMB/Share)	0.19	0.18	–
Diluted earnings per share (in RMB/Share)	0.17	0.17	–

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

Consolidated Statement of Financial Position as at 31 March 2020 and 2021

	As at 31 March	
	2021	
	(RMB in millions)	*(U.S.$ in millions)*[1]
	(unaudited and unreviewed)	
Assets		
Cash and deposits with the central bank	365,519	55,789
Deposits with banks and other financial institutions	31,999	4,884
Precious metals	9,506	1,451
Placements with banks and other financial institutions	67,037	10,232
Derivative financial assets	19,063	2,909
Financial assets held under resale agreements	28,332	4,324
Loans and advances to customers	3,089,231	471,509
Finance lease receivables	106,530	16,260
Financial investments	1,757,059	268,180
Financial assets at fair value through profit or loss	352,121	53,744
Debt instruments at fair value through other comprehensive income	281,313	42,937
Equity instruments at fair value through other comprehensive income	875	134
Financial investments measured at amortised cost	1,122,750	171,365
Investment in joint ventures	327	50
Property, plant and equipment	23,162	3,535
Right-of-use assets	10,974	1,675
Goodwill	1,281	195
Deferred tax assets	19,735	3,012
Other assets	51,936	7,927
Total assets	5,581,691	851,932

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

	As at 31 March	
	2021	
	(RMB in millions)	*(U.S.$ in millions)*[1]
	(unaudited and unreviewed)	
Liabilities and equity		
Liabilities		
Due to the central bank	229,486	35,026
Deposits from banks and other financial institutions	444,286	67,811
Placements from banks and other financial institutions	183,152	27,954
Financial liabilities at fair value through profit or loss	1,273	194
Derivative financial liabilities	18,841	2,876
Financial assets sold under repurchase agreements	38,473	5,872
Deposits from customers	3,585,545	547,261
Accrued staff costs	14,266	2,178
Taxes payable	10,651	1,626
Lease liabilities	10,502	1,603
Debt securities issued	532,364	81,255
Other liabilities	48,373	7,383
Total liabilities	5,117,212	781,039
Equity		
Share capital	54,032	8,247
Other equity instrument	109,062	16,646
– Preference shares	64,906	9,907
– Perpetual bonds	39,993	6,104
Capital reserve	58,434	8,919
Other comprehensive income	1,014	155
Surplus reserve	26,245	4,006
General reserve	67,742	10,339
Retained earnings	146,376	22,341
Total equity attributable to equity shareholders of the Bank	462,905	70,653
Non-controlling interests	1,574	240
Total equity	464,479	70,893
Total liabilities and equity	5,581,691	851,932

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

Investors should carefully consider, together with all other information contained in this Offering Circular, the risks and uncertainties described below. The business, financial condition or results of operations of the Bank may be materially and adversely affected by any of these risks. The Bank believes the risks described below represent the principal risks inherent when considering an investment in the Notes. The risks described below are not the only ones relevant to the relevant Issuer, the Bank or the Notes. Additional risks and uncertainties not presently known to the Bank, or which the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors.

RISKS RELATING TO THE BANK'S LOAN PORTFOLIO

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

The Bank's results of operations may be negatively impacted by its non-performing loans ("**NPL**"). As at 31 December 2018, 2019 and 2020, the Bank's non-performing loan ratio ("**NPL ratio**") was 1.59 per cent.,1.56 per cent. and 1.38 per cent. respectively, and the Bank's total NPL was RMB38,421 million, RMB42,212 million and RMB41,666 million, respectively. The Bank could experience upward pressure resulting from a number of factors including a downturn in the economic cycle or economic volatility and disruptions. Hence, there can be no assurance that the Bank will be able to maintain the Bank's NPL ratio at the current relatively low level in the future or that the quality of the Bank's existing or future loans and advances to customers will not deteriorate. The Bank's NPL ratios as at the above-mentioned dates may not fully reflect the actual changes to the Bank's asset quality due to the Bank's collective disposal of NPL.

The quality of the Bank's loan portfolio may deteriorate due to various reasons, most of which are beyond the Bank's control, such as slower than expected recoveries of the PRC or global economies, deterioration of the global credit environment, other adverse macroeconomic trends in the PRC or globally and the occurrence of natural disasters or other catastrophes, all of which could adversely impact the Bank's borrowers' businesses, financial conditions or liquidity and in turn impair their repayment abilities. The actual or perceived deterioration in creditworthiness of the Bank's borrowers, decline in real property prices, increases in unemployment rate and decreases in profitability of the Bank's borrowers may also have an adverse impact on the Bank's asset quality and may lead to significant increases in the provision made for the Bank's impaired loans, as well as impairment loss on loan. As at 31 December 2020, the impairment loss on loan and advances to customers increased from RMB47,786 million to RMB53,353 million. If any of the Bank's NPL or the provision made for the Bank's impaired loans or the impairment loss on loan significantly increases in the future, the Bank's results of operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its abilities to effectively manage its credit risk and to maintain or improve the quality of its loan portfolio. There can be no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from any deficiencies or are adequate to manage all credit risks faced by the Bank. Failure of the Bank's credit risk management policies, procedures, or systems may lead to an increase in the Bank's NPL and adversely affect the quality of the Bank's loan portfolio.

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

As at 31 December 2018, 2019 and 2020, the coverage ratio of the Bank's provisions for NPL to total NPL was 176.16 per cent., 181.62 per cent. and 182.71 per cent., respectively, which is consistently above the standard provision coverage ratio of 150 per cent. as prescribed under the Administrative Measures for the Loan Loss Reserves of Commercial Banks (商業銀行貸款損失準備管理辦法) issued by China Banking Regulatory

Commission (the "**CBRC**", which later merged with the China Insurance Regulatory Commission into China Banking and Insurance Regulatory Commission (the "**CBIRC**"), which shall be responsible for the duties previously performed by the CBRC) (the "**Rules**"). As at 31 December 2020, the provision coverage ratio reached 182.71 per cent., up by 1.09 percentage points as compared to 31 December 2019. The Rules provide that the standard provision coverage ratio may be adjusted by CBIRC in response to the prevailing macroeconomic environment or individually adjusted and applied to a relevant bank depending on such bank's operating conditions. In accordance with the Rules, a warning would be issued by CBIRC to a relevant bank if such provision coverage ratio was below the applicable level for three consecutive months, requesting for such bank's rectification; if such event subsists for at least six consecutive months, CBIRC may impose on the relevant bank administrative and regulatory measures as provided under the Banking Industry Supervision and Administration Law of the PRC (中華人民共和國銀行業監督管理法). CBIRC may adjust the coverage ratio for NPL from time to time. There can be no assurance that the Bank's provision coverage ratio will not fall below the ratio prescribed by CBIRC.

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

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

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

The Bank's loans and advances to customers have grown significantly in the past few years, increasing from RMB2,361,278 million as at 31 December 2018 to RMB2,942,435 million as at 31 December 2020. The growth of the Bank's loan portfolio may be affected by various factors, such as the PRC's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow, or the balance of the Bank's loan portfolio may even decline. In addition, in response to constraints on the Bank's regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby materially and adversely affect the Bank's business, financial condition and results of operations.

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

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

For example, on 26 February 2013, the PRC State Council (the "**State Council**") promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market （國務院辦公廳關於繼續做好房地產市場調控工作的通知）, which requires banking institutions to implement differentiated housing credit policies, further implement the policy of down payment ratio and mortgage rate for first-time house buyers and tighten the credit policies for buyers of second or additional homes, and the said regulation also imposes a personal income tax on the profit generated from sale of residential property. Such measures may slow down the development of the residential real estate market in the PRC, hinder an increase in residential mortgages and reduce the average amount of residential mortgages, and thus have a material adverse impact on the Bank's retail banking business. However, such policies are subject to further change and implementation by banks in the PRC. On 1 February 2016, the People's Bank of China ("**PBOC**") and CBRC issued a notice regarding purchase of second residential property and first ordinary owner-occupied residential property. Such notice requires that for a household owning one residential property with outstanding housing loans on that property and applying for housing loans for the purchase of a second ordinary owner-occupied residential property for the purpose of improving housing conditions, the minimum down payment ratio of the loan shall be not less than 30 per cent. The notice also requires that in the cities where no residential property purchase restriction policies are implemented, for households purchasing their first ordinary owner-occupied residential property, the minimum down payment ratio of the loan shall be not less than 25 per cent. in principal, but may be decreased by 5 per cent. at the discretion of the local authorities. On December 28, 2020, the PBOC and the CBIRC promulgated the Notice on Establishing the Regulatory Mechanism on the Concentration Ratio of Real Estate Loans for Banking Financial Institutions (關於建立銀行業金融機構房地產貸款集中度管理制度的通知), which requires that the percentage of 1) the balance of real estate loans of a banking financial institution to its balance of RMB loans; and 2) the balance of personal residential loans of such banking financial institution to its balance of RMB loans shall not exceed the caps prescribed by the PBOC and CBIRC. Banking financial institutions shall adjust their business within the transitional period of two years (for those not exceeding 2 per cent. of the prescribed caps) or four years (for those exceeding 2 per cent. of the prescribed caps).

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

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

As at 31 December 2018, 2019 and 2020, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which, in aggregate, represented 38.19 per cent., 37.85 per cent. and 38.21 per cent. of the balance of the Bank's total loans and advances, respectively. If any of the industries which dominates a relatively large portion of the Bank's loans experiences a slowdown in the future, the Bank's NPL may increase and the extension of the Bank's new loans may be negatively affected. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As mentioned above, the Bank is exposed to risks relating to the real estate market through its personal residential housing mortgage loans and other loans secured by real estate collateral. As at 31 December 2020, the Bank's personal residential housing mortgage loans represented 38.37 per cent. of the Bank's total personal loans and advances. In recent years, the PRC government has been imposing and may continue to impose various macroeconomic measures with an aim of cooling the overheated real estate market in the PRC, such as setting minimum down payment requirements and minimum mortgage rates on residential housing purchases, imposing value-added taxes on the transfer of certain residential properties and levying mandatory personal income tax for second home sales. Such measures may adversely affect the growth and quality of the Bank's personal residential housing mortgage loans and loans to the real estate industry. In addition, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and the Bank's ability to generate new loans and recover on its loans in the event of default, which in turn could have a material adverse effect on the Bank's business, financial condition and results of operations.

As at 31 December 2020, loans provided by the Bank to its top ten customers totalled RMB46,811 million, which represented 1.56 per cent. of the Bank's total loans and advances and 8.77 per cent. of the Bank's net capital. However, if the quality of any of the loans to the above or other single-borrowers or group-borrowers with large borrowing amounts deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Moreover, the Bank also provides loans to small-and medium-sized enterprises ("**SMEs**"). The Bank's loans to SMEs are generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. SMEs may also be more likely to suffer from inadequate or ineffective internal control or risk management systems and may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In addition, PBOC has implemented a variety of measures to reduce the cost of borrowing for companies that have been hit hard by the outbreak of Coronavirus Disease 2019 ("**COVID-19**"), including lowering the loan interest rates. In February 2020, PBOC reduced the one-year loan prime rate from 4.15 per cent. to 4.05 per cent., and the five-year rate from 4.80 per cent. to 4.75 per cent. which was the first reduction since November 2019. One-year and five-year loan prime rates were further reduced to 3.85 per cent. and 4.65 per cent. respectively in June 2020 and remain at that level as at April 2021. There can be no assurance that the risk management measures adopted by the Bank for the loans to SMEs will effectively reduce or eliminate the risks relating to such customers. If the quality of the Bank's loans to SMEs deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank provides a majority of its corporate loans to customers in certain regions or industries. If these regions or industries encounter operational or cash flow problems due to the economic cycle or economic transformations, the Bank's NPL associated with such regions or industries could experience upward pressure. As at 31 December 2020, approximately 65.41 per cent. of the Bank's total loans and advances to customers were generated from the Bank's branches located in the Yangtze River Delta, Central China, Pearl River Delta and Bohai Rim regions in aggregate. If the economies in those regions experience a slowdown or deteriorate or face local, regional or systemic risks, or if the Bank's credit risk assessments of the borrowers who are located at or conduct substantial business activities in those areas are inaccurate, the Bank's NPL may increase. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

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

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

In recent years, with the aim of reinforcing the risk management of loans to LGFVs, the State Council, CBIRC and PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to LGFVs. In September 2014, the State Council released the Opinion on Enhancing the Administration of Fiscal Debts of Local Governments (關於加強地方政府性債務管理的意見) ("**Circular 43**"), pursuant to which LGFVs shall no longer serve the fiscal financing functions nor incur new government debts. In addition, Circular 43 sets forth the general principles of dealing with existing debts of LGFVs. Based on the audit results of such debts run by the local governments, LGFVs' existing debts that should be repaid by the local governments shall be identified, reported to the State Council for approval, and then included in the budget plan of local governments. If the local government or the State Council does not approve all or any portion of such debts to be repaid with local government public funds, the LGFVs' financial condition and debt-repayment ability may be materially adversely affected. In addition, media publications have continued to express concerns about LGFV debt levels. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to LGFVs and enhancing the mortgages and guarantees on such loans, any unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments, or other factors may adversely affect the debt repayment abilities of these LGFVs and other government-related entities, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations. For the Bank's risk management measures relating to the Bank's loans to LGFVs, see "*Risk Management − Credit Risk Management − Management of Credit Risk Associated with Corporate Credit Business*".

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

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

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

A significant portion of the Bank's loan portfolio is secured by collateral or guarantees. As at 31 December 2020, 33.83 per cent., 11.28 per cent. and 23.62 per cent. of the Bank's total loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing the Bank's loans primarily comprised of real estate properties and other assets located in the PRC. The value of the collateral securing the Bank's loans is usually higher than the amount of the corresponding loans but such value may significantly decline due to factors beyond the Bank's control, such as a slowdown in the PRC economic growth or a downturn of the PRC's real estate market. A slump in the PRC's real estate market may result in a decline in the value of the real estate properties securing the Bank's loans to a level below the outstanding balances of the principal and interest of such loans. Any such decline may reduce the amount the Bank may be able to recover from such collateral and, as a result, increase the Bank's impairment losses.

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

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

In the PRC, the procedures for liquidating or otherwise realising the value of collateral may be protracted and it may be difficult in practice to enforce claims on such collateral. For example, pursuant to the Directive on Foreclosure of Mortgages on Residential Properties issued by the Supreme Court of the PRC (最高人民法院關於人民法院執行設定抵押的房屋的規定), effective from 21 December 2005 and further amended in December 2008, a PRC court may not enforce the eviction of an enforcee and his or her dependents from the mortgaged principal residence within six months after it has rendered its judgment on the auction, sale or liquidation of such property for repayment purpose. Such directive has been abolished on 1 January 2021 while there is no replacing rules specifying whether such grace period is still applicable or not, As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing its NPL.

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

RISKS RELATING TO THE BANK'S BUSINESS

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

The Bank's business is inherently subject to global capital market fluctuations and general economic conditions. Global market factors, including economic growth rates, inflation, deflation, interest rates, credit spreads, equity prices, real estate markets, energy prices, foreign currency exchange rates, consumer spending, business investment, government spending and the volatility and strength of the capital markets all affect the business and economic environment and, ultimately, the amount and profitability of the Bank's business. In particular, uncertain economic conditions, volatility and disruptions in global capital markets, such as those that occurred in late 2008 and 2009 during the global financial crisis and in 2020 and 2021 due to outbreak and spread of COVID-19, can have a material adverse effect on the Bank.

The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product ("**GDP**") in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally. In 2018, the PRC Government reported a GDP of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a GDP of RMB98.6515 trillion, representing year-on-year growth of 6.0 per cent. In 2020, the PRC Government reported a GDP of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. Although the PRC Government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. Furthermore, the sustained tension between the United States and China over trade policies could undermine the stability of the global economy. The United States and China have been involved in disputes over trade barriers that have escalated into a trade war between the two countries. Both countries have implemented tariffs on certain imported products from the other, casting uncertainty over tariffs and barrier to entry for products on both sides. The two governments have entered into an initial phase one agreement to resolve the disputes on 15 January 2020. However, there are uncertainties as to when and whether the phase two negotiations will begin and whether the two governments will fulfil their respective obligations under the phase one agreement. There are also uncertainties between the United States and China given the newly elected administration of President Joseph R. Biden, whose policy and strategy remain to be seen.

In addition, on 31 January 2020, the United Kingdom officially exited the European Union ("EU") following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which was rectified in April 2021 by the European Parliament and the Council of the EU. Given the lack of precedent, it is unclear how Brexit and the implementation of the EU-UK Trade and Cooperation Agreement would affect the fiscal, monetary and regulatory landscape within the UK, the EU and globally. Moreover, there are ongoing concerns about European sovereign debt levels, negative interest rate and the consequences for economic growth and investor confidence in the Eurozone, political gridlock in the United States over government spending, debt levels and civil rights issues and the consequences for economic growth and investor confidence in the United States, and the uncertainty around the Federal Reserve's future monetary policies. All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies, which may have a material adverse impact to the Bank's business, prospects, financial conditions and results of operations.

On 12 March 2020, the World Health Organisation declared COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in many countries, including China, India, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic has significantly disrupted the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. In early 2021, vaccination programmes have been rolled out in various countries, including the United States, China, the EU and UK. However, the effect of the vaccination programmes on the COVID-19 pandemic remains uncertain, and many countries, including India, are experiencing another wave of the COVID-19 pandemic. As the COVID-19 pandemic, and in some cases new variants of COVID-19 that could be more contagious, continues to adversely affect business activities globally, governments and central banks across the world have introduced or are planning fiscal and monetary stimulus measures including direct subsidies, tax cuts, interest rates cuts, quantitative easing programmes and suspension or relaxation of prudential bank capital requirements. These measures aim to contain the economic impact of the COVID-19 pandemic, stabilise the capital markets and provide liquidity easing to the markets. In addition, the PRC regulators have promulgated a series of measures to encourage PRC financial institutions to increase financial support to business and consumers to combat the challenges arising from the COVID-19 pandemic. Coupled with the impact of global COVID-19 pandemic, China was faced with decline in domestic consumption, investment, imports and exports in 2020, as well as employment pressure. China has since made great progress in pandemic management and control and domestic work and production have generally resumed. China's economic growth remains resilient, and the fundamentals of China's long-term economic growth have not changed.

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

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of NPL, allowances for impairment losses and write-offs;
- the increased regulation and supervision by the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs;
- the value of the Bank's investments in the equity and debt securities issued by overseas governments and financial institutions may significantly decline;
- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and
- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

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

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

As with most PRC commercial banks, the Bank's results of operations depend to a large extent on the Bank's net interest income. For the years ended 31 December 2018, 2019 and 2020, the Bank's net interest income represented 70.81 per cent., 76.67 per cent. and 77.57 per cent., respectively, of the Bank's operating income. Increasing competition in the banking industry and further liberalisation of the PRC interest rate regime may affect the volatility of interest rates. Changes in the PBOC benchmark interest rates or volatility in market interest rates may adversely affect the Bank's net interest income, which may adversely affect the Bank's business, financial condition and results of operations.

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

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

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

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

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

On 7 June 2012, CBRC promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (the "**Capital Management Rules**", which superseded the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) and became effective on 1 January 2013. According to the Capital Management Rules, the minimum capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. A commercial bank is also subject to the capital conservation buffer over and above the minimum capital requirement at 2.5 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital, and under certain circumstances, a countercyclical buffer of between 0 and 2.5 per cent. of total risk weighted assets comprised of core tier-1 capital, and if a commercial bank is designated as a domestic systematically important commercial bank by the CBIRC, such bank is subject to requirement of additional 1 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital. The overall capital adequacy ratio requirements (not counting countercyclical buffer or any other prudential requirements as may be imposed by CBIRC from time to time) are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. The Bank issued RMB40 billion undated tier-1 capital bonds in September 2020. As at 31 December 2020, the Bank's common equity tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio were 9.02 per cent., 11.75 per cent. and 13.90 per cent., respectively. Although these capital adequacy ratios were in compliance with the relevant PRC laws and regulations, certain developments could affect the Bank's ability to satisfy the capital adequacy requirements in the future, including but not limited to:

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

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

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

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

Furthermore, CBIRC may increase the minimum capital adequacy ratios requirements or change the methodology for calculating net capital or capital adequacy ratios or the Bank may otherwise be subject to new capital adequacy requirements. For example, PBOC and CBIRC released the Assessment Measures for Systematically Important Banks (系統重要性銀行評估辦法) (the "**D-SIB Assessment Measures**") on 3 December 2020. According to the D-SIB Assessment Measures, domestic banks with asset balance ranked as top 30 will be assessed to determine whether they are to be designated as domestic systemically important banks ("**D-SIB**"). As at the date of this Offering Circular, no official list of D-SIBs has been published. Banks that are designated as D-SIBs will be subject to more specific and tighter regulations, in particular higher capital requirement, which aim to strengthen banks' risk prevention and absorption capacity, such as those proposed under the Ancillary Regulatory Provision for Systematically Important Banks (Trial) (Exposure Draft) (系統重要性銀行附加監管規定（試行）（征求意見稿）) which was released on 2 April 2021 for public comments.

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

The Bank is subject to currency risk.

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

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

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

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

Deposits from customers are the Bank's primary source of funding. From 31 December 2018 to 31 December 2020, the Bank's total deposits from customers (including accrued interest) grew from RMB2,571,961 million to RMB3,480,667 million. However, there are many factors that may affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of other investment channels and retail customers' changing perceptions toward savings.

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

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

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

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

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

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

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

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

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

In recent years, the Bank has taken actions to expand its operations outside Mainland China. As at 31 December 2020, it had five overseas institutions outside Mainland China, with branches in Hong Kong, Seoul, Luxembourg and Sydney and a representative office in Tokyo. The application for establishing the Bank's Macau Branch was approved by CBIRC in November 2020.

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

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

In recent years, with the slowdown in the growth of deposits in the PRC banking industry as a whole, competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including the Bank, have been expanding their offering of wealth management products and services to customers. In September 2019, CBIRC approved the establishment of Everbright Wealth Management Co., Ltd. as China's first wealth management subsidiary under a joint-stock commercial bank, driving the Bank's initiative of "building a first-class wealth management bank". The Bank's wealth management service fees amounted to RMB876 million, RMB634 million and RMB2,518 million, respectively, for the years ended 31 December 2018, 2019 and 2020.

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

In addition, the tenors of wealth management products issued by the Bank are often shorter than those of the underlying assets. This mismatch subjects the Bank to liquidity risk and requires the Bank to issue new wealth management products, sell the underlying assets or otherwise address the funding gap when existing wealth management products mature. PRC regulatory authorities have introduced regulatory policies to restrict the scale of PRC commercial banks' investments in non-standard debt-based assets with funds raised from wealth management products. In addition, the newly approved wealth management subsidiary is also under constant regulation under PRC regulatory authorities, such as Administration Measures of Wealth Management Subsidiary of Commercial Banks (商業銀行理財子公司管理辦法) and Administrative Measures on Net Capital of Wealth Management Subsidiary of Commercial Banks (Trial) (商業銀行理財子公司淨資本管理辦法（試行）). Furthermore, PRC regulatory authorities issued Opinions on Financial Support for the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area in April 2020, contemplating a cross-border Wealth Management Connect scheme, enabling individual investors on either side to directly invest in each other's stocks, bonds or wealth management products. If PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, it could materially and adversely affect the Bank's business, financial condition and results of operations.

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

In the Bank's ordinary course of business, the Bank provides its customers with credit commitments and guarantees, including commitments and guarantees not reflected on the Bank's balance sheet under the relevant accounting principles, such as bank acceptance bills, letters of guarantee, letters of credit and other credit commitments to guarantee the performance of the Bank's customers. The Bank may be exposed to credit risk relating to its credit commitments and guarantees because these may need to be fulfilled by the Bank in certain circumstances. If the Bank is unable to receive repayment from its customers in respect of the commitments and guarantees that the Bank is called upon to fulfil, the Bank's financial condition and results of prospects could be materially and adversely affected.

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

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

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

Apart from the Bank's businesses of taking deposits, providing loans and credit and providing fee-and commission-based products and services, the Bank also engages in a range of investment activities. As at 31 December 2020, financial investments measured at amortised costs were the largest component of the Bank's total investment in securities and other financial assets. The Bank's returns on investment and its profitability may be materially and adversely affected by the foreign exchange rate, credit and liquidity conditions, the performance and volatility of capital markets, asset values and macroeconomic and geopolitical conditions. Any adverse changes in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment portfolio and could have a material and adverse effect on the Bank's business, financial condition and results of operations.

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

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

In recent years, the Bank has made substantial investments in debt securities classified as receivables, which include investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions. Due to the adoption of IFRS 9, debt securities classified as receivables has been reclassified, which has resulted in adjustments to the other line items recognised under total investment in securities and other financial assets. As at 31 December 2020, the Bank's investments in securities and other financial assets (which includes financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income, financial investments measured at amortised cost and derivative financial assets) amounted to RMB1,695,679 million.

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

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

The Bank has previously recorded net cash outflows and there can be no assurance that the Bank will not record net cash outflow positions in the future.

The Bank recorded net cash inflows of RMB39,757 million and RMB30,355 million for the years ended 31 December 2018 and 2020. For the year ended 31 December 2019, the Bank recorded net cash outflows of RMB70,181 million, which were primarily due to net cash outflows from investing activities of RMB74,423 million and net cash outflows from financing activities of RMB61,453 million, and were partially offset by net cash inflows from operating activities of RMB65,100 million. The Bank's net cash outflows from investing activities were primarily due to acquisition of investment, and net cash outflows from financing activities were primarily due to payment of debt principal. There can be no assurance that the Bank will not record net cash outflow positions in the future due to other reasons, including the risk factors disclosed herein. If the Bank has net cash outflow positions in the future, the Bank's working capital may be constrained and the Bank may be forced to seek additional external funding at a cost higher than the Bank's existing financial arrangements. Any such development could materially and adversely affect the Bank's liquidity condition and results of operations.

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

The Bank is subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities.

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

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

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

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

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

In July 2020, Central Huijin Investment Ltd. ("**Huijin**") completed the transfer of 19.53 per cent. of the Bank's total issued ordinary shares to China Everbright Group Ltd.

In addition, on 14 October 2020, China Everbright Group Ltd. increased its holding of 1,542,553,191 A shares of the Bank through the conversion of convertible bonds. Before the conversion, China Everbright Group Ltd. directly and indirectly held 25,472,743,396 ordinary shares of the Bank, accounting for 48.53 per cent. of the total equity. After the conversion, China Everbright Group Ltd. directly and indirectly held 27,015,296,587 ordinary shares of the Bank, accounting for 49.999 per cent. of the total equity.

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

- the Bank's business strategies and policies;
- the timing for the distribution of dividends and the amount of dividends;
- the issuance of new securities;
- the nomination and election of the Bank's directors and supervisors;
- the composition of the Bank's management, especially the senior management;
- any plans relating to mergers, acquisitions, joint ventures, investments, changes of business scope or sale of investment;
- amendments to the Bank's articles of association; and
- increase or reduction of the Bank's registered capital.

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

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

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

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

The Bank's risk management capabilities and ability to effectively monitor credit risk and other risks are restricted by the information, tools, models and technologies available to the Bank. Moreover, the Bank's employees will require time to adjust to these policies and procedures and there can be no assurance that the Bank's employees will be able to consistently comply with or accurately apply them. If the Bank's risk management and internal control policies, procedures and systems fail to be implemented effectively, or if the intended results of such policies, procedures or systems are not achieved in a timely manner (including the Bank's ability to maintain an effective internal control system to monitor the Bank's financial obligations as they become due), the Bank's asset quality, business, financial condition, results of operations and reputation may be materially and adversely affected.

The Bank is subject to operational risks.

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

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

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

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

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

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

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

The Bank relies on independent contract workers.

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

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

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

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

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

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

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

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

In addition, the Bank's staff may commit errors or take improper actions, resulting in the risk that the Bank could be liable for economic compensation, or be subject to regulatory actions, litigation or other legal proceedings. As at 31 December 2020, the Bank had 39 tier-one branches, 115 tier-two branches, 1,142 outlets, and 495 community banks in the PRC and 46,316 employees. As at 31 December 2020, the Bank had five overseas institutions outside Mainland China, with branches in Hong Kong, Seoul, Luxembourg and Sydney and a representative office in Tokyo. There can be no assurance that all of the Bank's staff will comply with the Bank's risk management and internal control policies and procedures. There can be no assurance that the Bank can adequately detect and prevent the Bank's staff and any other third-party from engaging in fraudulent acts or any other misconduct. Any fraudulent acts or other misconduct, whether involving an act in the past that has not been detected or an act in the future, may have a material adverse effect on the Bank's reputation, results of operations and business prospects.

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

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

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

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

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

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

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

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

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

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

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

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

The Bank may not manage risks associated with the replacement of benchmark indices effectively.

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets. In response, regulators and central banks in various jurisdictions have convened national working groups ("**NWGs**") to identify alternative replacement 'risk-free' rates ("**RFRs**") for these interbank offered rates ("**IBORs**") and, where appropriate, to make recommendations that would facilitate an orderly transition to these RFRs.

Following an announcement on 27 July 2017 where the United Kingdom Financial Conduct Authority (the "**FCA**") announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021, the NWGs for the impacted currencies were tasked with providing guidance and support to financial and non-financial firms to help them facilitate an orderly transition of the relevant LIBORs to their chosen RFRs.

The expected discontinuation of certain key IBORs such as LIBOR, the adoption of RFRs by the market, and the development of RFR products by the Bank, introduce a number of risks for the Bank, its clients, and the financial services industry more widely. These include, but are not limited to:

- regulatory compliance, legal and conduct risk, arising from both the continued sale of products referencing IBORs, sales of products referencing RFRs and the transition of legacy contracts to alternative rates. There is a risk that the Bank is unable to meet regulatory milestones associated with the discontinuance of sale of certain IBOR products, which may result in regulatory investigations or reviews being conducted into the Bank's preparation and readiness for the replacement of IBORs with alternative reference rates. Additionally, if the Bank's sales processes are not appropriately adapted to account for the additional complexity of new products, or new RFR market conventions, additional conduct risks and regulatory actions may result and there may be a heightened risk of disputes;
- legal risks associated with the enforceability of fall-back provisions in IBOR contracts. There is a risk that some contracts will not be transitioned before the relevant IBOR is discontinued and the parties will need to rely on the "fall-back" provisions of those contracts. As these fall-back provisions do not always contemplate the permanent cessation of the relevant IBOR, there is a risk that the provisions may not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. This may lead to complaints, litigation and/or regulatory action. While legislative solutions have been proposed in the UK, U.S. and EU, market participants will need to consider the impact of any proposals ultimately adopted; and

- financial risks resulting from the discontinuation of IBORs and the development of RFR market liquidity will affect the Bank throughout transition. The differences in IBOR and RFR interest rate levels will create a basis risk that the Bank will need to actively manage through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively.

If any of these risks materialise, it could have a material adverse effect on the Bank's business, financial condition, results of operations, prospects and customers.The Bank may enter into transactions subject ***to the European Market Infrastructure Regulation.***

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

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

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

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has exchange rate contracts, interest rate contracts and commodity derivatives contracts with a number of domestic and international banks, financial institutions and other entities. As a result, the Bank is subject to credit risk from its various counterparties. As at 31 December 2020, the notional amount of the Bank's outstanding derivative financial instruments amounted to RMB2,210,297 million, and the fair value of the Bank's outstanding derivative assets and liabilities amounted to RMB25,264 million and RMB25,778 million, respectively. Although the Bank cautiously evaluates the credit risks from its counterparties in its derivative transactions and believe that the overall credit quality of the Bank's counterparties is adequate, there can be no assurance that parties with significant risk exposure will not have difficulty in fulfilling derivative contracts that may cause losses for the Bank.

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

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

RISKS RELATING TO THE PRC BANKING INDUSTRY

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

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

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

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

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

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

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

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

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

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

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

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

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

RISKS RELATING TO THE PRC

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

A substantial part of the Bank's revenue is derived from the PRC. The Bank relies, to a significant degree, on its domestic operations to achieve revenue growth. Domestic demand for banking services is materially affected by growth of private consumption and overall economic growth in the PRC. The global crisis in financial services and credit markets in 2008 caused a slowdown in the economic growth in many countries, including the PRC. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally, the trade war between the United States and PRC and COVID-19 spreading globally. In 2018, the PRC government reported a GDP of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a GDP of RMB98.6515 trillion, representing year-on-year growth of 6.0 per cent. In 2020, the PRC Government reported a GDP of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. Although the PRC government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. There are uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact on the Bank's business, prospects, financial conditions and results of operations. See also "*Risk Factors - Risks Relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations*".

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

The availability of credit to entities operating within emerging markets, including the Bank, is significantly influenced by levels of investor confidence in such markets as a whole. Any factors that may affect market confidence could affect the costs or availability of funding for entities within emerging markets. Historically, challenging market conditions in emerging markets have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. On 31 January 2020, the United Kingdom officially exited the EU following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which was rectified in April 2021 by the European Parliament and the Council of the EU and legal revision before it formally comes into effect. Given the lack of precedent, it is unclear how Brexit and the implementation of the EU-UK Trade and Cooperation Agreement would result in volatility in the global financial market, and the mid- to long-term economic uncertainty to the economy in the United Kingdom, the EU and globally. In the United States, the current administration policies have created uncertainty for the global economy and financial markets. Due to the outbreak of COVID-19 in early 2020, the global economy was thrown into a recession with increased unemployment rates across developed and emerging market economies and increased volatility in global financial markets and commodity prices. To control the spread of COVID-19 pandemic, governments around the globe implemented significant monetary and fiscal easing policies. Such government support has helped global markets and major asset classes to rebound, but uncertainty remains. In addition, COVID-19 has caused significant disruptions to global supply chains and has resulted in global shortages in key raw materials and components for many of the Bank's customers across different industries, which has adversely affected their business. As the Bank holds significant amount of assets in the form of investments in securities and other financial assets, significant fluctuations in these financial markets and economic activity could cause substantial adverse effects on the Bank's business operations and investments as a whole.

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

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

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

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

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

The PRC government has the power to implement macroeconomic controls affecting the PRC's economy. The government has implemented various measures in an effort to control the growth rate of certain industries and restrain inflation. As measured by GDP, the PRC has been one of the world's fastest growing economies in recent years. The PRC's real GDP growth was 6.6 per cent., 6.0 per cent. and 2.3 per cent. in 2018, 2019 and 2020, respectively. However, the PRC may not be able to sustain such a growth rate. During the recent global financial crisis and economic slowdown, the growth of the PRC's GDP slowed. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's business, financial condition and results of operations may be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The PRC Labour Contract Law (中華人民共和國勞動合同法) became effective on 1 January 2008, and it was amended on 28 December 2012, which has taken effect on 1 July 2013. The current PRC Labour Contract Law has imposed greater liabilities on employers and significantly increased the cost of an employer's decision to reduce its workforce. Further it requires certain terminations to be based upon seniority instead of merit. In the event that the Group decides to significantly change or decrease the Group's workforce within the PRC, the PRC Labour Contract Law could adversely affect the Group's financial condition and results of operations. In addition, the PRC government has continued to introduce various new labour-related regulations after the promulgation of the PRC Labour Contract Law. Among other things, the Paid Annual Leave Provisions (職工帶薪年休假條例),

which became effective on 1 January 2008, require that paid annual leaves ranging from five to fifteen days be available to nearly all employees and further require that employers compensate an employee for any annual leave days the employee is unable to take in the amount of three times of such employee's daily salary, subject to certain exceptions.

On 28 October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law (中華人民共和國社會保險法) which has taken effect on 1 July 2011 and was amended on 29 December 2018. According to the PRC Social Insurance Law, employees will participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay for the social insurance premiums for such employees.

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

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

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

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

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

The exchange rate of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's, as well as international, political and economic conditions and the PRC government's fiscal and currency policies. Starting from 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, was based on rates set daily by PBOC based on the previous business day's inter-bank foreign exchange market rates and the current exchange rates on the world financial markets. For more than 10 years, the official exchange rate for conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2 per cent. against U.S. dollar. In July 2008, the PRC government announced that its exchange rate regime would change to a managed floating mechanism based on market supply and demand. Given domestic and overseas economic developments, PBOC decided to further adjust the Renminbi exchange rate regime in April 2012 to enhance the flexibility of the RMB exchange rate. On 17 March 2014, PBOC continued to expand the floating range of Renminbi against U.S. dollar. PBOC surprised markets in August 2015 by devaluing Renminbi several times, lowering its daily mid-point trading price significantly against U.S. dollar. The currency devaluation of Renminbi was intended to bring it more in line with the market by taking market signals into account, but also boosts the competitiveness of PRC's exports. The PRC government may make further adjustments to the exchange rate system in the future. There can be no assurance that Renminbi will not experience significant appreciation or depreciation against U.S. dollar in the future. Any significant increase or decrease in the value of Renminbi against U.S. dollar could affect the value of the Group's financial instrument and financing cost and may materially and adversely affect the financial condition and results of operation of the Group.

There is foreign exchange control in the PRC.

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

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

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

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

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

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

RISKS RELATING TO FINANCIAL INFORMATION

The unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2020 and 2021 included in this Offering Circular has not been audited or reviewed by a certified public accountant.

The unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2020 and 2021 in respect of any financial year included in this Offering Circular has not been audited or reviewed by a certified public accountant, and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit and/or a review. None of the Issuer, the Bank, the Group, the Arrangers, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited and unreviewed consolidated quarterly financial information for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Bank's financial condition and results of operations. In addition, the unaudited and unreviewed consolidated financial information of the Bank as at and for the three months ended 31 March in respect of any financial year should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year ending 31 December of the same financial year.

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

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

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

The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II (1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank has also adopted new standards, namely IFRS 16 – Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases (except short-term leases and low-value assets leases elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. According to the transitional regulations, enterprises are not subject to restating comparable figures for previous periods. Therefore, the Bank has disclosed its accounting statements in accordance with IFRS 16 without restating the comparable figures for the end of 2018. Its implementation has no material impact on the financial report of the Bank. Investors must therefore exercise caution when making such comparisons and when evaluating the Bank's financial condition, results of operations and results.

RISKS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME

If the Bank fails to complete the post-issuance report to the NDRC in connection with the Notes, NDRC may impose penalties or other administrative procedures on the Bank.

On 14 September 2015, the NDRC issued the NDRC Circular, which came into effect on the same date. According to the NDRC Circular, domestic enterprises and/or their overseas controlled entities shall procure the registration of any issue of debt securities outside the PRC with the NDRC prior to such issue, and notify the particulars of such issue within the prescribed timeframe after such issue. The NDRC Circular also indicates that several provinces and large banks with strong comprehensive economic strength and sound risk prevention and control mechanisms will be selected by the NDRC to expand the pilot reform of managing the amount of foreign debt by segment（外債規模切塊管理）, under which the NDRC will, based on the actual need of each of such pilot regions and enterprises, verify and determine its yearly maximum quota of foreign debt at one time.

On 18 December 2015, the NDRC published the Guideline on the Issuance of Foreign Debt by Corporates（企業境外發行債券指引）(the "NDRC Guideline"), which further clarifies certain issues in the NDRC Circular. According to the NDRC Guideline, the entities subject to the filing requirements in the NDRC Circular include onshore enterprises (including financial entities) and their controlled offshore enterprises or branches; and the "foreign debts" under the NDRC Circular include but are not limited to ordinary notes, senior notes, financial notes, perpetual notes, convertible notes, preferred shares and other offshore debt financing tools. In addition, the NDRC Guideline further requires the onshore entities which failed to submit to the NDRC the relevant information in relation to the issuance of the offshore notes should complete the submission as soon as practicable. Furthermore, according to the NDRC Guideline, entities or intermediaries which fail to complete the registration or filing as required, maliciously report the amount of foreign debt or have provided false information in their registration or filing with the NDRC will be listed in a "black list" and a credit information exchange platform to record the credit information for those entities or intermediaries, and will impose punishment with other government authorities on such entities.

While the NDRC Circular does not expressly state the legal consequences of non-compliance with such post-issue report requirements, the NDRC Guideline has indicated that issuers, underwriters, counsels and other parties involved in the transaction may be blacklisted and punished for non-compliance with the NDRC Circular requirements. After the issuance of such relevant Series of Notes, the relevant Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes in the Terms and Conditions of the Notes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Quota.

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

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which may include the Bank's Hong Kong branch. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, 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 issued by Hong Kong branch or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of such Notes, all of which may adversely affect the value of such Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes issued by Hong Kong branch may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

Potential investors should not place undue reliance on the unaudited but reviewed or unaudited and unreviewed financial information included elsewhere in this Offering Circular and the financial information incorporated by reference that is not audited.

The section headed "*Summary Financial Information of the Bank*" incorporates the most recently published unaudited but reviewed consolidated semi-annual financial information and the unaudited and unreviewed consolidated quarterly interim financial information of the Bank. This Offering Circular also incorporates the most recently published unaudited but reviewed and unaudited and unreviewed interim consolidated financial information of the Bank published from time to time after the date of this Offering Circular in each case together with any review reports prepared in connection therewith, as well as the most recently published unaudited and unreviewed consolidated quarterly interim reports, published subsequent to the most recently published audited consolidated financial information of the Bank. The Bank publishes its consolidated semi-annual interim reports in respect of the six months ended 30 June of each financial year on the official website of the Shanghai Stock Exchange, and its consolidated quarterly interim reports in respect of periods ended 31 March and 30 September of each financial year on the official website of the Shanghai Stock Exchange.

The semi-annual interim reports have not been and will not be audited by the Bank's auditors and were and will be prepared under IAS 34. The semi-annual interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. The quarterly interim reports have not been and will not be audited or reviewed by the Bank's auditors and were and will be prepared under PRC GAAP. The quarterly interim reports should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an auditor or review. Potential investors should exercise caution when using such data to evaluate the Bank's financial condition and results of operations. The semi-annual interim reports or, as the case may be, the quarterly interim reports should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year.

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:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

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

The Terms and Conditions of the Notes 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.

Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.

The Terms and Conditions of the Notes and the Programme documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and the Hong Kong SAR, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area.

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

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes or Global Certificates will be deposited with a common depositary for Euroclear and Clearstream, or lodged with a sub-custodian for the CMU (each of Euroclear, Clearstream, and the CMU, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note or Global 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 Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, or, as the case may be, to the relevant paying agent, in the case of the CMU, for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates. Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

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

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note or a Global Certificate and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued if (a) the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business; or (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

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

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementation rules, as amended from time to time, any gain realised on the transfer of the Notes by non-PRC resident enterprises or individual holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. While the PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the gains derived by such non-PRC resident enterprise Noteholders from the transfer of the Notes, its implementation rules have reduced the enterprise income tax rate to 10 per cent. In accordance with the PRC Individual Income Tax Law and its implementation rules (as amended from time to time), any gain realised by a non-PRC resident individual Noteholder from the transfer of the Notes may be regarded as being sourced from the PRC and thus be subject to IIT at a rate of 20 per cent. of the gains derived by such non-PRC resident individual Noteholder from the transfer of the Notes. However, there remains uncertainty as to whether the gain realised from the transfer of the Notes would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and their respective implementation rules. If such gains are determined as income sourced in the PRC by the relevant PRC tax authorities, (i) the non-PRC resident enterprise Noteholders may be subject to EIT at the rate of 10 per cent. of the gains derived by such non-PRC resident enterprise Noteholders and (ii) the non-PRC resident individual Noteholders may be subject to IIT at the rate of 20 per cent. of the gains derived by such non-PRC resident individual Noteholders, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC resident enterprise or individual resident holders of the Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in the Notes may be materially and adversely affected.

United States' Foreign Account Tax Compliance Act Tax Provisions.

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 relevant Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the British Virgin Islands, Hong Kong and the PRC) 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 and the Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes and the Securities, 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 and the Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Instruments. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Instruments, no person will be required to pay additional amounts as a result of the withholding.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

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 obliged 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, the PRC, the jurisdiction where the relevant Issuer is located or any political subdivision thereof or any authority therein or thereof having power to tax, the relevant Issuer may redeem all outstanding Notes in accordance with the Conditions. 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.

An optional redemption feature is likely to limit the market value of Notes. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such 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.

Index Linked Notes and Dual Currency Notes.

Notes may be issued with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, Notes may be issued with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

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

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

Certain benchmark rates, including LIBOR and EURIBOR, may be discontinued or reformed in the future - including phasing-out of certain LIBOR rates after 31 December 2021 or 30 June 2023.

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

Regulation (EU) No. 2016/1011 (the "**EU Benchmarks Regulation**") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. Regulation (EU) No. 2016/1011 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the UK. The EU Benchmarks Regulation or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to LIBOR, EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the EU Benchmark Regulation or UK Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, 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. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks," trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

As an example of such benchmark reforms, the FCA announced on 27 July 2017 that it would no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and confirmed on 5 March 2021 that most LIBOR benchmark tenors would cease or cease to be representative benchmarks from 31 December 2021 or (in the case of certain tenors of USD LIBOR only) from 30 June 2023. On 5 March 2021, the administrator for LIBOR (the ICE Benchmark Administration or IBA) similarly announced that it would cease the publication of the relevant LIBOR settings on 31 December 2021 or 30 June 2023, unless the FCA exercises its proposed new powers (which are included in the current UK Financial Services Bill as proposed amendments to the UK Benchmarks Regulation) to require the IBA to continue publishing such LIBOR settings using a changed methodology (also known as a "synthetic" basis). Such announcements indicate that LIBOR will not continue in its current form and the UK Financial Conduct Authority announcement of 5 March 2021 indicated that it is currently contemplating that any "synthetic" basis, if adopted, would be limited to a small number of currencies and settings. 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 had 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 elimination of LIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(k) (*Benchmark Discontinuation*), or result in adverse consequences to holders 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). 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.

The "Terms and Conditions of the Notes" provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, unlawful or unrepresentative, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback 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. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms or possible cessation or reform of certain reference rates 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 those features.

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

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

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

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

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

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

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

Credit ratings may not reflect all risks.

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.

RISKS RELATING TO THE MARKET GENERALLY

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

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Series, such Series is to be consolidated with and form a single series with a Series of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. If the Notes are traded at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the HKSE for the Programme to be admitted to listing on the HKSE in respect of the listing of the Programme, there is no assurance that such application will be accepted, that any particular Series of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade securities has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Series of Notes.

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

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

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

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

A description of risks which may be relevant to an investor in Notes denominated in Renminbi ("**Renminbi Notes**") are set out below.

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

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement 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 and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being developed.

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 schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the relevant Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

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

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

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

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

Investment in Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The relevant Issuer will make all payments of interest and principal with respect to Renminbi Notes in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. In August 2015, the PBOC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of Renminbi Notes in that foreign currency will decline.

Investment in Renminbi Notes is subject to interest rate risks.

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

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

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

All payments to investors in respect of Renminbi Notes will be made solely (i) for so long as Renminbi Notes are represented by global certificates held with the common depositary for Clearstream and Euroclear or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong, (ii) for so long as Renminbi Notes are represented by global certificates lodged with a sub- custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or (iii) for so long as Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The relevant Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

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

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

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

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

TERMS AND CONDITIONS OF THE NOTES

The following (including the Annexes hereto) is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme.

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

1. Introduction

(a) *Programme*: China Everbright Bank Company Limited (the "**Bank**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$ 5,000,000,000 in aggregate principal amount of notes (the "**Notes**"). Notes under the Programme may be issued by the Bank, or any branch of the Bank located outside of the PRC, as specified as issuer in the relevant Pricing Supplement (each such branch of the Bank, a "**Branch Issuer**" and, together with the Bank, each an "**Issuer**").

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

(c) *Agency Agreement*: The Notes are the subject of a fiscal agency agreement dated 12 August 2021 and otherwise as amended and/or supplemented from time to time (the "**Agency Agreement**") between (i) the Bank (on behalf of itself and each Branch Issuer), (ii) Citicorp International Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), (iii) Citicorp International Limited as CMU lodging and paying agent, transfer agent and registrar in respect of Notes cleared or to be cleared through the CMU (in such capacities, the "**CMU Lodging and Paying Agent**", the "**CMU Transfer Agent**" and the "**CMU Registrar**"), which expressions include any successor CMU lodging and paying agent, transfer agent and registrar appointed from time to time in connection with such Notes), (iv) Citibank, N.A., London Branch as issuing and paying agent in respect of Notes cleared through Euroclear Bank SA/NV and/or Clearstream Banking S.A. (the "**Issuing and Paying Agent**"); and (v) Citibank, N.A., London Branch as transfer agent and registrar in respect of Notes cleared through Euroclear Bank SA/NV and/or Clearstream Banking S.A. (in such capacities, the "**Principal Transfer Agent**" and the "**Principal Registrar**", which expression includes any successor or additional transfer agent and registrar appointed from time to time in connection with such Notes), the paying agents named therein (together with the Fiscal Agent and the CMU Lodging and Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein. In these Conditions references to the "**Registrars**" are to the Principal Registrar and the CMU Registrar and any reference to a "**Registrar**" is to any one of them; references to the "**Transfer Agents**", are to the Principal Transfer Agent and the CMU Transfer Agent and any reference to a "**Transfer Agent**" is to any one of them; and references to the "**Agents**" are to the Paying Agents, the Transfer Agents and the Registrar and any reference to an "**Agent**" is to any one of them.

(d) *Deed of Covenant*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 12 August 2021 and otherwise as amended and/or restated from time to time (the "**Deed of Covenant**") entered into by the Bank (on behalf of itself and each Branch Issuer).

(e) *The Notes*: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for inspection upon request by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents.

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

2. Interpretation

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

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

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

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

"**Additional Tax Amounts**" has the meaning given in Condition 13 (*Taxation*);

"**Business Day**" means:

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

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

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

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

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

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

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

(d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing

Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:

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

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

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

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

"**Calculation Agent**" means the Issuing and Paying Agent as appointed by the Issuer in respect of a Series of Notes pursuant to the terms of the Agency Agreement or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

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

"**CBIRC**" means China Banking and Insurance Regulatory Commission or its local counterparts;

"**Clearstream** " means Clearstream Banking S.A.;

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

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

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

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

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

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

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

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

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

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

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

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

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

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

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

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

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

where:

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

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

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

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

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

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

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

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

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

"**Euroclear**" means Euroclear Bank SA/NV;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Issuer**" means in respect of any Tranche of Notes, the Bank or a Branch Issuer as specified in the relevant Pricing Supplement;

"**Macau**" means the Macau Special Administrative Region of the PRC;

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

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

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

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

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

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

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

"**NDRC Quota**" means the requisite approval obtained by the Bank on an annual basis or otherwise to issue the Notes within the quota provided by the NDRC to the Bank;

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

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

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

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

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

"**Payment Business Day**" means:

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

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

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

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

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

(ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**PBOC**" means the People's Bank of China of the PRC;

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

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

"**PRC Business Day**" means a day on which commercial banks are open for business in the Beijing;

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

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

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

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

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

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

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

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

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

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

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

"**Reference Rate**" means CNH HIBOR, EURIBOR, HIBOR, LIBOR or such other rate as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement;

"**Regular Period**" means:

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

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

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

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

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

"**Relevant Indebtedness**" means any indebtedness for money borrowed or raised which (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC and (ii) has an original maturity in excess of 365 days;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**SAFE**" means the State Administration of Foreign Exchange or its local counterparts;

"S&P" means S&P Global Ratings and its affiliates and successors;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)** " has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Talon**" means a talon for further Coupons;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**Tax Jurisdiction**" means (a) the PRC and, as applicable, (b) where the Issuer is a Branch Issuer, the jurisdiction where such Branch Issuer is located, or in each case any political subdivision therein or any authority therein or thereof having power to tax; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any Additional Tax Amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any Additional Tax Amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the Notes;

(viii) any reference to the Agency Agreement and the Deed of Covenant shall be construed as a reference to the Agency Agreement or, as the case may be, the Deed of Covenant as amended and/or supplemented up to and including the Issue Date of the Notes; and

(ix) any reference (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent, and all such references shall be construed accordingly.

3. Form, Denomination, Title and Transfer

(a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.

(d) *Title to Registered Notes*: The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes*: Subject to paragraphs (i) (Closed periods) and (j) (Regulations concerning transfers and registration) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of any Registrar or any Transfer Agent, together with such evidence as such Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (Transfers of Registered Notes) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer, any Registrar or any Transfer Agent but against such indemnity as such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods*: Noteholders may not require transfers to be registered:

(i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes;

(ii) during the period of 15 days ending on any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 10(b) (*Redemption for tax reasons*) or Condition 10(c) *(Redemption at the option of the Issuer*); and

(iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 10(e) (*Redemption at the option of Noteholders*).

(j) *Regulations concerning transfers and registration*: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of each Registrar. A copy of the current regulations will be mailed (free of charge) by a Registrar to any Noteholder who requests in writing a copy of such regulations.

4. Status of the Notes

The Notes constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer which will at all times rank pari passu among themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. Covenants

(a) *Covenant to Maintain Ratings:* So long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of the Holders of the Notes, the Issuer undertakes that it will use all its reasonable endeavours to maintain the rating on the Notes by a Rating Agency if it is specified in the relevant Pricing Supplement that such Notes are to be rated.

(b) *Reporting to the NDRC*: Where the NDRC Circular applies to the Tranche of Notes to be issued in accordance with these Conditions and the Agency Agreement, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank undertakes to:

(i) file or cause to be filed with the NDRC the requisite information and documents (the "**NDRC Post-issue Information Report**") within the prescribed timeframe after the Issue Date in accordance with the NDRC Circular; and

(ii) within ten PRC Business Days after submission of such NDRC Post-issue Information Report set out in Condition 5(b) (*Reporting to the NDRC*) above, provide a notice confirming the due filing of the NDRC Post-issue Information Report for dissemination to the Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

(c) *Notification and Reporting to PBOC or CBIRC*: Where applicable, the Bank undertakes to (i) duly obtain or complete any approval from, submission, filing or reporting to PBOC or CBIRC in accordance with all applicable PRC laws and regulatory requirements and (ii) provide a notice confirming the same for dissemination to Noteholders and Couponholders in accordance with Condition 20 (*Notices*).

6. Fixed Rate Note Provisions

(a) *Application*: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent or the CMU Lodging and Paying Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

So long as the Notes are represented by a Global Note or Global Certificate, interest shall be calculated in respect of any period by applying the Rate of Interest to the total aggregate outstanding nominal amount of the Notes represented by such Global Note or Global Certificate.

7. Floating Rate Note Provisions and Index-Linked Interest Note Provisions

(a) *Application*: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent or the CMU Lodging and Paying Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date; and

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date; and

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to major banks in the Principal Financial Centre of the Specified Currency for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time, and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period;

(v) notwithstanding the foregoing, if the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:

(A) the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears on the Relevant Screen Page as at 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question as determined by the Calculation Agent.

(B) and the Relevant Screen Page is not available or, if sub-paragraph (v)(A)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if subparagraph (v)(A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request the principal Hong Kong office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.15 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent. If all four Reference Banks provide the Calculation Agent with such offered quotations, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations; and

(C) if subparagraph (v)(B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in CNH for a period equal to that which would have been used for the Reference Rate by leading banks in the Hong Kong inter-bank market. If fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest shall be (i) the offered rate for deposits in CNH for a period equal to that which would have been used for the Reference Rate by a bank, or (ii) the arithmetic mean of the offered rates for deposits in CNH for a period equal to that which would have been used for the Reference Rate by two or more banks, in each case as informed to the Calculation Agent by such bank or banks (which shall be such bank or banks being in the opinion of the Issuer suitable for such purpose) as being quoted by each such bank at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date to leading banks in the Hong Kong inter-bank market, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period).

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate (LIBOR), (y) the Eurozone inter-bank offered rate (EURIBOR) or (z) the Hong Kong inter-bank offered rate (HIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

(e) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified. If the relevant Pricing Supplement does not specify any Minimum Rate of Interest and the Rate of Interest as determined by the Calculation Agent according to this Condition 7 is a negative value, the Rate of Interest shall be zero per cent. per annum.

(g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a subunit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) *Calculation of other amounts*: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer and the Issuing and Paying Agent as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given by the Issuer to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall notify the Issuer and the Paying Agents only of the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 by the Calculation Agent will (in the absence of manifest error) be binding on the Bank, the Branch Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(k) *Benchmark Discontinuation*: Notwithstanding the provisions of this Condition 7, if the Issuer (in consultation with the Calculation Agent) determines that a Benchmark Event has occurred (or will occur on or prior to the Interest Determination Date relating to the next succeeding Interest Period), when the Rate of Interest (or any relevant component part thereof) remains to be determined by reference to the Reference Rate, then the following provisions shall apply:

(i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser for the determination (with the Issuer's agreement) of a Successor Rate or, alternatively, if the Independent Adviser and the Issuer agree that there is no Successor Rate, an alternative rate (the "Alternative Benchmark Rate") and, in either case, an alternative screen page or source (the "Alternative Relevant Screen Page") and the applicable Adjustment Spread, all by no later than three (3) Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "Interest Determination Cut-off Date") for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 7(k)).

In the absence of bad faith or fraud, neither the Issuer nor any Independent Adviser shall have any liability whatsoever to the Fiscal Agent or the Noteholders for any determination made by it pursuant to this Condition 7(k);

(ii) the Alternative Benchmark Rate shall be such rate as the Independent Adviser and the Issuer acting in good faith agree has replaced the Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of eurobonds denominated in the Specified Currency, or, if the Independent Adviser and the Issuer agree that there is no such rate, such other rate as the Independent Adviser and the Issuer acting in good faith agree is most comparable to the Reference Rate, and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate;

(iii) if the Issuer is unable to appoint an Independent Adviser, or if the Independent Adviser and the Issuer cannot agree upon, or cannot select a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page prior to the Interest Determination Cut-off Date in accordance with sub-paragraph (i) and (ii) above, then the Issuer (acting in good faith and in a commercially reasonable manner) may determine which (if any) rate has replaced the Reference Rate in customary market usage for purposes of determining floating rates of interest in respect of eurobonds denominated in the Specified Currency, or, if it determines that there is no such rate, which (if any) rate is most comparable to the Reference Rate, and the Alternative Benchmark Rate shall be the rate so determined by the Issuer and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate; provided, however, that if this sub-paragraph (iii) applies and the Issuer is unable or unwilling to determine an Alternative Benchmark Rate and Alternative Relevant Screen Page prior to the Interest Determination Date relating to the next succeeding Interest Period in accordance with this sub- paragraph (iii), the Reference Rate applicable to such Interest Period shall be equal to the Reference Rate for a term equivalent to the relevant Interest Period published on the Relevant Screen Page as at the last preceding Interest Determination Date. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period, and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 7(k);

(iv) if a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page is determined in accordance with the preceding provisions, such Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page (in each case as adjusted by the applicable Adjustment Spread determined as provided in sub-paragraph (v) below) shall subsequently be used in place of the Reference Rate to determine the Rate of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of this Condition 7(k));

(v) if a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page is determined in accordance with the preceding provisions, the Issuer, following consultation with the Independent Adviser (if appointed) and acting in good faith, shall determine (A) the Adjustment Spread to be applied to the Successor Rate or Alternative Benchmark Rate (as applicable) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, and such Adjustment Spread shall be applied to the Successor Rate or Alternative Benchmark Rate for each subsequent determination of the Rate of Interest and Interest Amount(s) (or a component part thereof) by reference to such Successor Rate or Alternative Benchmark Rate;

(vi) if a Successor Rate or an Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread is determined in accordance with the above provisions, the Independent Adviser (with the Issuer's agreement) or, failing which, the Issuer, may also specify changes to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Day, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, as are necessary to ensure the proper operation (having regard to prevailing market practice, if any) of the Successor Rate, Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread (such amendments, the "Benchmark Amendments"), which changes shall (subject to the subsequent operation of this Annex) apply to the Notes for all future Interest Periods, without any requirement for the consent or approval of Noteholders; and

(vii) the Issuer shall promptly following the determination of any Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page and Adjustment Spread give notice thereof and of any Benchmark Amendments pursuant to sub-paragraph (vi) above to the Calculation Agent, the Fiscal Agent and the Noteholders in accordance with Condition 20 (*Notices*); and

the Successor Rate or Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread and the Benchmark Amendments (if any) specified in such notice will (in the absence of manifest error or bad faith in the determination thereof) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the other Agents and the Noteholders.

(viii) As used in this Condition 7(k):

"**Adjustment Spread**" means either a spread (which may be positive, negative or zero) or a formula or methodology for calculating a spread, which in each case is to be applied to the relevant Successor Rate or the relevant Alternative Benchmark Rate (as applicable), and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(B) in the case of a Successor Rate for which no such recommendation has been made, or option provided, or in the case of an Alternative Benchmark Rate, is the spread, formula or methodology which the Issuer, following consultation with the Independent Adviser (if appointed) and acting in good faith, determines to be appropriate as a result of the replacement of the Reference Rate with the Successor Rate or Alternative Benchmark Rate;

"**Benchmark Event**" means:

(A) the Reference Rate has ceased to be published for a period of at least five Business Days; or

(B) the making of a public statement by the administrator of the Reference Rate that it has ceased, or will cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or

(C) the making of a public statement by the supervisor of the administrator of the Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued; or

(D) the making of a public statement by the supervisor of the administrator of the Reference Rate that means that such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in circumstances where the same shall be applicable to the Notes; or

(E) the making of a public statement by the supervisor of the administrator of the Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of its underlying market, in circumstances where the same shall be applicable to the Notes; or

(F) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Reference Rate (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable),

provided that in the case of paragraphs (B) to (E) above, the Benchmark Event shall occur on:

(1) in the case of (B) above, the date of the cessation of the publication of the Reference Rate;

(2) in the case of (C) above, the discontinuation of the Reference Rate;

(3) in the case of (D) above, the date on which the Reference Rate is prohibited from use or becomes subject to restrictions or adverse consequences (as applicable); or

(4) in the case of (E) above, the date on which the Reference Rate is deemed no longer to be representative,

(5) and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (1), (2), (3) or (4) above, as applicable);

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser of recognised standing with relevant experience in the international capital markets, in each case appointed by the Issuer at its own expense;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means the reference rate (and related alternative screen page or source, if available) that is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

8. Zero Coupon Note Provisions

(a) *Application*: This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Dual Currency Note Provisions

(a) *Application*: This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable), on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay Additional Tax Amounts as provided for or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 13 (*Taxation*)) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided, however, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the earliest date on which the Issuer would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the Interest Payment Date occurring immediately before the earliest

date on which the Issuer would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (A) a certificate signed by a duly authorised officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, (or such other period(s) as may be specified in the relevant Pricing Supplement) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed . If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Pricing Supplement), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *No other redemption*: Neither the Issuer nor the Bank shall be entitled to redeem the Notes otherwise than as provided in Conditions 10(a) (*Scheduled redemption*) to 10(c) (*Redemption at the option of the Issuer*) above.

(g) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase*: The Branch Issuer, the Bank or any of its Subsidiaries or branches may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith. The Notes so purchased, while held by or on behalf of the Bank or any such branch or Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 18 (*Meetings of Noteholders; Modification and Waiver*).

(i) *Cancellation*: All Notes so redeemed or purchased by the Branch Issuer, the Bank or any of its Subsidiaries or branches and any unmatured Coupons attached to or surrendered with them may be reissued, resold or surrendered to the Fiscal Agent for cancellation. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

11. Payments – Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal*: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

(b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the CMU for their distribution to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto.

(e) *No commissions chargeable*: No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(f) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(g) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 11(g) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(e) (*Redemption at the option of Noteholders*), Condition 10(c) (*Redemption at the option of the Issuer*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(h) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(i) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(j) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(k) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Payments – Registered Notes

This Condition 12 is only applicable to Registered Notes.

(a) *Principal*: Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the 15th day before the due date for any such payment, by transfer to an account denominated in that currency and maintained by the payee with, a bank in the Principal Financial Centre of that currency or, in the case of euro, in a city in which banks have access to the TARGET2, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the 15th day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*), any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifth Business Day (in the case of Renminbi) and the 15th day (in the case of a currency other than Renminbi, whether or not such 15th day is a Business Day) before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

*So long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

13. Taxation

(a) *Gross-up*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Tax Jurisdiction or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law.

(b) *Withholding for PRC enterprise income tax*: Where such withholding or deduction is made by the Issuer as a result of the Issuer being deemed to be a PRC tax resident by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax at the rate applicable in the PRC on the date of issue of the first Tranche of the Notes (the "**Applicable Rate**"), the Issuer will pay such additional amounts to the extent required as will result in receipt by the Noteholders and Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.

(c) *Additional Tax Amounts*: In the event that the Issuer is required to make a deduction or withholding (i) by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax in excess of the Applicable Rate; or (ii) by or within a Tax Jurisdiction (other than the PRC), the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note or Coupon:

(i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or

(iii) to, or to a third party on behalf of a holder 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 within any applicable period prescribed by such relevant tax authority.

(d) *Taxing jurisdiction*: If any Issuer becomes subject at any time to any taxing jurisdiction other than the Tax Jurisdiction(s), references in these Conditions to the Tax Jurisdiction(s) shall be construed as references to the Tax Jurisdiction(s) and/or such other jurisdiction.

14. Events of Default

If any of the following events occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Agency Agreement and such default is incapable of remedy, or if capable of remedy, remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-acceleration of Bank, Issuer or Subsidiary*:

(i) any Relevant Indebtedness of the Bank or any of its Subsidiaries or of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any Relevant Indebtedness becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described) in respect of the terms thereof; or

(iii) the Bank or any of its Subsidiaries or the Issuer fails to pay when due (or (as the case may be) within any originally applicable grace period) any amount payable by it under any guarantee or indemnity of any Relevant Indebtedness,

provided that the amount of the Relevant Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above, individually or in the aggregate (without duplication), exceeds U.S.$25,000,000 (or its equivalent in any other currency or currencies); or

(d) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a material part of the undertaking, assets and revenues of the Bank, or any of its Material Subsidiary or the Issuer and such action is not discharged or stayed within 45 days; or

(e) *Insolvency etc*: (i) the Bank or any of its Material Subsidiaries or the Issuer becomes insolvent or is unable to pay all or a material part of its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Bank or any of its Material Subsidiaries or the Issuer or the whole or a material part of the undertaking, assets and revenues of the Bank or any of its Material Subsidiaries or the Issuer, (iii) the Bank or any of its Material Subsidiaries or the Issuer takes any action for a readjustment or deferment of all or a material part of its debts or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of all or a material part of its indebtedness or any guarantee or indemnity of all or a material part of indebtedness given by it or (iv) the Bank or any of its Material Subsidiaries or the Issuer ceases or threatens to cease to carry on all or a material part of its business,except (x) in the case of any Material Subsidiary of the Bank, where the cessation is for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Bank and/or another Material Subsidiary,or (y) on terms approved by an Extraordinary Resolution of the Noteholders; or

(f) *Winding up etc*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Bank or any of its Material Subsidiaries or the Issuer except for (A) the purpose of and followed by a solvent winding-up, dissolution, a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of any Material Subsidiary, whereby all or substantially all the undertaking, assets and revenues of such Material Subsidiary are transferred or otherwise vested in the Issuer or any of the Bank's Subsidiaries; or (B) a solvent winding up of any Material Subsidiary; or (C) a disposal of or by a Material Subsidiary on an arm's length basis where the assets (whether in cash or otherwise) from such disposal shall be transferred to or otherwise vested in the Issuer or any of the Bank's Subsidiaries; or

(g) *Analogous event*: any event occurs which under the laws of the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Security enforced*) to (f) (*Winding up, etc*) above; or

(h) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Deed of Covenant,

then any Noteholder may, by written demand given to the Issuer and delivered to the Fiscal Agent at the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest without further action or formality unless prior to receipt of such demand, all such events or defaults have been cured. The Issuer shall notify Noteholders and the Fiscal Agent promptly upon becoming aware of the occurrence of any Event of Default.

In these Conditions:

"**Material Subsidiary**" means any Subsidiary of the Bank:

(i) whose gross revenue (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries), whose gross assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose net profit (consolidated in the case of Subsidiary which itself has consolidated Subsidiaries) represent not less than 5 per cent. of the consolidated gross revenue, the consolidated gross assets, or, as the case may be, the consolidated net profit of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Bank, *provided that*:

(A) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Bank relate for the purpose of applying each of the foregoing tests, the reference to the Bank's latest audited or reviewed consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Bank;

(B) if at any relevant time in relation to the Bank or any Subsidiary no financial statements are prepared and audited, its gross revenue, gross assets and net profit (consolidated, if applicable) shall be determined on the basis of pro forma consolidated financial statements (consolidated, if applicable) prepared for this purpose; and

(C) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (A) above) are not consolidated with those of the Bank, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Bank; or

(ii) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (i) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (ii) the transferee Subsidiary shall immediately become a Material Subsidiary, *provided that* on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (i) above.

A certificate signed by an authorised signatory of the Issuer on behalf of the Bank that in his/her opinion (making such adjustments (if any) as he/she shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Bank, the Issuer and the Noteholders.

15. Prescription

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the relevant Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Fiscal Agent, CMU Lodging and Paying Agent, Issuing and Paying Agent, Principal Transfer Agent, Principal Registrar, CMU Registrar or Calculation Agent and additional or successor Paying Agents; provided, however, that:

(a) the Issuer shall at all times maintain a Fiscal Agent, Issuing and Paying Agent and a Principal Registrar;

(b) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent;

(c) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU; and

(d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing a clear majority of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than 75 per cent. or, at any adjourned meeting, not less than 25 per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of holders of not less than 90 per cent. in aggregate principal amount of the Notes outstanding who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: Notwithstanding Condition 18(a) (*Meetings of Noteholders*) the Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless (i) it is of a formal, minor or technical nature, (ii) it is made to correct a manifest error or (iii) it is a modification which neither contradicts these Conditions nor is reasonably expected to be materially prejudicial to the interests of the Noteholders.

19. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and, if applicable, the timing for notification or, as the case may be, reporting to the NDRC, the PBOC, SAFE, CBIRC and/or such other applicable competent authority) so as to form a single series with the Notes. However, such further securities may only be issued if (i) the Rating Agency which has provided credit ratings in respect of the Notes has been informed of such issue and (ii) such issue will not result in any adverse change in the then credit rating of the Notes.

20. Notices

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in English in the South China Morning Post or, if such publication is not practicable, in an English 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 first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices to the Holders of Registered Notes shall be valid if published in English in the South China Morning Post or, if such publication is not practicable, in an English 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 first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers).

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 (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Issue Position Report issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear, Clearstream, the CMU and/or the alternative clearing system, as the case may be.

21. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. Governing Law and Jurisdiction

(a) *Governing law*: The Notes and all non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *Jurisdiction*: The Issuer has in the Deed of Covenant and the Agency Agreement (i) agreed that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Deed of Covenant and the Agency Agreement and the Notes (including any non-contractual obligation arising out of or in connection with the Notes); and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.

(c) *Service of process*: The Issuer agrees that the documents which start any proceedings relating to a Dispute ("**Proceedings**") and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the principal place of business of China Everbright Bank Co., Ltd., Hong Kong Branch at 23/F, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong, or to such other person with an address in Hong Kong and/or at such other address in Hong Kong as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

(d) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Bank believes to be reliable, but none of the Bank nor any Dealer or the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Bank nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, amongst other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of Exchange Fund Bills and Notes Clearing and Settlement Service securities and capital markets instruments (together, "**CMU Instruments**") which are specified in the CMU Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all financial institutions regulated by the Hong Kong Monetary Authority, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU's custodial services, please refer to the CMU Manual.

The CMU has an income distribution service which is a service offered by the CMU to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the "**income proceeds**") by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system. Furthermore, the CMU has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Manual.

An investor holding an interest through an account with either Euroclear or Clearstream, in any Notes held in the CMU, will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

Book-Entry Ownership

Bearer Notes

The Bank has made applications to Euroclear and Clearstream for acceptance in their respective book- entry systems in respect of any Series of Bearer Notes. The Bank may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream.

Registered Notes

The Bank may make applications to Euroclear and Clearstream for acceptance in their respective book- entry systems in respect of the Notes to be represented by a Global Certificate. The Bank may also apply to have Registered Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Subscription and Sale*".

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**") (each a "**Global Note**"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**") and/or a sub-custodian for the CMU and/or any other relevant clearing system.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the relevant Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent or the CMU Lodging and Paying Agent; and

(ii) receipt by the Fiscal Agent or the CMU Lodging and Paying Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided, however, that** in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (Local Time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (Local Time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**"):

(a) on the expiry of such period of notice as may be specified in the Pricing Supplement; or

(b) at any time, if so specified in the Pricing Supplement; or

(c) if the Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

   (i) Euroclear or Clearstream or CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

   (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent and the CMU Lodging and Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Local Time) on the 30th day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment, then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (Local Time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Local Time) on the 30th day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

    (i) Euroclear or Clearstream or CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

    (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent or the CMU Lodging and Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (Local Time) on the 30th day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream and/or CMU and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the relevant Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream and/or CMU and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which complete those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.*"

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Certificates in registered form ("**Individual Certificates**"); or a global Note in registered form (a "**Global Certificate(s)**"), in each case as specified in the relevant Pricing Supplement.

Each Note represented by a Global Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream and/or, in respect of CMU Notes, a sub- custodian for the CMU and/or any other relevant clearing system, and the relevant Global Certificate will be deposited on or about the issue date with the common depositary for Euroclear and/or Clearstream and/or, in respect of CMU Notes, or a sub-custodian for the CMU and/or any other relevant clearing system.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Certificates", then the Notes will at all times be in the form of Individual Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Pricing Supplement specifies the form of Notes as being "Global Certificate exchangeable for Individual Certificates", then the Notes will initially be in the form of a Global Certificate which will be exchangeable in whole, but not in part, for Individual Certificates:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Certificate", then; or

(d) if either of the following events occurs:

    (i) Euroclear or Clearstream or CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

    (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Global Certificate is to be exchanged for Individual Certificates, the relevant Issuer shall procure that Individual Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate to the Principal Registrar or the CMU Registrar of such information as is required to complete and deliver such Individual Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the specified office of the relevant Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Principal Registrar or the CMU Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Certificates have not been delivered by 5.00 p.m. (Local Time) on the 30th day after they are due to be issued and delivered in accordance with the terms of the Global Certificate; or

(b) any of the Notes represented by a Global Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Certificate in accordance with the terms of the Global Certificate on the due date for payment,

then, at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date (in the case of (b) above) each person shown in the records of Euroclear and/or Clearstream and/or CMU (or any other relevant clearing system) as being entitled to interest in the Notes (each an "**Accountholder**") shall acquire under the Deed of Covenant rights of enforcement against the relevant Issuer ("**Direct Rights**") to compel the relevant Issuer to perform its obligations to the Holder of the Global Certificate in respect of the Notes represented by the Global Certificate, including the obligation of the relevant Issuer to make all payments when due at any time in respect of such Notes in accordance with the Conditions as if such Notes had (where required by the Conditions) been duly presented and surrendered on the due date in accordance with the Conditions.

The Direct Rights shall be without prejudice to the rights which the Holder of the Global Certificate may have under the Global Certificate or otherwise. Payment to the Holder of the Global Certificate in respect of any Notes represented by the Global Certificate shall constitute a discharge of the relevant Issuer's obligations under the Notes and the Deed of Covenant to the extent of any such payment and nothing in the Deed of Covenant shall oblige the relevant Issuer to make any payment under the Notes to or to the order of any person other than the Holder of the Global Certificate.

As a condition of any exercise of Direct Rights by an Accountholder, such Accountholder shall, as soon as practicable, give notice of such exercise to the Holders of the Notes of the same Series in the manner provided for in the Conditions or the Global Certificate for notices to be given by the relevant Issuer to Noteholders.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Certificate will be endorsed on that Individual Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which complete those terms and conditions.

The terms and conditions applicable to any Global Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Summary of Provisions relating to the Notes while in Global Form

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be that depositary, common depositary or sub-custodian, as the case may be.

In relation to any Tranche of Notes represented by a Global Certificate, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Certificate is for the time being registered in the Register which, for so long as the Global Certificate is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be such depositary or common depositary (or a nominee for such depositary or common depositary) or the Hong Kong Monetary Authority as the operator of the CMU, as the case may be.

Each of the persons shown in the records of Euroclear and/or Clearstream and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the relevant Issuer to the holder of such Global Note or Global Certificate and in relation to all other rights arising under such Global Note or Global Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Certificate, Accountholders shall have no claim directly against the relevant Issuer in respect of payments due under the Notes and such obligations of the relevant Issuer will be discharged by payment to the holder of such Global Note or Global Certificate. If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules at the relevant time shall be the only person(s) entitled (or, in the case of Registered Notes, directed or deemed by the CMU as entitled) to receive payments in respect of Notes represented by such Global Note or Global 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 in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU for his share of each payment so made by the relevant Issuer in respect of such Global Note or Global Certificate.

Conditions applicable to Global Notes

Each Global Note and Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the relevant Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the relevant Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, or a Global Certificate, the applicable Payment Business Day shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption and Purchase – Redemption at the option of Noteholders*), the bearer of the Temporary Global Note or Permanent Global Note or the holder of a Global Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and the Put Option Notice, give written notice of such exercise to the Fiscal Agent or (as the case may be) the CMU Lodging and Paying Agent specifying the principal amount of Notes in respect of which the relevant put option is being exercised. Any such notice shall be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption and Purchase – Redemption at the option of the Issuer*) in relation to some only of the Notes, where such Notes are held with Euroclear and/or Clearstream or the CMU, the Temporary Global Note or Permanent Global Note or Global Certificate may be redeemed in part in the principal amount specified by the relevant Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream or the CMU (as the case may be) (to be reflected in the records of Euroclear and Clearstream or the CMU (as the case may be) as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Certificate is, (i) deposited with a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system (other than the CMU, in respect of which see (ii) below), notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (Notices) on the second day after the date of delivery to Euroclear and/or Clearstream and/or any other relevant clearing system or (ii) deposited with the CMU, notices to the holders of Notes of the relevant Series may be given by delivery of the relevant notice to the CMU 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 have been given to the Noteholders on the second day after the date on which such notice is delivered to the CMU.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

[PROHIBITION OF SALES TO EEA 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 (the "**EEA**"). 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, "**EU MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, 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 "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.]

[PROHIBITION OF SALES TO 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 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[***Consider if any of the Issuer/ Managers are "MiFID II entities" and are "manufacturers" for the purposes of MiFID II***]

[EU 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, "**EU MiFID II**")] [EU MiFID II]; or (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate.

[Consider any negative market.] 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 EU 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.]

[***Consider if any of the Issuer / Managers are "UK MiFIR entities" and are "manufacturers" for the purposes of UK MiFIR***]

[UK MiFIR 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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate [Consider any negative target market]. 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 the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") 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.]

[(Include when the Notes are to be listed on the Hong Kong Stock Exchange)

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") ("**Professional Investors**")) only.

Notice to Hong Kong investors: The Issuer confirm that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer (as defined below) or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document together with the Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

[Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018.]

Pricing Supplement dated [•]

CHINA EVERBRIGHT BANK COMPANY LIMITED
[specify relevant branch]

Issue of *[Aggregate Nominal Amount of Tranche]* *[Title of Notes]* [due [•]]

under the U.S.$5,000,000,000 Medium Term Note 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 of the Notes (the "**Conditions**") set forth in the Offering Circular dated [•] 2021. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular and the documents incorporated by reference thereto [and the Offering Circular dated [*date*]].

1.	Issuer		China Everbright Bank Company Limited/ *[specify relevant branch as Issuer]* (Legal Entity Identifier: [•])
2.	[(i)	Series Number:]	[•]
	(ii)	Tranche Number:	[•]
	(iii)	Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [[•]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as

		referred to in paragraph 26 below [which is expected to occur on or about [•]].]
3.	Specified Currency or Currencies:	[•]
4.	Aggregate Nominal Amount:	[•]
	(i)] [Series]:	[•]
	(ii) Tranche:	[•]]
5.	(i) Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	(ii) Net Proceeds:	[•] [(Required only for listed issues)]
6.	(i) Specified Denominations [1] [2] [3]	[•]
	(ii) Calculation Amount:	[•]
7.	(i) Issue Date:	[•]
	(ii) Interest Commencement Date:	[*Specify/Issue* Date/Not Applicable]
8.	Maturity Date:	[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][4] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.*]
9.	Interest Basis:	[[•] per cent. Fixed Rate][[*Specify reference rate*] +/- [•] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (*Specify*)] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par][Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (*Specify*)]
11.	Change of Interest or Redemption/ Payment Basis:	[*Specify details of any provision for convertibility of the Notes into another interest or redemption/payment basis*]
12.	Put/Call Options:	[Investor Put][Issuer Call] [(further particulars specified below)]
13.	[Date [Board] approval for issuance of Notes obtained]	[•]

1 *Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).*

2 *If the specified denomination is expressed to be EUR100,000 or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR199,000]. In relation to any issue of the Notes which are a "**Global Note exchangeable for Definitive Notes**"* in circumstances other than "in the limited circumstances specified in the Global Notes", such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

3 *For so long as any Notes are listed on The Stock Exchange of Hong Kong Limited (the "**HKSE**"*) and the rules of the HKSE so require, such Notes will be traded on the HKSE in a minimum board lot size of not less than HK$500,000 (or its equivalent in other currencies).

4 *Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.*

		(*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
14.	Listing:	[The Stock Exchange of Hong Kong Limited ("**HKSE**")/ None] (For Notes to be listed on the HKSE, insert the expected effective listing date of the Notes)
15.	Method of distribution:	[Syndicated/Non-syndicated]
16.	[Date of regulatory approval for issuance of Notes obtained:	Pre-issuance registration certificate/NDRC approval dated [•] from the NDRC/*any other applicable regulatory approval to be set out*]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
	(ii)	Interest Payment Date(s):	[•] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of* "***Business Day***"]/not adjusted][1]
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount[2]
	(iv)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
	(v)	Day Count Fraction:	[30E/360/30/360/Actual/Actual (ICMA/ISDA)/Actual/365 (Fixed)/other]
	(vi)	Determination Dates:	[[•] in each year (*insert regular interest payment dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
18.	**Floating Rate Note Provisions:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	[•]
	(ii)	Specified Period:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
	(iii)	Specified Interest Payment Dates:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
	(iv)	First Interest Payment Date:	[•]

1 *Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to adjustment in accordance with the Modified Following Business Day Convention.*

2 *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 RMB0.01, RMB0.005 for the case of Renminbi-denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.*

	(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vi)	Additional Business Centre(s):	[Not Applicable/*give details*]
	(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[[*Name*] shall be the Calculation Agent (*no need to specify if the Issuing and Paying Agent is to perform this function*)]
	(ix)	Screen Rate Determination:	
		Reference Rate:	[*For example, LIBOR, EURIBOR or SOFR*]
		Interest Determination Date(s):	[•]
		Relevant Screen Page:	[*For example, Reuters LIBOR 01/EURIBOR 01*]
		Relevant Time:	[*For example, 11.00 a.m. London time/Brussels time*]
		Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*]
	(x)	ISDA Determination:	
		Floating Rate Option:	[•]
		Designated Maturity:	[•]
		Reset Date:	[•]
	(xi)	Margin(s):	[+/-] [•] per cent. per annum
	(xii)	Minimum Rate of Interest:	[•] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[•] per cent. per annum
	(xiv)	Day Count Fraction:	[•]
	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]
19.	**Zero Coupon Note Provisions:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Accrual Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
	(iii)	Day Count Fraction in relation to Early Redemption Amount:	[30E/360/30/360/Actual/Actual (ICMA/ISDA)/other]
	(iv)	Any other formula/basis of determining amount payable:	[*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 10(g)*]
20.	**Index-Linked Interest Note/other variable-linked interest Note Provisions:**		[Applicable/Not Applicable](*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula/other variable:	[give or annex details]
	(ii)	Calculation Agent responsible for calculating the interest due:	[•]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv)	Interest Determination Date(s):	[•]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•]
	(vi)	Interest or calculation period(s):	[•]
	(vii)	Specified Period:	[•]

			(*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert* "*Not Applicable*")
	(viii)	Specified Interest Payment Dates:	[•] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert* "*Not Applicable*")
	(ix)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(x)	Additional Business Centre(s):	[•]
	(xi)	Minimum Rate/Amount of Interest:	[•] per cent. per annum
	(xii)	Maximum Rate/Amount of Interest:	[•] per cent. per annum
	(xiii)	Day Count Fraction:	[•]
21.	**Dual Currency Note Provisions:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[•]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[•]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[•]

PROVISIONS RELATING TO REDEMPTION

22.	**Call Option**:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
	(iv)	Notice period:	[•]
23.	**Put Option**:		[Applicable/Not Applicable] (If *not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	Notice period:	[•]
24.	**Final Redemption Amount of each Note:** In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		[•] per Calculation Amount
	(i)	Index/Formula/variable:	[*give or annex details*]

	(ii)	Calculation Agent responsible for calculating the Final Redemption Amount:	[•]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv)	Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[•]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•]
	(vi)	[Payment Date]:	[•]
	(vii)	Minimum Final Redemption Amount:	[•] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[•] per Calculation Amount
25.	**Early Redemption Amount**		
	(i)	Early Redemption Amount (Tax) per Calculation Amount payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable (*if the Early Redemption Amount is the principal amount of the Notes)/specify the Early Redemption Amount if different from the principal amount of the Notes or specify its method of calculation*]
	(ii)	Early Termination Amount per Calculation Amount payable on mandatory redemption 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):	[Not Applicable (*if the Early Termination Amount is the principal amount of the Notes)/specify the Early Termination Amount if different from the principal amount of the Notes or specify its method of calculation*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	**Form of Notes:**	Bearer Notes:[1] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice][2] [Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note][3] Registered Notes: [Global Certificate exchangeable for Individual Note Certificates on [•] days' notice/at any time/in the limited circumstances described in the Global Certificate][4]

1 *Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.*

2 *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [•] days notice.*

3 *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [•] days notice.*

4 *if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Global Certificate shall not be exchangeable on [•] days notice.*

27.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details.*] *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 18(vi) and 20(x) relate*] [*Also ensure London is a Financial Centre for all Notes in which Citibank N.A., London Branch acts as Issuing and Paying Agent*]
28.	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.*]
29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*]
30.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
31.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32.	Consolidation provisions:	The provisions in Condition 19 (*Further Issues*)] [annexed to this Pricing Supplement] apply]
33.	Any applicable currency disruption/ fallback provisions:	[Not Applicable/*give details*]
34.	Other terms or special conditions:	[Not Applicable/*give details*]
DISTRIBUTION		
35.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
36.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
37.	Total commission and concession:	[•] per cent. of the Aggregate Nominal Amount
38.	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
39.	U.S. Selling Restrictions:	Reg. S Category [1/2] (In *the case of Bearer Notes*) – [C RULES/D RULES/ TEFRA not applicable] (In *the case of Registered Notes*) – Not Applicable[1]
40.	Prohibition of Sales to EEA Retail Investors:	[Not Applicable/*give details*]
41.	Prohibition of Sales to UK Retail Investors:	[Not Applicable/*give details*]
42.	Additional selling restrictions:	[Not Applicable/*give details*]
OPERATIONAL INFORMATION		
43.	ISIN Code:	[•]
44.	Common Code:	[•]
45.	CMU Instrument Number:	[•]
46.	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
47.	Delivery:	Delivery [against/free of] payment
48.	Additional Paying Agent(s) (if any):	[•]
GENERAL		
49.	The aggregate principal amount of the Notes issued has been translated into United States	[Not Applicable/U.S.$]

[1] *TEFRA not applicable may only be used for Registered Notes, or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU must be issued in compliance with the C Rules, unless at the time of issuance the CMU, the CMU Lodging and Paying Agent has procedures in place so as to enable compliance with the certification requirements under the D Rules.*

	dollars at the rate of [•], producing a sum of (for Notes not denominated in United States dollars):	
50.	Ratings:	The Notes to be issued have [not] been rated: [S&P: [•]]; [Moody s: [•]]; [Fitch: [•]]; [[Other: [•]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[STABILISATION

In connection with the issue of any Tranche of the Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) 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 for a limited period after the closing date in respect of that Tranche of the Notes. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.]

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 [•] Medium Term Note Programme of China Everbright Bank Company Limited.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of:
[SPECIFY ISSUER]

By: ....
Duly authorised

Name:

Title:

CAPITALISATION AND INDEBTEDNESS

As at 31 December 2020, the Bank had an issued share capital of RMB54,032 million divided into approximately 12,679 million H shares of RMB1.00 each and approximately 41,353 million A shares of RMB1.00 each.

This table should be read in conjunction with the audited consolidated financial statements of the Bank and related notes thereto included elsewhere in this Offering Circular:

	As at 31 December 2020	
	(RMB in millions)	*(U.S.$ in millions)*[(1)]
Debt		
Debt securities issued[(2)]	440,870	67,290
Shareholders' Equity		
Share capital	54,032	8,247
Other equity instrument	109,062	16,646
Capital reserve	58,434	8,919
Other comprehensive income	1,393	213
Surplus reserve	26,245	4,006
General reserve	67,702	10,333
Retained earnings	136,581	20,846
Total equity attributable to equity shareholders of the Bank	453,449	69,210
Non-controlling interests	1,549	236
Total equity	454,998	69,446
Total capitalisation[(3)]	5,368,110	819,334

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.5518 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 March 2021.

(2) The Hong Kong Branch of the Bank issued U.S.$550,000,000 0.929 per cent. notes due 2024 in March 2021 and U.S.$600,000,000 0.839 per cent. notes due 2024 in June 2021, respectively.

(3) Total capitalisation equals the sum of debt and total equity.

Except as disclosed above, there has been no material adverse change to the capitalisation or indebtedness of the Bank since 31 December 2020.

USE OF PROCEEDS

The net proceeds of any Notes issued under the Programme shall be used for general funding purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

DESCRIPTION OF THE BANK

The Bank is a national joint stock commercial bank committed to establishing itself as one of the most innovative commercial banks in the PRC. The A shares of the Bank have been listed on the Shanghai Stock Exchange (Stock Code: 601818) since August 2010 and the H shares of the Bank have been listed on the Hong Kong Stock Exchange (Stock Code: 6818) since December 2013. Since its operations commenced on 18 August 1992, the Bank has provided comprehensive and competitive financial products and services to a wide range of customers primarily in the PRC, including retail customers, corporate customers, government agencies and financial institutions, and has conducted a proprietary trading business and other trading operations for the Bank's clients. Because of its outstanding performance in business, the Bank has won many awards and was ranked 35th in "Top 1000 World Banks" in 2020. To adapt to changing market trends and the development of the macro-economy and the banking sector in the PRC, the Bank will continue to intensify its business transformation efforts, diligently develop its capital-efficient operations, build a diversified financial services platform, support the development of the PRC economy and promote technological innovation. The Bank believes that these core initiatives will facilitate the growth of its business.

The Bank's principal business segments are corporate banking, retail banking and financial market. The Bank's corporate banking business consists primarily of corporate loans, SME loans, trade finance, discounted bills and corporate deposits, as well as fee-and commission-based products and services. The Bank's retail banking business consists primarily of personal loans, bank cards, personal deposits and fee-and commission-based products and services. The Bank's financial market business primarily covers inter-bank money market transactions, repurchases transactions and inter-bank investments. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts.

In recent years, the Bank's business scale and customer base have continued to expand. The Bank's total assets, total loans and advances to customers and deposits from customers grew from RMB4,357,332 million, RMB2,361,278 million and RMB2,571,961 million, respectively, as at 31 December 2018, to RMB4,733,431million, RMB2,644,136 million and RMB3,017,888 million, respectively, as at 31 December 2019, and further grew to RMB5,368,110 million, RMB2,942,435 million and RMB3,480,667 million, respectively, as at 31 December 2020. The Bank's net profit grew from RMB33,721 million for the year ended 31 December 2018 to RMB37,441 million for the year ended 31 December 2019, and further grew to RMB37,905 million for the year ended 31 December 2020.

The Bank also strives to provide comprehensive financial services to its customers, which further enhances the Bank's net fee and commission income and net profit. The Bank's net fee and commission income continues to grow from RMB19,773 million for the year ended 31 December 2018 to RMB23,169 million for the year ended 31 December 2019, and further to RMB24,323 million for the year ended 31 December 2020. The Bank's impairment losses on assets grew from RMB35,828 million for the year ended 31 December 2018 to RMB49,347 million for the year ended 31 December 2019, and further grew to RMB56,932 million for the year ended 31 December 2020, while the NPL remained stable at 1.59 per cent.,1.56 per cent. and 1.38 per cent, respectively. As at 31 December 2020, the Bank's liquidity coverage ratio was 150.47 per cent.

The Bank's head office is located in Beijing and the Bank has a nationwide branch network. The Bank's branch network further expanded to the international market by establishing its first overseas branch in Hong Kong in December 2012. The Bank has a strategic focus on the PRC's more economically developed regions, such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta and has supported the One Belt One Road, and free trade zones in the PRC.

The following chart sets out a simplified corporate structure of the Bank which shows, among other things, the direct shareholding in the Bank of certain shareholders as at the date of this Offering Circular:

RECENT DEVELOPMENTS OF THE BANK

Impact of the COVID-19 Pandemic

The outbreak of the COVID-19 pandemic aggravated and complicated the operational environment in the banking industry. The Bank took multiple measures to cope with COVID-19, including allocating special limits, delegating approval and pricing authority, opening green channels for approval and improving assessment. For example, the Bank suspended some prerequisite procedures required for the approvals of projects previously, delegated the approval authorisation for special projects, simplified the face-to-face process for lending, and supported the credit on “daily necessities” and “medical supplies” for the purpose of epidemic prevention and control. Moreover, it adopted a targeted support program for enterprises that played a crucial role in fighting against COVID-19 and maintained a list of more than 1,900 of such enterprises. For certain risks that the COVID-19 pandemic poses on the Bank, see “*Risk factors – Risks Relating to the Bank’s Business - The Bank’s business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC*” and “*Risk factors – Risks relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank’s business, financial condition and results of operations*”

2021 First Quarter Financial Results

On 28 April 2021, the 2021 First Quarter Financial Report was published on the website of the Hong Kong Stock Exchange. The Group’s total assets for the three months ended 31 March 2021 increased to RMB5,581,691 million, representing an increase of 3.98 per cent., as compared with that as at 31 December 2020. The total liabilities registered RMB5,117,212 million, representing an increase of 4.15 per cent., as compared with that as at 31 December 2020. The balance of deposits was reported RMB3,585,545 million, up by 3.01 per cent., as compared with that as at 31 December 2020. Total loans and advances to customers stood at RMB3,158,860 million, representing an increase of 4.96 per cent. over the end of the previous year.

During the three months ended 31 March 2021, the Group realised a net profit of RMB11,560 million, representing a year-on-year increase of 6.32 per cent. Its operating income was RMB38,767 million, representing a year-on-year increase of 3.87 per cent. The Group’s net interest income realised for the three months ended 31 March 2021 was RMB27,876 million, representing a year-on-year increase of 2.69 per cent., as compared with the corresponding period in 2020 and accounting for 71.91 per cent. of the total operating income of the Group.

During the three months ended 31 March 2021, the Group's net fee and commission income was RMB7,824 million, representing a year-on-year increase of 6.65 per cent, as compared with the corresponding period in the 2020 and accounting for 20.18 per cent. of the total operating income.

During the three months ended 31 March 2021, the Group incurred operating expenses of RMB10,252 million, representing a year-on-year increase of 5.76 per cent. Its credit impairment losses were RMB13,957 million, representing a year-on-year decrease of 3.84 per cent.

As at the end of the three months ended 31 March 2021, the non-performing loans of the Group totalled RMB43,229 million, representing an increase of RMB1,563 million, as compared with 31 December 2020. Its non-performing loan ratio was 1.37 per cent., decreased by 0.01 per cent. as compared with 31 December 2020. Its provision coverage ratio was 183.87 per cent, representing an increase of 1.16 percentage point as compared with 31 December 2020. As at the end of the three months ended 31 March 2021, the Group recorded a liquidity coverage ratio of 130.24 per cent., against a liquidity coverage ratio of 150.47 per cent. as compared with 31 December 2020.

As at the end of the three months ended 31 March 2021, the Group's capital adequacy ratio reached 13.74 per cent. Its tier-1 capital adequacy ratio was reported 11.65 per cent., while its common equity tier-1 capital adequacy ratio was reported 9.00 per cent., all of which met the regulatory requirements. As at the end of three months ended 31 March 2021, the leverage ratio of the Group was 7.03 per cent., the same as compared with 31 December 2020.

The summary consolidated statement of profit or loss and other comprehensive income of the Group for the three months ended 31 March 2020 and 2021 and the summary consolidated statement of the Group's financial position as at 31 March 2021 as included in this Offering Circular are derived from the Group's "2021 First Quarter Financial Report" filed with the Hong Kong Stock Exchange on 28 April 2021, which was prepared in accordance with IFRS. These results have not been audited or reviewed by the Bank's independent auditors.

None of the relevant Issuer, the Bank, the Group, the Arrangers and the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2020 and 2021 for an assessment of the Bank's financial condition and results of operations. Such unaudited and unreviewed consolidated financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2021 should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2021.

Progress in Issuance of Tier-2 Capital Bonds

The 24th meeting of the Eighth Session of the Board of Directors held on 26 March 2021 considered and approved the *Proposal on Issuance of Tier-2 Capital Bonds* and planned to issue tier-2 capital bonds of no more than RMB60 billion or equivalent in foreign currencies. This issuance is intended to be submitted to the shareholders' general meeting for review.

Connected Transaction in relation to Entering into the Aircraft Sale and Purchase Agreement with Connected Person

On 9 April 2021, a subsidiary of the Bank, Everbright Financial Leasing Co., Ltd. (through its subsidiaries) (as the "**Purchaser**") entered into an aircraft sale and purchase agreements with China Aircraft Leasing Group Holdings Limited (through its subsidiaries) (as the "**Vendor**"), pursuant to which, the Vendor agreed to transfer the ownership of two Airbus A320 aircraft together with relevant leasing rights and obligations to the Purchaser. The Vendor is a connected person (as defined in the Listing Rules) of the Bank. The full-life base value of the aircraft obtained from an independent appraiser is approximately U.S.$102.4 million.

The Change of Registered Capital and the Amendments to The Articles of Association of The Bank

The Bank publicly issued A share convertible corporate bonds in the total amount of RMB30 billion in March 2017, with a maturity period of 6 years. As at 31 December 2020, the number of accumulated converted shares of such A share convertible corporate bonds is 1,542,813,979 shares, an increase of 1,542,781,841 shares from the end of 2017. In addition, the Bank non-publicly issued preference shares in the total amount of RMB35 billion in July 2019, an increase of 350,000,000 shares from the end of 2017.

As at 31 December 2020, upon the conversion of A share convertible corporate bonds and the issuance of preferred shares, the share structure of the Bank is: 54,031,908,979 ordinary shares, of which 41,353,173,479 A shares and 12,678,735,500 H shares; the number of preferred shares is 650,000,000.

According to the above changes in shares and the relevant procedural requirement of the domestic local industrial and commercial registration authority, on 29 January 2021, the Board of Directors of the Bank resolved to change the registered capital of the Bank to RMB54,031,908,979, and make corresponding adjustments to the relevant terms of registered capital in the articles of association of the Bank. The above matters are subject to the approval by the general meeting of the Bank and the CBIRC. The amended articles of association will take effect from the date of approval by the CBIRC.

Appointment of the President and Change of Role of Director

As at the date of this Offering Circular, the Board of Directors consists of thirteen members, including four Non-executive Directors, three Executive Directors and six Independent Non-executive Directors. At the twenty-fifth meeting of the Eighth Session of the Board of Directors convened on 28 April 2021, Mr. FU Wanjun was appointed as the President of the Bank. In June 2021, the Bank received the "Approval by China Banking and Insurance Regulatory Commission of Appointment Qualification of Fu Wanjun of China Everbright Bank (《中國銀保監會關於光大銀行付萬軍任職資格的批復》)" (Yin Bao Jian Fu [2021] No. 426), pursuant to which the appointment qualification of Mr. Fu Wanjun as the President of the Bank was approved. The term of office of Mr. Fu Wanjun as the President of the Bank commenced on 1 June 2021.

Pursuant to the relevant requirements of CBIRC, directors holding senior operation and management positions in commercial banks shall be executive directors. Mr. Fu Wanjun, holding office as the President of the Bank, shall be the Executive Director with effect from 1 June 2021 until the expiry of the term of the current Board. See "*Directors, Supervisors and Senior Management*" in this Offering Circular for details of the senior management of the Bank as at the date of this Offering Circular.

Approval of Qualification of Director by the CBIRC

In May 2021, the Bank received the "Approval by China Banking and Insurance Regulatory Commission of Appointment Qualifications of Han Fuling of China Everbright Bank (《中國銀保監會關於光大銀行韓復齡任職資格的批復》) (Yin Bao Jian Fu [2021] No. 396), pursuant to which the appointment qualification of Mr. HAN Fuling as the Independent Non-executive Director of the Bank was approved. The term of office of Mr. HAN Fuling as the Independent Non-executive Director of the Bank commenced on 25 May 2021. See "*Directors, Supervisors and Senior Management*" in this Offering Circular for details of the senior management of the Bank as at the date of this Offering Circular.

Change of Members of the Board Committee

On 28 April 2021, the Board of Directors approved the appointment of Mr. FU Wanjun as the Chairman of the Risk Management Committee, Chairman of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of the Strategy Committee of the Eighth Session of the Board of the Bank, and the cease of Mr. FU Wanjun as a member of the Audit Committee; the appointment of Mr. HAN Fuling as a member of the Remuneration Committee, Nomination Committee, Related Party Transactions Control Committee and Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The above appointment of Mr. FU Wanjun and Mr. HAN Fuling became effective on 28 April 2021 and 25 May 2021, respectively. See "*Directors, Supervisors and Senior Management*" in this Offering Circular for details of the senior management of the Bank as at the date of this Offering Circular.

Appointment of Chairman of the Board of Supervisors

On 26 March 2021, Mr. LU Hong was elected the chairman of the board of supervisors and the member of the nomination committee of the board of supervisors of the Bank. The term of office of Mr. LU Hong as the chairman of the eighth session of the board of supervisors of the Bank is effective on 26 March 2021. See "*Directors, Supervisors and Senior Management*" in this Offering Circular for details of the senior management of the Bank as at the date of this Offering Circular.

Resignation of Executive Director and President

Mr. LIU Jin, the Executive Director and President of the Bank, has tendered his resignation to the Board of Directors on 16 March 2021 due to job adjustment, resigning from the positions as the Executive Director, chairman and member of the Risk Management Committee, chairman and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of the Strategy Committee of the Board of Directors and the President of the Bank. Mr. LIU Jin's resignation became effective upon the submission of his resignation letter to the Board of Directors.

Resignation of Non-Executive Director

Ms. YU Chunling, the Non-executive Director of the Bank, has tendered her resignation to the Board of Directors on 10 May 2021 due to job adjustment, resigning from the positions as the Non-executive Director, member of the Risk Management Committee, and member of the Related Party Transactions Control Committee of the Board of Directors. Ms. YU Chunling's resignation became effective upon the submission of her resignation letter to the Board of Directors.

Resignation of Independent Non-Executive Director

Pursuant to the relevant requirements of laws and regulations and the articles of association of the Bank, due to the expiry of term of office, Mr. FENG Lun ceased to be the Independent Non-executive Director of the Bank, and ceased to act as the member of the Remuneration Committee and the Related Party Transactions Control Committee of the Board of the Bank at the same time. Mr. FENG Lun's resignation became effective from 25 May 2021.

Proposed Appointment of Non-Executive Director

The Board of Directors of the Bank announced that at the 27th meeting of the eighth session of the Board convened on 10 June 2021, the Board of Directors has considered and resolved unanimously the resolution regarding the nomination of Mr. LI Wei as candidate for the position of Non-executive Director of the eighth session of the Board of Directors. His appointment is subject to the consideration and approval at the shareholders' general meeting of the Bank, as well as the approval by the CBIRC. His term of office will come to effect on the date when the approval of the CBIRC is obtained.

Resignation of Vice President

Mr. YAO Zhongyou, the Executive Director and the Vice President of the Bank, has tendered his resignation to the Board of Directors of the Bank on 18 June 2021 due to job adjustment, resigning from the position as the Vice President of the Bank. Mr. YAO Zhongyou will continue to perform his duties as the Non-executive Director of the Bank. Pursuant to the Company Law of the People's Republic of China and other relevant laws and regulations and the articles of association of the Bank. Mr. YAO Zhongyou's resignation from the position as the Vice President became effective upon the submission of his resignation letter to the Board of Directors of the Bank.

COMPETITIVE STRENGTHS

The Bank's principal competitive strengths include:

Distinctive model-based operations and strong focus on strategic and emerging industries

The Bank's model-based operations provide customised financing solutions to satisfy industry-specific demands and diversified customer needs. The Bank efficiently replicates and applies these financing solutions to customers in the same industry or with similar demands. The Group focuses on its strategic customers, listed companies and other quality large and medium-sized enterprises. The Bank also selects upstream and downstream SME customers according to supply-chain financing needs. The Bank has also created cooperative platforms to provide competitive small and micro-products to cater for differentiated financing services of small and micro enterprises and enhanced the scope of services to small and micro-sized enterprises. Tapping on technology, the Bank has also sought to strengthen its investment in financial technology, strengthen the application of big data in the financial field and promote the intelligent and online application in marketing, approval process and post-loan services for small and micro-sized customers.

The Bank's SME business has leveraged on the risk mitigation function of the Bank's model-based operations and adopted on-site inspections and customised assessments to effectively reduce the Bank's risk exposure.

In addition, the Bank places a strong focus on supporting strategic and emerging industries in the PRC. The Bank actively supports the development of "green financing" in the PRC. Embracing the trend of developing an energy efficient economy, the Bank launched a low-carbon financial service package, "Guang He Dong Li" (光合動力), to meet the needs of enterprises seeking financing for their low-carbon projects. The Bank's "Guang He Dong Li" (光合動力) low-carbon financial product has won many awards.

The Bank also focuses on financing for high-tech companies. It provides strong financial support to enterprises in strategic and emerging industries of the PRC that possess core technology and strong research and development capabilities.

In addition, the Bank actively supports government procurement financing. It launched "Government Procurement Financing Loans" (政採融易貸), a financial product offered to SME suppliers whose target customers are government agencies.

Supported by the strength of China Everbright Group Ltd., the Bank also enjoys substantial cross-selling and collaboration opportunities from effective customer resources sharing. For example, on 13 January 2017, the Bank announced that it had entered into an agreement with China Everbright Group Ltd., under which China Everbright Group Ltd. had proposed to subscribe to no more than RMB8.8 billion of domestic convertible bonds to be issued by the Bank, and in September 2019, China Everbright Group Ltd. entered into an agreement with the Bank, under which the Bank would provide bond underwriting services for two years for an annual total value of RMB5 billion of bonds to be issued by China Everbright Group Ltd., subject to an annual fee cap of RMB90 million.

The Bank believes that its strong focus on strategic and emerging industries in the PRC will enable the Bank to continue expanding its business in the PRC.

Effective capital management and operation

The Bank focuses on capital management in its business operations. It promotes the use of economic metrics such as EVA (Economic Value Added) as key performance indicators and has transformed the Bank's performance evaluation system by adopting a system that evaluates operational performance on a risk adjusted basis as opposed to using financial indicators.

The Bank has established a capital-efficient business model focusing on SMEs and micro enterprises, electronic banking and wealth management businesses. The Bank's overall credit structure improved over the years, with balances of personal loans as a percentage of total loans and advances changing from 43.50 per cent. as at 31 December 2018 to 42.68 per cent. as at 31 December 2019, and to 42.64 per cent. as at 31 December 2020.

In addition, the Bank's cost-to-income ratio[1] decreased from 29.48 per cent. for the year ended 31 December 2018 to 27.85 per cent. for the year ended 31 December 2019, and further decreased to 27.18 per cent. for the year ended 31 December 2020. The Bank's return on average total assets increased from 0.80 per cent. for the year ended 31 December 2018 to 0.82 per cent. for the year ended 31 December 2019, and slightly decrease to 0.75 per cent. for the year ended 31 December 2020. The Bank's return on weighted average net assets amounted was 11.77 per cent. for the year ended 31 December 2019 and decreased to 10.71 per cents for the year ended 31 December 2020.

Fast growing retail banking business

By implementing a differentiated and comprehensive retail banking strategy, the Bank has identified its wealth management, micro enterprise financial services and credit card businesses as key growth drivers. The Bank

1 Excluding business tax and surcharges.

targets mid-to high-end customers and is committed to providing comprehensive financial services by (i) promoting cross-selling among various business lines and (ii) effectively leveraging the Bank's products, brands and channel resources. For the years ended 31 December 2018, 2019 and 2020, the Bank's retail banking business generated operating income of RMB46,518 million, RMB54,683 million and RMB58,678 million, respectively, representing 42.14 per cent., 41.13 per cent. and 41.12 per cent. of the Bank's total operating income, respectively.

The Bank's credit card business grew as a result of effective marketing and continuous innovation. Supported by the Bank's advanced IT platform, the Bank has issued different customised credit card products, which have been well received by customers. Currently the main credit card products of the Bank included four series products namely "Cute Series (萌系列)", "UP Series (UP 系列)", "Big Trip (大出行)" and "Big Health (大健康)", which target to the young customers and high-net-worth customers; and among others, the predecessor of "Big Trip" is the "Big Travel (大旅遊)". "Big Health (大健康)" is aiming to satisfy customers' demand on health and sports after the outbreak of COVID-19 by providing relevant service products such as "Filial Peity Card (孝心卡)" and "MIGU Run Co-branded Card (咪咕善跑聯名卡)" etc.

In adherence to its founding mission of "serving the people and solving their difficulties", the Bank set up the E-Cloud Banking Services Department to take charge of the business development of China's largest convenient bill payment platform and put the inclusive finance strategy into practice. The Bank continued to increase the types of bills that can be paid on the platform, facilitated the online collection of non-tax government revenues and promoted platform exports. The E-Cloud Banking Services were launched across the board to additionally incorporate non-tax cloud, social security cloud, property management cloud, healthcare cloud and education cloud. The Cloud Fee Payment client launched eight life modules, namely, insurance, security, going abroad, tourism, medical treatment, housekeeper, handing cards and wealth management.

Through adopting efficient management plans, the Bank has improved service efficiency, further streamlined the operational processes of the Bank's credit card business and enhanced the Bank's management quality at various stages. Furthermore, the outsourcing of the Bank's standardised businesses has effectively reduced the Bank's operating costs. The Bank has also adopted a refined marketing strategy based on customer segmentation which enabled the Bank to achieve a manageable cost-to-income ratio for the Bank's credit card business.

The Bank believes that its comprehensive retail banking strategy and its well-established credit card business gives it a competitive advantage over other industry players and enables the Bank to maintain its industry-leading position.

Distinguished shareholders engaged in diversified financial fields.

The shareholders of the Bank are distinguished financial institutions engaged in diversified operation and coordinated development of both finance and industry with a full range of financial licences. China Everbright Group is a large financial holding group directly under the administration of the central government of China, and also one of the Fortune Global 500 companies. Its business scope encompasses financial services and non-financial industries including environment, tourism, health and high-tech. With a global presence, especially in Hong Kong and PRC, relying on the platform of China Everbright Group, the Bank could provide a full package of financial services and promote the coordinated development of finance and industry.

Outstanding innovative DNA

The Bank has an outstanding innovative gene. The Bank was established in the trends of competitive financial market in China, and grew stronger through exploration and innovation. Inspired by innovation awareness, it became the first bank that launched the RMB wealth management products, the first to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks obtaining dual qualifications as both enterprise annuity fund custodian and account manager in China. Besides that, it has forged China's largest open-ended payment platform, Cloud Fee Payment, endeavoured to build Wealth E-SBU, and achieved remarkable innovation results.

The Bank stepped up the top-level design, built the fintech innovation system in a scientific, systematic and comprehensive way, and sharpened its core competitiveness. It also established a special funds mechanism for fintech innovation with a budget of RMB500 million to support the rapid incubation, implementation and promotion of new technologies, new businesses and new models as at 31 December 2020. With the establishment of Everbright Digital Finance Academy, the Bank advanced talent cultivation, project incubation and the establishment of innovation ecosphere. As a move to integrate the innovation management functions of the whole bank, the fintech segment was responsible for planning and promoting bank-wide innovation. In addition, the

Bank also set up the review and management mechanism for hit digital products, thus connecting the fintech innovation and incubation system with the review mechanism of hit digital products.

For the year ended 31 December 2020, key projects supported by the special funds for fintech innovation, such as smart transportation, industry chain financing, sunshine logistics, e-commerce, and public resources, had made profits. The Logistics Express (Wu Liu Tong) stepped into the stage of fast development, the Everbright Dual Chain (Blockchain-powered supply chain finance) was launched on a pilot basis, and the Mobile Banking V8.0 rolled out the "AI Digital Human", an intelligent customer service.

Leading roles in wealth management businesses

Devoting itself to building a first-class wealth management bank, the Bank has obtained comparative advantages in wealth management business. Its investment banking business as the pioneer in the industry is able to provide corporate customers with comprehensive investment banking services. Its digital banking business has focused on building an open service system by opening its platforms, which has developed into an industry-leading business model. In addition, the Bank keeps improving its capabilities for value creation and high-quality development in retail business, which makes positive contributions to the stable and sustainable development of the Bank.

Prudent risk management

The Bank proactively implements comprehensive and effective risk management measures. Based on the Basel III framework, the Bank established a comprehensive risk management system covering various aspects of its businesses, adopted an internal ratings system with high sensitivity, improved risk assessment and risk-adjusted pricing ability and increased capital efficiency of its operations.

The Bank has an independent and professional risk management organisation structure. The Bank has established risk management teams to key business lines and branch outlets and has strengthened the Bank's risk management and control efforts in its major business areas. As a result, the Bank improved the professional standards and independence of its risk management team and has aligned its risk management practices more closely with the market.

The Bank has always upheld prudent risk management philosophy, insisted in stable business development strategies and taken compliant operating measures. The comprehensive risk management methods and techniques are increasingly diversified to ensure effective control of asset quality. The management system is continuously improved to make risk management more proactive, forward-looking and predictable. As at 31 December 2018, 2019 and 2020, the Bank's NPL ratio was 1.59 per cent., 1.56 per cent. and 1.38 per cent., respectively.

The continued improvement of the Bank's risk management capability has enabled the Bank to effectively handle the challenges brought by the recent economic downturn and manage its overall risks. The Bank had firmly safeguarded the Bank's risk management bottom-line across the board and strengthened the credit risk management.

In addition, the Bank's cost-to-income ratio[2] decreased from 29.48 per cent. for the year ended 31 December 2018 to 27.85 per cent. for the year ended 31 December 2019, and further decreased to 27.18 per cent. for the year ended 31 December 2020. The Bank's return on average total assets increased from 0.80 per cent. for the year ended 31 December 2018 to 0.82 per cent. for the year ended 31 December 2019, and slightly decrease to 0.75 per cent. for the year ended 31 December 2020. The Bank's return on weighted average net assets amounted was 11.77 per cent. for the year ended 31 December 2019 and decreased to 10.71 per cents for the year ended 31 December 2020.

Advanced IT platform and industry-leading digital banking innovation

The Bank promotes development driven by technological innovation. The Bank continues to build the "123+N" digital Everbright development system, which namely includes "one smart brain, two technological platforms, three service capabilities and N digital products". "One smart brain" focuses on data mining, machine learning, biometrics, voice recognition and natural language processing. "Two technological platforms" entail development cloud computing and big data technology platforms. "Three service capabilities" call for transformation to open, mobile and integrated servicing capabilities. "N digital products" is a manifestation of the Bank's dedication to

[2] Excluding business tax and surcharges.

leverage technological advancement in order to increase and diversify its offering of digitalised products, such as Cloud Fee Payment.

In the first half of 2020, the Bank renamed and upgraded the Electronic Banking Department to the Digital Banking Department in an effort to further advance its digital transformation. The Bank capitalised on the agile advantage of digital banking, rolled out non-contact financial services to help with the fight against COVID-19, and went digital at a faster speed. As at 31 December 2020, 98.69 per cent. of counter transactions were handled through electronic channels, 0.21 percentage point higher than the previous year. The Bank continued to expand the coverage of the Wealth E-SBU (which stands for "Ecosystem, Electronic and Everbright Strategic Business Unit") platform and accelerated the building of a "mega-wealth" ecosphere. Mobile banking (V8.0) was launched, and the "Wealth +" brand was upgraded. The number of monthly active users of mobile banking reached 13,402,400, an increase of 33.08 per cent. year on year. The Bank granted RMB1.27 trillion of "Sunshine Digital Loan", with a loan balance of RMB106,842 million, up RMB28,900 million over the end of the year ended 31 December 2019. It completed the first asset securitisation program based on online leading, and rolled out a unified payment system for Cloud Fee Payment, with the transaction volume reaching RMB11.21 trillion, up 7.04 per cent. year on year.

Unified Sunshine brand

The Bank has advantages in its unified Sunshine brand. Upholding the business philosophy of "Sharing Sunshine, Innovating Life", the Bank has stepped up its efforts to build the "Sunshine" brand series and develop hit products, leveraging on modern technologies and digital means. As at 31 December 2020, it recorded more than 30 hit products including Sunshine Wealth Management, Cloud Fee Payment, Sunshine Inclusive Finance, Auto Full Pass, Forfaiting Blockchain and Sunshine E-loan.

Experienced management team

The Bank's senior management team has extensive experience in the banking and financial industry in the PRC. The key members of the Bank's senior management have an average of more than 20 years of management experience related to the financial industry. The Bank's chairman and president have held various major leadership positions in the financial industry. The Bank's senior management led the implementation of the Bank's business transformation and the optimisation of the Bank's organisation and have achieved remarkable results in recent years.

The Bank's experienced management team has a successful track record of implementing a series of transformational initiatives, including the Bank's financial restructuring and the improvement of the Bank's corporate governance and risk management structures. Under the leadership of its management team, the Bank has significantly improved its operations and financial results, and is moving toward its goal of becoming a world-class commercial bank.

STRATEGIES

The Bank is committed to creating greater value for shareholders, customers, employees and the society, and the Bank regards "building itself into a first-class wealth management bank" as its strategic vision. Keeping itself aligned with the national strategies, the Bank focuses on serving the real economy, and leverages on China Everbright Group's advantages in full range of financial licences, collaboration between finance and industry, and between Hong Kong SAR and Chinese mainland, to strengthen intra-group coordination and develop the Wealth E-SBU.

The Bank is striving to build an extensive, authentic and new-type of wealth management. "Extensive" refers to serving a wider range of customer base with the provision of product offerings that meet customers' increasingly diversified demands. "Authentic" means adapting to the trends of wealth management development by combining enterprise business operations and residents' consumption scenarios, in order to better serve real economy and people's livelihood. "New" refers to promoting product innovation and developing business model driven by fintech, so as to provide customers with better-quality services and experience.

Implement the strategy of "building a first-class wealth management bank" and transformation of wealth management.

Focused on the strategic vision of building a first-class wealth management bank, the Bank resolutely pursues transformation of wealth management. By carrying out the "Leap Development Plan", the Bank endeavours to make breakthroughs in five aspects including profitability, operation scale, wealth management, customer base and risk control, achieving high-quality development in the next two years.

The Bank will review the Wealth E-SBU Development Plan and has devised new objectives, strategies and mechanisms. The coordination scale, operating income and fee-based income reached all-time highs, with the total value of collaborative business standing at RMB1.66 trillion for the year ended 31 December 2020, up 34.20 per cent. year on year. For the year ended 31 December 2020, the cross-selling exceeded RMB67.5 billion; the coordination operating income reached RMB8.25 billion, up 69.60 per cent. year on year; and the coordination fee-based income totalled RMB2.53 billion, up 57.20 per cent. year on year. Among the customers introduced through collaboration efforts, there were 3,100 corporate customers and 1.45 million retail customers (including 1,176 high-net-worth individuals), contributing RMB17.42 billion of AUM, as at 31 December 2020.

Enhance the Bank's capabilities for providing comprehensive financial services.

The Bank aims to comprehensively improve development quality and promote integration of traditional credit business and other businesses such as asset management, investment banking, fund transaction, transaction banking and financial leasing through its corporate banking sector, in order to build the Bank into a leading comprehensive financial service provider.

For the year ended 31 December 2020, the Bank recorded RMB24.323 billion of net income from fee-based business, a year-on-year increase of 4.98 per cent., accounting for 17.04 per cent. of operating income for the same year. The fee-based income became more diverse, with a surge in income from wealth management, Cloud Fee Payment, transaction banking, retail agency, custody and investment banking. The fee-based income structure was improved, with fee-based income excluding credit card business accounted for 54.66 per cent. of total fee-based income for the year ended 31 December 2020, up 9.18 per cent. from the previous year.

Improve the operational efficiency and operating income of the Bank's retail businesses.

The Bank's retail banking sector focuses on three strategic businesses including wealth management, retail credit and credit card businesses. The Bank will continue to focus on wealth management characteristics, intensify efforts in transformation, and continuously improve both operational efficiency and operating income proportion of retail businesses.

For the year ended 31 December 2020, the operating income of retail banking reached RMB58,678 million, accounting for 41.12 per cent. of the Bank's total operating income. The customer base had a better structure and higher quality. As at 31 December 2020, the Bank had 123 million retail customers, including 950,000 wealth management customers, up 22.57 per cent. from the previous year. The number of private banking customers exceeded 40,000 as at 31 December 2020, representing an increase of 24.54 per cent. from the previous year. As at 31 December 2020, the assets under management (AUM) of retail customers of the Bank reached RMB1.92 trillion, up 12.42 per cent. from the previous year. The Bank signed Head Office-to-headquarters contracts with 52 companies for the year ended 31 December 2020, increasing the number of corporate customers to 782,900, up 15.35 per cent. from the previous year.

Enlarge scale of financial market sector and improve its competitive capabilities.

The Bank aims to increase efforts to enlarge scale, adjust structure and raise efficiency of its financial market sector, in order to comprehensively improve the competitive capabilities. Specifically, the Bank will not only moderately increase business scale, but also effectively optimise asset allocation structure by selecting more high-yield assets than low-yield assets.

In particular, the Cloud Fee Payment platform remained China's largest open-ended platform for fee payment, covering over 10,000 fee payment as at 31 December 2020, up 39.39 per cent. from the previous year. The "Colourful Sunshine" net-asset-value (NAV) product system was continuously diversified and improved, while Sunshine Gold and Sunshine Orange products delivered remarkable results. As at 31 December 2020, the Sunshine Supply Chain platform handled 71,000 transfers totalling RMB11.2 billion, and the Forfaiting Blockchain platform had a transaction volume of nearly RMB300 billion. "Anxinxi", a collaborative hit product of private banking, generated RMB1,354 million of initial premiums and served 28,000 customers, with the banker-insurer collaborative premiums exceeding RMB2 billion in total. The Bank became the occupational annuity custodian in 32 provinces and autonomous regions in China, the only joint-stock bank bidder awarded contracts for all these projects, and had over RMB100 billion of occupational annuities under its custody. The

"Auto Full Pass" product served 3,707 auto dealers. The "Sunshine Exchange Gain" product registered RMB122.5 billion in agency derivatives trading, up 14.00 per cent. from the previous year.

Strengthen the Bank's overall management structure and efficiency.

The Bank aims to strengthen assets and liabilities management and overall finance management, promoted refined management, and improved management efficiency. It enhances risk control, makes its overall risk management system more prudent and efficient, and strictly sticks to the bottom line of risk control. It focuses on the power of innovation by giving full play to tech empowerment. It insists on building the "123+N" digital banking system, making business, marketing and service online, mobile and open. It optimises its organisational system, establishes a market-oriented employee recruitment and selection system, and cultivates a highly competent talent team, which forms a reasonable echelon structure.

The Bank formulates the Plan for Optimisation of the Strategic Management System and proposed the "1+6" optimisation framework. "1" refers to optimising the strategic indicators system, setting relatively more proactive targets in line with the budget targets and balanced scorecard assessment, and aligning the Bank's management activities more closely with its strategic vision; "6" refers to optimising the six management systems of customers, products, channels, innovation, investor relations and international business, adjusting organisational structure and management functions with more focus placed on positioning itself as a wealth management bank.

THE BANK'S PRINCIPAL BUSINESSES

The Bank's principal business segments are corporate banking, retail banking and financial market. The following table sets forth, for the periods indicated, the Bank's operating income by business segments:

	For the year ended 31 December					
	2018		**2019**		**2020**	
	Amount *(RMB million)*	*% of total*	*Amount* *(RMB million)*	*% of total*	*Amount* *(RMB million)*	*% of total*
Corporate banking business	44,836	40.62	53,275	40.08	59,633	41.79
Retail banking business	46,518	42.14	54,683	41.13	58,678	41.12
Financial market business	18,935	17.15	24,765	18.63	24,225	16.98
Other business	97	0.09	216	0.16	169	0.11
Total	110,386	100.00	132,939	100.00	142,705	100.00

Corporate Banking Business

The Bank provides a broad range of financial products and services to government agencies, financial institutions and corporations. Corporate banking constitutes the Bank's primary source of income and consists primarily of corporate deposits and loans, inclusive finance, discounted bills, investment banking and transaction banking.

The corporate banking line of the Bank fuelled the growth of the real economy, and in particular, it supported the management, prevention and control of the COVID-19 pandemic in China. Specifically, loans to the manufacturing sector and private enterprises kept growing rapidly, and inclusive finance of the Bank fulfilled the target of "Two Increases and Two Controls" of CBIRC, which urges various financial institutions to strengthen support to SME while maintaining asset quality. The plan of "Customer Multiplication" was vigorously pushed forward, with more efforts put in the operation towards tiered customer groups to build a customer system with characteristics of a wealth management bank, leading to the result that both the number and quality of active corporate customers increased. The transformation to light capital and light assets was accelerated, technology empowerment was enhanced around the industrial chain, and online products were created and upgraded, thus raising the business value of corporate banking.

Operating income from corporate banking accounted for 40.62 per cent., 40.08 per cent., and 41.79 per cent. of the Bank's total operating income for the years ended 31 December 2018, 2019 and 2020, respectively. As at 31 December 2020, the number of corporate customers reached 782,900, an increase of 104,200 or 15.35 per cent. over the end of the previous year, where the number of active corporate customers was 325,100, up 82,100 or 33.79 per cent. over the end of the previous year.

Customer Base

The Bank has extensive customer relationships with many large Chinese business groups and leading companies, government agencies, financial institutions and SMEs which the Bank believes have strong growth potential. The Bank has provided banking services to a large number of state-owned enterprises under the direct administration of the State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**"), as well as to a large number of enterprises included in the Top 500 Enterprises of the PRC List jointly published by the PRC Enterprise Confederation and the PRC Enterprise Directors Association (中國企業聯合會及中國企業家協會). The Bank has developed relationships with more than 1,000 large business groups and leading companies in their respective industries in the PRC. The Bank believes that it is one of the few PRC commercial banks approved by MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of MOF, (ii) the authorised payment of expenditures on behalf of MOF and (iii) the non-tax revenue collection on behalf of MOF. The Bank is a leading domestic underwriter of short-term commercial paper and medium-term notes in the PRC. In addition to expanding the Bank's customer base, the Bank has also focused on optimising the Bank's customer mix.

SMEs are strategically important to the Bank's development and growth. The Bank mainly focuses on the following three types of SMEs: (i) supply chain participants who have advanced production facilities and equipment as well as advanced technologies to provide long term supporting services or supplies to large state-owned enterprises, leading companies, government agencies and other core clients; (ii) SMEs clustered in certain regions or industries who have brands with sound reputations and high market shares in these regions or industries; and (iii) high-tech SMEs which have been included in the national SME administration and service system, including technological SMEs within national-level high-tech industrial parks, software parks, industrial bases for the Torch Programme (a national programme to develop high and new technologies) and national university technology parks.

The Bank also focuses on developing long-term relationships with customers in economically more developed regions in the PRC such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, as well as in those industries which are strategically important to the PRC economy. The Bank also continued to adjust its loan portfolios. As at 31 December 2020, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which represented 10.41 per cent., 9.79 per cent., 7.46 per cent., 6.31 per cent. and 4.24 per cent. of the Bank's total loans and advances, respectively, and together represented 38.21 per cent. of the balance of the Bank's total loans and advances as at the same date.

Major Products and Services

Corporate deposits and Loans

Following the requirement of "increasing loan granting, cutting cost and providing convenience", the Bank served the economic and social development. It scaled up its credit support to key areas including advanced manufacturing, new infrastructure and new urbanisation initiatives and major transportation and water conservancy projects, medicine and health, with the loans growing at a record high speed in recent years and interest rates decreasing prominently. The Bank also expedited the integration between online and offline businesses, addressed the importance of acquiring batch customers online and propelled precipitation of settlement funds of customers by its product strengths and service capabilities. It continued to optimise its deposit structure with high-cost deposits reduced and core deposits accounting for a higher percentage. Besides that, it stuck to the risk bottom lines and enhanced risk awareness across the Bank, thus maintaining the stable quality of loans.

Inclusive Finance

While actively implementing the decisions and plans on managing COVID-19, the Bank increased credit granting and introduced innovative products and services, and earnestly carried out the policy of temporarily postponing principal and interest repayment on loans, to maximise the financial support for the work and production resumption of small and micro enterprises. The Bank continuously stepped up the support for poverty alleviation in rural areas, and carried out credit granting for poverty alleviation through authorisation delegation of pricing, preferential pricing and due diligence-based liability exemption, leading to stable growth of loans for targeted poverty alleviation. In an innovation-driven manner, the Bank made iterative updates to “Sunshine Inclusive Finance Cloud” platform, and drew up the “Chain Plan”, achieving progress in “Sunshine Inclusive Finance” ecological chain business. The Bank strengthened channel building by deepening the strategic cooperation with National Financing Guarantee Fund and National Agricultural Credit Guarantee Alliance. It actively took part in E-SBU initiative of the Group, drawing on the strengths of each member of the Group. As at 31 December 2020, the Bank fulfilled the CBIRC’s regulatory requirement of "Two Increases and Two Controls" for inclusive finance, making substantial contribution to the real economy in accordance with the requirement of providing customers with cheaper and convenient access to more financing. In supporting the fight against COVID-19, the Bank provided credit facilities to enterprises related to the supply of medical, hygiene and subsistence products.

Discounted Bills

Discounted bills refer to the Bank’s discounted purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months (no longer than one year for electronic commercial bills). The Bank may resell these bills to PBOC or other financial institutions authorised to conduct bill discounting, which would provide the Bank with additional liquidity and net interest income.

Investment Banking

The Bank provides investment banking services and financial advisory services to its corporate customers. The Bank believes that it was among the first batch of PRC commercial banks to be qualified to underwrite short-term commercial paper when the PRC government started to permit this business in May 2005. Since then, the Bank has actively sought to develop its capabilities and has become a market leader in this product area. The Bank’s main products include short-term commercial paper, medium-term notes, extra short-term commercial paper, private placement notes, SME combined notes and asset-backed notes. As at 31 December 2020, the Bank led the underwriting of RMB521,816 million of bonds, the sixth largest in the market, representing a year-on-year increase of 75.18 per cent. It issued 27 anti-pandemic bonds with the underwriting amount of RMB21,680 million, and actively promoted credit assets securitisation business with issuance of RMB12,043 million of securitisation projects.

In line with the philosophy of “combining commercial banking, investment banking and wealth management”, the Bank placed emphasis upon diversified needs of customers, integrated resources from the perspective of broader investment banking based on the market-oriented business to increase the support for real economy. It made progress in the development of investment banking systems, launching an asset-based securitisation system of personal residential mortgage loan, personal consumption loan and online loan.

Transaction Banking

In 2020, the Bank set up Transaction Banking Department, providing customers with comprehensive transaction banking services covering international settlement, trade finance, supply chain finance and cash management. Taking the opportunity of digitalising the whole-process of public resource transaction, the Bank launched the comprehensive financial solution of “Sunshine E-guarantee Express” in collaboration with Public Resource Transaction Centre, upgraded the “Sunshine E-financing Chain” and “Sunshine Supply Chain Cloud Platform”, fully leveraging on whole-process online business and thus innovating customer service with technology support. It officially launched the “Sunshine Wages” financial service brand, which covers such services as wages payment guarantee for migrant workers, corporate agency payroll payment account and retail agency payroll payment. Besides that, the Bank actively implemented policies to facilitate trade and investment and financing in free trade zones, properly supporting the development of real economy.

Retail Banking Business

The Bank offers its retail banking customers a wide range of products and services, including retail deposits, wealth management, private banking, retail loans, credit card business, digital banking and Cloud Fee payment. Focusing on building the digital retail banking and following the guideline of “connecting to scenarios externally, developing platforms internally, adopting data-driven approaches and pursuing integrated operations”, the Bank promoted the digital transformation covering all customers, all channels and all products, and built a full digital service link of customer acquisition, marketing, exploring and access. It innovated the model of retail customer acquisition and tiered operation, which increased the total number and improved the quality of retail customers. It also intensified efforts in the structural adjustment on the liability side, resulting in the increase in retail deposits and optimisation of the retail deposit structure. To deepen the transformation of wealth management, the Bank reinforced the formation of the individual customer ecosphere of Wealth E-SBU and saw an increase in wealth management capability and value of retail channels. It advanced the transformation of retail loan business and created hit Sunshine retail loans to support the development of inclusive finance, and continuously improved the asset quality.

The Bank's retail banking business has experienced continued growth in recent years and as at 31 December 2020, it represented the second largest component of the Bank's loan portfolio. The Bank's personal loans accounted for 43.50 per cent., 42.68 per cent. and 42.64 per cent. of the Bank's total loans as at 31 December 2018, 2019 and 2020, respectively, and the Bank's personal deposits (including personal demand deposits and personal time deposits) accounted for 20.01 per cent., 22.78 per cent. and 23.13 per cent. of the Bank's total deposits from customers as at the same dates, respectively. For the years ended 31 December 2018, 2019 and 2020, the Bank's retail banking business generated operating income of RMB46,518 million, RMB54,683 million and RMB58,678 million, respectively, representing 42.14 per cent., 41.13 per cent., and 41.12 per cent. of the Bank's total operating income, respectively. Specifically, for the year ended 31 December 2020, the net interest income from retail banking was RMB42,186 million, up 9.77 per cent. from the same period of previous year, accounting for 38.11 per cent. of the total net interest income of the Bank for the same year. For the year ended 31 December 2020, the net non-interest income from retail banking reached RMB16,492 million, up 1.48 per cent. from the same period of previous year, accounting for 51.53 per cent. of the total net non-interest income of the Bank for the same year.

Major Products and Services

Retail customers and AUM

The Bank worked hard to expand the base of new customers and tap the value of existing customers towards the core objective of "a bigger, better-structured customer base". The Bank strengthened the coordinative operation of online and offline businesses through customer life-cycle management, backed by data mining models. Conducting precision marketing across different tiers and customer groups, a market-oriented and customer-centred operation system was formed, which was tiered, centralised and professionalised.

Retail deposit business

Adhering to the operating philosophy of "developing based on deposit business", the Bank implemented the regulatory requirements on standardising and reducing structural deposits, deepened customer-oriented integrated operations and promoted the structural improvement and the growth of personal deposits. It developed its batch payroll agency business by improving "Payroll Manager", a payroll-based integrated financial service platform. The Bank gave full play to the role of projects in acquiring customers in batch through deep involvement in channels and scenarios including health and medical care, social security and people's livelihood, business district management, community property, transportation, culture and education tourism, consumer payment and internet innovation platform, and launched targeted marketing to increase customers' comprehensive contribution.

Wealth management

The Bank continued to speed up the transformation of wealth management, improved its management system, built a professional wealth management team, and strengthened the tiered customer group operation, facilitating the continuous increase of scale and income of wealth management business. It actively implemented the new rules on asset management, steadily furthered the transformation of personal wealth management and perfected the "Colourful Sunshine" series wealth management product system. As at 31 December 2020, the size of transformative wealth management products grew by 40.30 per cent. over the end of the previous year. The Bank energetically promoted the development of the individual customer ecosphere of Wealth E-SBU focusing on five scenarios of "Charming Travel", "Health and Elderly Care", "One-stop Wealth Management Services", "Private Banking & Investment Banking +" and "Benefit Cloud Life", stepped up customer migration, cross selling, product innovation and integrated services based on the coordination advantages of China Everbright Group, and provided individuals with a full package of financial solutions.

Private Banking

In 2020, the Bank set up Private Banking Department to focus on high-net-worth customer segmentation and value exploration, as an important measure to build a first-class wealth management bank. It created an operation model of private banking customer groups featured with data-based customer attraction, scenario-based customer acquisition and whole-process company (DSC), upgraded the layered operation system, thus forming a "1+N" integrated service system. With the endeavour to advance the net value-based transformation of agency products with an accelerated pace the Bank realised a year-on-year increase of 219.52 per cent. in agency sales of mutual funds, and a year-on-year increase of 50.07 per cent. in agency instalment premium throughout the year. Meanwhile, the Bank strengthened its vertical management by optimising private banking organisation system consisting of three levels including the Head Office, branches and sub-branches, built up a private banking team with wealth management managers, investment consultants at the core, and established a new team working model that is systematic, professional and standardised. It also promoted the intelligent risk control system building of private banking, launched new agency system, video and audio recording system and Wealth AI+ project, and set up the AI-enabled intelligent video verification function of mobile banking, the second one in the industry. Moreover, the Bank collaborated with China Everbright Group fully in banking, securities, trust, insurance and fund businesses, and made solid efforts in scenario-based marketing and customer migration, thus further enhancing its comprehensive service capabilities. As at 31 December 2020, the Bank had 40,112 private banking customers, an increase of 7,905 or 24.54 per cent. as compared with 31 December 2019.

Retail loans

The Bank pursued digital transformation of retail loans, and continued to improve the financing experience of customers through tech empowerment and innovation in products and services and to develop Sunshine hit products of personal loans. Adhering to the business development principle of "increasing loan granting, reducing costs and providing convenience", the Bank kept lowering the financing costs of customers to support micro and small enterprises in resumption of work and production, and to boost the development of inclusive finance. It strictly implemented the real estate macro-regulation policy of the government to support the demands of housing ownership for both self-occupation and improvement. Meanwhile, the Bank put more efforts in scenario-based customer attraction and acquisition, met the reasonable needs of customers for consumer financing and facilitated the development of consumer finance. Through the accelerated upgrading and iteration of IT systems, the Bank applied technologies to enable retail loans conducted online in an intensive, standardised, intelligent, online, and agile manner, and made marketing and risk control more efficient, in a bid to achieve high-quality sustainable development.

Credit card business

The Bank accelerated online and digital transformation, and ensured delivery of financial services in the wake of the COVID-19 pandemic. It extended repayment periods and reduced or exempted fees for affected customers, and launched the "Angel Program" to repay medical workers, helping its partners resume work and production. The Bank pushed forward the development of hit products. Specifically, it issued the "Filial Piety Card" to improve the layout of high-end products; focusing on young customer groups, it deepened the operation of TikTok Card, launched the "Cool Number Card", developed the "Online Shopping Pal", and upgraded the "RMB10" series marketing activities. The Bank developed diversified modes to acquire customers through digital channels, scenarios, Head Office-branch coordination and corporate-private collaboration.

Digital banking

The Bank continued to advance the digital strategy of the Group, accelerated the development of digital banking, and promoted online and mobile transactions. At the early stage of the pandemic, the Bank rolled out contact-free financial services to help with the fight against COVID-19, ensured continuous operation of remote banking, and launched a green channel for anti-epidemic business on Cloud Payment. It boosted the development of the Group's wealth ecosphere, gave full play to the Group coordination, and made remarkable achievements in bank-securities cooperation and bank-insurance-securities joint marketing. With further enhanced influence of digital finance, the Bank was awarded the "Best Digital Bank" by China Financial Certification Authority (CFCA) for seven consecutive years.

Cloud Fee Payment

The Bank continued to maintain its leading edge as China's largest open-ended and convenient fee payment platform, extended the access to fee payment projects, and continuously increased the coverage of agency fee collection services regarding water, electricity, gas, heating, communication and cable TV. As a result, the number and amount of agency payments for government affairs rose significantly. The Bank further stepped up efforts to export platform cooperation, broaden service channels and enhance the cloud payment service capability. It continued to simplify operating procedures and optimise user experience by launching financial products such as Payment Wallet and Wealth Wallet under payment scenarios, and actively build an integrated "finance + life" ecosphere. Acting as an online convenient platform with a large number of projects and channels, Cloud Fee

Payment provides great experience to all users and made contributions to the fight against the pandemic by promoting social distancing. The brand of Cloud Fee Payment became increasingly popular due to inclusive and convenient services, and the China's Convenient Fee Payment Industry White Pages had been released for six consecutive years. Being widely approved, the platform also won the first prize of Science and Technology Development Award from PBOC and the Best Social Responsibility Case Award from China Banking Association.

Financial Market Business

The Bank's financial market business primarily covers treasury business, inter-bank money market transactions, asset management and asset custody. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts. The Bank also trades in debt securities, derivatives and foreign currency trading for its own accounts.

The Bank promoted financial market business development along with COVID-19 prevention and control, turning the pandemic crisis into an opportunity for development. It continued to firm up the investment and trading business, support the development of real economy, and innovate the Sunshine brand to improve its product value and services. In an enhanced endeavour to advance the transformation of wealth management, the Bank increased the proportion of net-asset-value (NAV) wealth management products, issued multiple featured wealth management products that were related to anti-pandemic, stock index, gold-linked, and public health safety, and went all out to strengthen the brand of its custody business, with increases in both custody scale and income, thus boosting the high-quality development of the financial market business.

For the years ended 31 December 2018, 2019 and 2020, operating income from the Bank's financial market business amounted to RMB18,935 million, RMB24,765 million and RMB24,225 million, respectively, representing 17.15 per cent., 18.63 per cent., and 16.98 per cent. of the Bank's total operating income, respectively.

Treasury Business

Constantly strengthening the research on macroeconomic situations, the Bank continued to improve the investment and trading of proprietary bonds, invested in and underwrote anti-pandemic bonds, and supported real economy with concrete efforts. The Bank carried out monetary transactions steadily, improved capital operation efficiency and ensured liquidity safety. It expanded its investment in bonds, and improved asset allocation structure by purchasing more treasury bonds, local government bonds, policy financial bonds and high-grade credit bonds. And the Bank ranked at the forefront of joint-stock commercial banks in terms of the underwriting of treasury bonds and policy financial bonds. It developed the hit product "Sunshine Exchange Gain" (Cai Hui Ying) into a complete product package composed of three types of financial derivatives including exchange rate, interest rate and credit, thus improving its capability of serving customers. The Bank also improved the comprehensive risk control system to ensure the treasury business would be conducted in an orderly and compliant way.

Inter-bank Business

The Bank stringently implemented regulatory requirements, strengthened the management of specialised interbank business, and maintained an appropriate scale of interbank business to ensure compliance and prudence in operation. It conducted market research and judgment to ride on market trends, supported the development of real economy, and improved the quality and efficiency of business allocation. It continued to pay attention to liquidity safety and fulfilled the function of bank-wide liquidity management. Adhering to the bottom line of risk management, the Bank kept business risks under strict control, stepped up early warning and monitoring of credit risks, and maintained the stability of asset quality to realise the high-quality development of the interbank business. Moreover, the Bank managed interbank customers in a coordinated manner, strengthened customer base and expanded business cooperation.

Asset Management Business

Following the regulatory guidance and relying on its wealth management subsidiary, the Bank strengthened the asset management system. In support of COVID-19 prevention and control, the Bank made active contacts with pharmaceutical, medical and public health infrastructure construction institutions in Hubei and surrounding areas to issue multiple anti-pandemic products, and invested in special bonds for pandemic control and prevention and other anti-pandemic-related projects.

With "Colourful Sunshine" product system at the core, the Bank enhanced the product diversity with the product "Sunshine Orange Gains with Absolute Profit" achieving the sales performance of RMB20 billion in one and a half days. The Bank also expanded sales channels by conducting scenario-based marketing, and cooperating with multiple agencies, to provide integrated online and offline services. It enhanced the ability of investment, extended equity investment layout, made more active equity investment of wealth management products through the launch of equity products including Sunshine Red Public Health & Safety, CSI 300 Dividend Index, and ESG Industry Selection Wealth Management, and achieved sound performance. Meanwhile, the Bank put in place a comprehensive risk management system featuring unified management of credit risk, centralised management of market risk, stratified management of operational risk and independent management of liquidity risk to stimulate the sound development of wealth management business.

As at 31 December 2020, the Bank recorded RMB836,273 million in balance of non-principal-guaranteed wealth management products, representing an increase of 7.37 per cent. from the year ended 31 December 2019. For the year ended 31 December 2020, the Bank accumulatively issued RMB3.98 trillion of non-principal-guaranteed wealth management products. All products under "Sunshine Wealth Management" brand were duly honoured at maturity.

Asset Custody Services

The Bank fully integrated with the E-SBU ecosphere of China Everbright Group, achieving fruitful results in internal and external collaboration. It scaled up efforts in marketing, developed pension finance at a fast speed, and achieved remarkable increase in income from securities investment fund custody, bank wealth management custody and pension custody. The Bank upgraded the new-generation custody system, investment supervision system and performance evaluation system, and improved its capabilities of serving customers. Moreover, the Bank took solid measures to forestall risks, refined the risk matrix model and enhance its internal control and management. For the year ended 31 December 2020, the Bank's income after tax from the custody business amounted to RMB1,445 million and its custody assets amounted to RMB6,250,833 million.

PRODUCTS AND SERVICES PRICING POLICY

The interest rates the Bank charges on its RMB-denominated loans are generally regulated by PBOC. For RMB-denominated corporate loans and personal loans (other than personal residential housing mortgage loans), there has been no lower limit on the interest rate since 20 July 2013 and no upper limit since 29 October 2004. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates with customers on such loans.

Interest rates for the Bank's RMB-denominated demand and time deposits cannot be higher than 150 per cent. of the applicable PBOC benchmark interest rate. However, the Bank is permitted to provide negotiated time deposits to insurance companies and the National Council for Social Security Fund of the PRC under certain circumstances. The Bank is also permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.$3 million or the equivalent.

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by CBIRC and the National Development and Reform Commission of the PRC.

In compliance with applicable regulatory requirements, the Bank prices its products based on criteria including the risk profile of the Bank's assets, an individual customer's contribution to the Bank's business, the Bank's costs, the expected risk- and cost-adjusted returns and the Bank's internal fund pricing benchmarks. In addition, the Bank considers general market conditions and market prices for similar products as well as services offered by its competitors.

DISTRIBUTION CHANNELS

The Bank provides its customers with services through its multi-channel distribution network. The Bank's branch network covers a large portion of the more economically developed areas in the PRC. As at 31 December 2020, the Bank had 39 tier-one branches, 115 tier-two branches, 1,142 outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking department of branches) and 495 community banks in the PRC. As at 31 December 2020, the Bank had five overseas institutions outside Mainland China, with branches in Hong Kong, Seoul, Luxembourg, Sydney and a representative office in Tokyo. The application for establishing the Bank's Macao Branch was approved by CBIRC in November 2020, and the application to overseas regulators and other preparations were in progress. The Bank's distribution network is complemented by various digital banking channels. For more information on the Bank's digital banking channels, see *"The Bank's Principal Businesses − Digital banking*". The Bank's head office is responsible for the overall decision-making and management of the Bank. The Bank's tier-one branches are generally located in the capital cities of provinces, autonomous regions or municipalities and certain other strategically important cities, while its tier-two branches are located in other cities within the PRC's provinces and autonomous regions. The tier-two branches report to the tier-one branches in their respective region and are able to establish lower-tier network outlets in the same city.

INFORMATION TECHNOLOGY

The Bank considers information technology to be one of the driving forces of the Bank's development. The Bank has constructed a multi-level structure of information technology systems covering all aspects of its business operations, including channel management, customer management, product management, transaction processing, financial management, risk management, decision-making support and sharing support. Substantially all of the Bank's business transactions are processed and maintained by its information technology system. The Bank believes that the Bank's advanced information technology system has greatly improved, and will continue to improve, the Bank's efficiency, the quality of the Bank's customer service and the Bank's risk and financial management capabilities.

In recent years, the Bank focused on using customer profiling to achieve digitalised client management and precise marketing through the application of big data and artificial intelligence technologies, promoted intelligence products such as Cloud Fee Payment, Cloud Payment, Sunshine Loan, Sunshine Blockchain, Inclusive Finance Cloud and Trade Finance Cloud to achieve innovative breakthrough and increase in scale. The Bank also promoted channel development by improving the coordination of online, offline and remote channels, establishing digitalised financial service platform with all-channel capacity in order to lay a solid foundation for the transition of digitalisation.

During 2020, the Bank launched key innovation projects on blockchain. Responding to the call for the digitalisation of industrial chain, Ant Duo-Chain (Guang Xin Tong) was launched to put forth efficient digital solutions through the blockchain platform to address the financing difficulties of micro and small enterprises, which won the Award of Honor, the best prize at the "2020 China Fintech Innovation Competition" organised by the China Financial Certification Authority (CFCA). The Bank also developed remote video services and fostered technological and talent strengths. The video function under mobile banking served customers for 730,000 times accumulatively, with the average number of uses per day at over 2,001 times and reporting customer satisfaction ratio of 99.62 per cent.

The Bank constructs its bank-wide information security system in accordance with its actual needs and by reference to international standards and norms. The Bank has adopted a variety of security measures to enhance the security of its information technology system and the reliability of its operations, including advanced firewall technologies, hacker detection systems, network monitoring and other safeguards and systems.

The Bank outsources some applications and information technology functions to independent third parties. The Bank selects suitably qualified outsourcing companies through a bidding process and conducts strict scrutiny of such third parties. Generally, the Bank enters into service contracts with outsourcing companies and then manages and supervises their daily operations. In addition, the Bank carries out inspections to assess their overall service quality and their main service personnel on a regular basis. In order to reduce the risks associated with the outsourcing, the Bank monitors the whole outsourcing process. In addition, the Bank focuses on the continued improvement of its technological capabilities throughout the outsourcing process, as well as the transfer of information.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in the PRC. The Bank currently competes primarily with large commercial banks and other national joint stock commercial banks. The Bank also faces increasing competition from other financial institutions, including commercial banks and foreign banks operating in the PRC. The Bank's competition with other commercial banks and financial institutions in the PRC primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, coverage of distribution network and brand recognition, as well as information technology capabilities. Furthermore, the Bank faces competition in the provision of financial services to its customers from non-banking institutions such as securities firms and insurance companies.

The Bank's competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its World Trade Organisation commitment, the PRC government eliminated measures restricting the geographical presence, customer base and operational licences of foreign-invested banks operating in the PRC. In addition, the PRC's Closer Economic Partnership Arrangement with Hong Kong and Macau and the subsequent supplemental agreements, as well as the Cross-Straits Economic Cooperation Framework Agreement, allow banks from Hong Kong, Macau and Taiwan to conduct certain business in the PRC, which has also increased competition in the PRC banking industry. In addition, further policies and regulations such as the Opinion on Providing Financial Supports to Guangdong-Hong Kong-Macau Greater Bay Area issued by PBOC, CBIRC, CSRC and SAFE (中國人民銀行、中國銀行保險監督管理委員會、中國證券監督管理委員會、國家外匯局關於金融支持粵港澳大灣區建設的意見） on April 24, 2020 may provide further supports for the open-up of the banking, insurance and securities industry.

See "*Risk Factors − Risks Relating to the PRC Banking Industry − The Bank faces increasingly intense competition in the PRC's banking industry and competition from other investment and financing channels*".

In response to this competitive environment, the Bank intends to continue to implement its strategies to differentiate the Bank from its competitors and to enable the Bank to continue to compete effectively in the PRC commercial banking industry.

EMPLOYEES

As at 31 December 2020, the Bank had 46,316 employees (excluding those of the Bank's subsidiaries). In terms of educational background, 5,921 incumbent employees held a junior college degree or below, accounting for 12.78 per cent. of the total employees, 32,958 incumbent employees held a bachelor's degree, accounting for 71.16 per cent. and 7,437 incumbent employees held a master's degree or above, accounting for 16.06 per cent. of the total employees.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank has established a performance-based compensation system whereby an employee's compensation is determined based on his/her position and performance review. In addition, the Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank provides its employees with training sessions in various areas, such as the international economic environment, globalisation of and competition in the finance industry, environmental-friendly finance, low-carbon economics, sustainable development, high-performance team building, banking industry innovation and service, detailed management, model-based operations, project management, corporate culture, bank development strategy, legal compliance, risk management, retail banking business, corporate banking business, financial compliance, information disclosure, electronic banking business and human resources management.

The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. The Bank has not experienced any strikes or other material labour disputes that have interfered with the Bank's operations, and the Bank believes that the relationship between the Bank's management and the labour union has been, and remains to be, good.

As at 31 December 2020, the Bank had also engaged a number of independent contract workers by signing contracting agreements with third-party human resources agencies. In accordance with the temporary supplemental or replaceable employment policy stipulated under the PRC Labour Contract Law (中華人民共和國勞動合同法), these independent contract workers generally do not hold important positions with the Bank. Such independent contract workers enter into labour contracts with the relevant third-party human resources agencies instead of with the Bank. According to the contracting agreements with the third-party human resources agencies, the Bank is obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. Although the Bank is under no statutory obligation to make social insurance contributions in relation to these independent contract workers under PRC law, if the third-party human resources agencies fail to do so, the Bank may be jointly liable for any claims brought by them. However, in such case the Bank would be entitled to seek indemnification from the third-party human resources agencies.

PROPERTIES

The Bank is headquartered in Beijing, PRC.

For some of the properties it holds and occupies in the PRC, the Bank has not obtained title certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant valid title certificates as soon as practicable. The Bank has been unable to obtain certain of these title certificates due to various title defects or for other reasons. While there may be legal impediments to its obtaining certain of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial as compared to all of the properties it owns. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing the ability to use all of such properties at one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole.

For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly served for commercial uses including outlets, offices and ATM. As the owner of the properties, the lessors are responsible for applying relevant valid title certificates or providing the Bank the consent to lease properties. In respect of this, the Bank has pro-actively procured these lessors to apply for the relevant valid title certificates or provide the Bank the consent to lease properties. The Bank is of the view that most of these leased properties occupied can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on its operations.

See "*Risk Factors − Risks Relating to the Bank's Business − The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and the Bank may be required to seek alternative premises for some of the Bank's offices or business premises due to the Bank's landlords' lack of relevant title certificates for some leased properties*".

INTELLECTUAL PROPERTY

The Bank's intellectual property primarily includes trademarks, patents, domain names and copyrights. The Bank conducts business under the "China Everbright Bank," "CEB" and "中國光大銀行" brand names.

INSURANCE

The Bank maintains insurance coverage that is typical in the banking industry in the PRC and to cover amounts that the Bank believes to be adequate to its operations and circumstances.

LEGAL AND REGULATORY

Legal Proceedings

The Bank is involved in certain legal proceedings in the ordinary course of the Bank's business. Most of these proceedings involve enforcement claims initiated by the Bank to recover payments of the Bank's NPL. The legal proceedings against the Bank include actions relating to customer disputes and claims brought by the Bank's counterparties on contracts related to the Bank's banking operations.

None of the Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Bank is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

Regulatory Reviews and Proceedings

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including PBOC, CBIRC, MOF, CSRC, SAMR, SAFE, NAO and SAT, as well as their respective local offices. These audits and examinations have previously resulted in findings of non-compliance issues and the incurrence of certain penalties. Although these issues and penalties did not have any material adverse effect on the Bank's business, financial condition and result of operations, the Bank has implemented remedial and preventative measures to protect against the recurrence of such incidents. The Bank believes that, save as disclosed in this Offering Circular, there were no other material breaches and material incidents of regulatory non-compliance.

RISK MANAGEMENT

OVERVIEW

As a commercial bank, the Bank is subject to a number of risks, primarily including credit risk, market risk, operational risk, liquidity risk and compliance risk. In order to manage these risks, the Bank is committed to establishing a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting and control of such risks. The Bank has been dedicated to strengthening its risk management, with the NPL ratio of the Bank's total loans and advances to customers being 1.59 per cent., 1.56 per cent. and 1.38 per cent. as at 31 December 2018, 2019 and 2020, respectively.

The Bank's principles for risk management are to steer the optimisation of business portfolios by using the Bank's economic capital management framework and risk pricing mechanism to facilitate the match between the returns and the risks assumed, and to maintain the Bank's risk exposure within acceptable risk levels in coordination with the implementation of the Bank's overall business strategies and comprehensive risk management system. On this basis, the Bank ultimately aims to maximise returns to its shareholders by maintaining capital adequacy levels that balance the Bank's risk exposure with its strategic objectives while striving to comply with the relevant regulatory requirements.

The Bank's risk management principles are as follows:

(i) Comprehensive risk management: to establish and refine the Bank's comprehensive risk management covering various major risks;

(ii) Independent risk management: the Bank's risk management system is kept independent from the Bank's business operational system; and

(iii) "Creating value through effective risk management": the Bank creates business value by achieving a balance between risk and return and a balance between control and efficiency.

The Bank's risk management objectives are as follows:

(1) To cultivate a proactive risk management culture of "creating value through effective risk management" by:

- improving the Bank's policies and procedures, strengthening the Bank's training and implementing a position certification system to improve the quality of the Bank's business and risk management personnel;
- senior management setting an example for the Bank's staff and increasing accountability in order to raise staff's awareness of risk; and
- including risk management performance as an evaluation criterion for staff appraisal, branches, sub-branches and various departments.

(2) To formulate and adhere to proactive and prudent risk management policies by:

- applying differentiated policies at different levels, standardising the policy and management procedure through expert participation, regular reviews, and implementing the Bank's principles of fully identifying risks, accurately assessing risks, and taking reasonable risks;
- establishing regular review mechanisms and continuous optimisation of the relevant mechanisms in order to better balance the relationship between principles and flexibility, the relationship between differentiation and consistency and the relationship between economic interests and social responsibility; and
- enhancing the Bank's policy execution system.

(3) To build up a risk management organisational matrix by:

- building up the Bank's risk management organisational structure and system in accordance with the principles of vertical management for credit risk, centralised management for market risk and hierarchical management for operational and compliance risks in order to reflect the risk management needs of the Bank's business development;
- improving the Bank's risk management organisational matrix and extending such structure to tier-two branches, cross-city and county-level sub-branches;
- defining a clear allocation of functions and responsibilities among the Bank's various committees, departments, units and personnel to prevent any gap or overlap of duties and authorities, and to increase the Bank's risk management efficiency; and
- ensuring the independence and professionalism of the Bank's Risk Management Department and aligning its functions closer to market conditions and the Bank's business objectives.

(4) To ensure prudent and effective risk management processes by:

- focusing on the different characteristics of credit risk, market risk, operational risk, liquidity risk and compliance risk and building corresponding risk management processes;
- implementing a system of comprehensive early warnings, prompt risk reporting and a swift response to risks; and
- ensuring that the Board of Directors, its Risk Management Committee and senior management promptly monitor various risks and adopt effective measures to prevent and resolve such risks.

(5) To set up an appropriate and active advanced technology support system for proactive risk management by:

- following the core principles of Basel III and adopting the best practices of banks both within and outside the PRC;
- setting up a technology support system that covers effective measurement, analysis and management of credit risk, market risk, operational risk, liquidity risk and compliance risk; and
- utilising advanced technology to support more specialised and targeted risk management processes.

KEY RECENT IMPROVEMENTS IN RISK MANAGEMENT

The key risk management improvements the Bank has made in recent years are as follows:

- In January 2007, the Bank implemented a risk and control self-assessment programme across various business lines as well as in the Bank's branches and sub-branches, conducted risk investigations using process analysis methodologies by taking into consideration internal and external data relating to operational risk incidents together with findings from audit and compliance inspections, and improved the effectiveness of risk control measures.
- In November 2007, the Bank established the Operation Management Department, which is responsible for managing clearing and settlement activities within the Bank, approving the disbursement of corporate and retail credit and conducting centralised management for letters of credit, letters of guarantee and other settlement products. By standardising the Bank's operations, the Operation Management Department helped improve the standards of the Bank's centralised management and the Bank's operations, enhance risk management and improve operational efficiency.

- In February 2008, the Bank integrated the functions and personnel of the three regional credit approval centres into the credit approval department of the Bank's head office, which is responsible for approving loans falling outside the limit of authority of the branch-level Chief Risk Officers. Additional integration of resources was carried out to further standardise and regulate the credit approval process.
- In December 2009, the Bank completed and submitted a Compliance Self-assessment Report and 13 sub-reports concerning compliance guidelines to CBRC.
- In March 2010, the Bank initiated a compliance platform project to fulfil the requirements of the New Basel Capital Accord, which mainly includes compliance self-assessment, project management and the establishment of a risk-weighted assets system.
- In June 2010, the Bank implemented the Bank's operational risk management system.
- In December 2010, the Bank implemented the Bank's market risk management system.
- In November 2011, the Bank submitted an assessment application for the implementation of Basel II to CBRC.
- In January 2012, the Bank began implementing plans to consolidate the Bank's risk management functions by shifting the main reporting line of each business line's Chief Risk Officer and risk management team to the Risk Management Department in order to strengthen the independence of the Bank's risk management functions. The Bank completed such adjustments in December 2012.
- During 2012, the Bank adopted multiple measures to strengthen its risk management, including: (i) enhancing capital management by improving policies and management processes, bolstering capital deployment plans and promoting organic integration between capital management, risk management, assets and liabilities management and financial and business planning; (ii) launching a series of plans and proposals to improve risk management procedures, including an early warning platform for corporate customers, obtaining market information on risks, assessments on the impact of the Bank's debts and promoting accuracy and precision in the Bank's comprehensive risk management system; and (iii) formally commencing the Bank's risk-weighted assets system, which calculates risk-weighted assets based on four methods: initial capital method, weighted method, basic internal rating, and advanced internal rating (with the second, third and fourth methods falling under the principle of the new capital method).
- In early 2013, the Bank completed upgrades of its credit rating system for corporate customers and further improved both the stability of the Bank's credit rating model and the practical business applicability of the Bank's non-retail internal rating adjustments system.
- In May 2013, the Bank established the Credit Management Department at the head office in order to implement a risk management system that better suits the development of the SME and micro-enterprise financial services. The Credit Management Department also aims to enhance the Bank's risk management capability, strengthen the Bank's post-credit management and ensure the quality and stability of the Bank's credit assets.
- During 2014, the Bank dynamically adjusted its credit policies so as to revitalise existing lending and make good use of new credit resources. System, mechanism and procedures of the Bank were improved to enhance the effectiveness of risk management. The Bank also established an external compliance database through the consultation project of implementing internal control standards and compliance management, and the system development was completed and applied across the Bank. Besides, the Bank combined reputation risk management and its strategic development and corporate brand building efforts to further optimise and improve its warning mechanism and countermeasures for reputation risk.
- During 2015, the Bank proactively responded to new challenges in credit risk management during the macro economic downturn. It formulated the Initiative to Further the Reform in Risk Management.

Responsibilities of various functional departments involved in risk management are further clarified. The Bank also started the development and construction of a new generation of anti-money laundering system.

- During 2016, the Bank established three lines of defence in business, risk management and internal audit on the principle of "full range, whole process and all staff control", and improved credit approval efficiency by implementing a "One-stop" approval process for corporate credit business with general risks. Credit Management of the key group clients was strengthened by establishing a Strategic Corporate Banking Department at the headquarter. Credit Risk Alert System was put into operation, control over key sectors of the credit business was tightened, centralised registration of collaterals, inspection of tax receipts and signed underwriting formalities were tightened. Besides, the Bank managed to launch the Data Market of Market Risk and pushed forward the building of the Market Risk Metering Engine in the aim of enhancing its abilities of integrating market risks information and its risk measuring capabilities. The Bank continuously improved its operational risk management framework and system by establishing new operational Loss Data Collection reporting standards, re-checking history loss events, re-setting Key Risk Index and threshold value.

- During 2017, the Bank strove to optimise the credit structure, took serving the real economy as the fundamental approach to guarding against risk, actively supported enterprises in transformation and upgrading, and properly developed industrial finance in a down-to-earth manner. Based on major national strategies such as the "Three New Strategies", the construction of Xiong'an New Area and the development of "Guangdong-Hong Kong-Macau Greater Bay Area", the Bank made great efforts to develop infrastructure finance. While the deleverage initiative gained momentum day by day, the Bank upheld "daytime liquidity security and regulatory attainment" as its bottom line for risk management, in a bid to keep the bank-wide liquidity risk management indicators within a reasonable range.

- During 2018, the Bank continued to improve its comprehensive risk management system, performed its duties in relation to "three lines of defence", and strengthened the coordinated management of various risks as per the unified management of policy, approval, monitoring and resolution. the Bank comprehensively carried on centralised Anti-money Laundering operation model while setting up Anti-money Laundering centres inside branches.

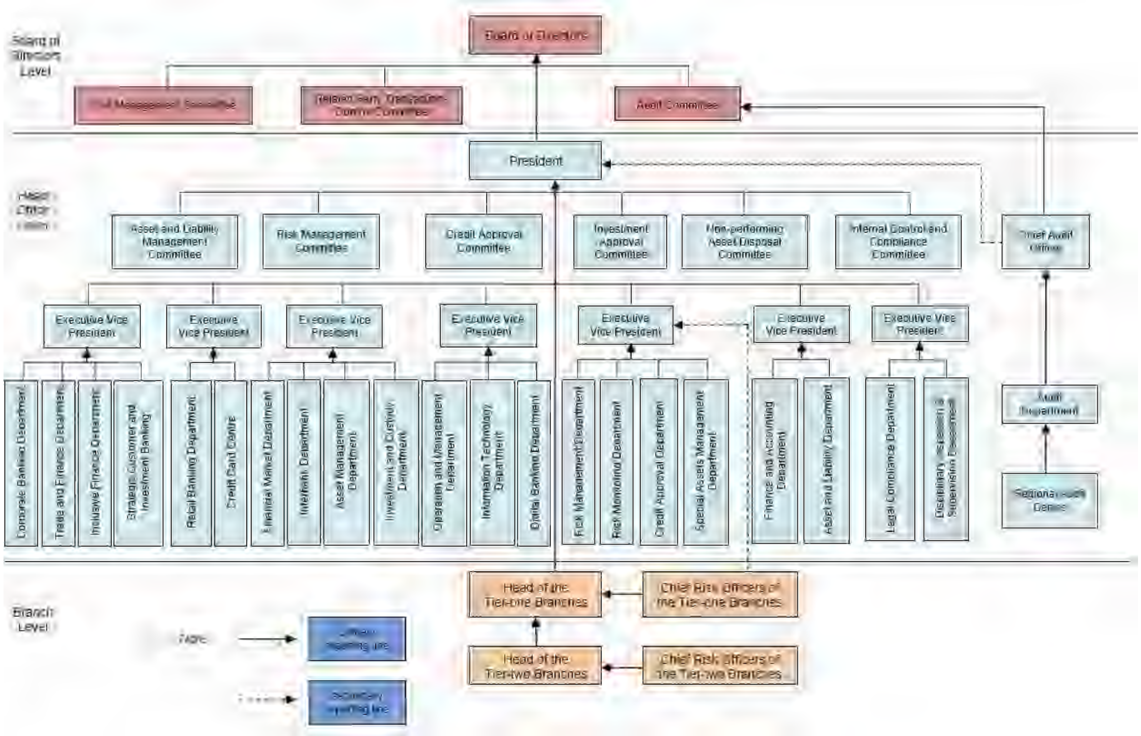
- In 2018, the Smart Risk Control Centre was established, upholding the philosophy of "tech for social good, people first and serving people", and exercising "open and shared, independent and controllable, agile and efficient development with mutual progress of man and technology". Leveraging independent algorithm capabilities and big data resources, the Centre supports multiple business scenarios of inclusive finance, provides one-stop smart risk control solutions and empowers digital transformation.

- During 2019, the Bank continued to improve its comprehensive risk management system, improved the credit structure, held a prudent and sound liquidity risk management policy, improved its market risk management system, actively established an organisational structure and management system for large exposures management, incorporated country risk into its comprehensive risk management system, continuously emphasised responsibilities of the "first line of defence" in operational risk management, strengthen the compliance risk management, established a reputational risk management mechanism applicable to the whole bank, formulated money laundering risk management policies and revised the AML internal control rules, upheld the business strategy of "aggregate management, prudent implementation, differential credit extension and strict risk control" in the real estate sector and firmly conducted the supply-side structural reform.

- The ability to manage the Bank's liquidity needs for its day-to-day operations is one of the key priorities for the Bank. In response to concerns about the tightening of liquidity in the PRC banking industry from time to time which resulted in significant temporary fluctuations in the inter-bank lending rate during certain periods, the Bank has emphasised amongst its departments the overriding importance of sound liquidity, increased its reserve level, and arranged for stronger short-term liquidity commitments, as well as implemented further upgrades to its internal controls to mitigate potential operational risk, including: (i) centralising liquidity gap solutions through inter-bank financing under the Bank's head office; (ii) enhancing the daily critical point calibration mechanism; (iii) re-evaluating the operational and liquidity risk management system and the reporting mechanism; (iv) strengthening the Bank's procedures in emergency management; and (v) controlling the scale of the Bank's inter-bank business and executing improved matching of inter-bank assets and liabilities.

RISK MANAGEMENT STRUCTURE

The chart below illustrates the Bank's risk management structure:



Board of Directors and Board Committees

The Board of Directors is the highest decision-making authority within the Bank in terms of risk management and is responsible for determining the overall risk management strategies and making important decisions for the Bank. It is also responsible for: determining the Bank's risk tolerance; examining the risk precaution measures formulated by the Bank's senior management; deciding on the fundamental management system and the establishment of the Bank's internal management organisation; appointing senior management; examining the internal control assessment reports provided by management, audit and regulatory authorities; reviewing and commenting on the effectiveness of the Bank's internal control system; and supervising senior management's continuous improvement of the Bank's internal control system. The Board of Directors performs its risk management functions through the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee.

The Risk Management Committee is responsible for formulating the Bank's risk management strategies and overall risk tolerance, and implementing such strategies and risk tolerance upon approval of the Board of Directors. It is also responsible for: supervising senior management in their management of credit, market and operational risks; assessing the Bank's risk management system and making recommendations to the Board of Directors; preparing periodical risk management reports for submission to the Board of Directors; developing management targets with respect to the Bank's capital adequacy ratio; and advising on related information disclosure.

The Audit Committee is responsible for monitoring and supervising the Bank's internal control function as well as overseeing the Bank's accounting policies and financial reporting procedures.

The Related Party Transactions Control Committee is responsible for the implementation of policies and guidelines relating to the review, approval, management and supervision of the Bank's related party transactions, as well as the assessment of the potential risks they may give rise to.

For further details of the respective responsibilities of the Bank's Board of Directors, as well as the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee, see "*Directors, Supervisors and Senior Management – Board of Directors Committees*".

Senior Management and Special Committees

Based on the risk management strategies reviewed and approved by the Board of Directors, the senior management formulates, implements and manages various policies, systems, rules and limits covering a wide range of risks during the course of their day-to-day operations and management functions in order to ensure that all types of risks are effectively managed and controlled. The Bank's senior management has established the following special committees: the Asset and Liability Management Committee, the Risk Management Committee, the Credit Approval Committee, the Non-performing Asset Disposal Committee and the Internal Control and Compliance Early Warning Committee, which coordinate, organise and supervise their respective risk management functions.

President

The Bank's President is responsible for the operation and management of the Bank, including overall risk management and implementation of decisions made by the Board of Directors. The Bank's President submits business plans to and implements such plans upon approval by, the Board of Directors. The Bank's President also formulates the Bank's internal management organisational structure, core management policies and specific rules and procedures. The President may undertake other functions and exercise other powers as conferred upon him under the articles of association or by the Board of Directors.

Executive Vice President in Charge of Risk Management

The Bank's Executive Vice President in charge of risk management reports to the Board of Directors' Risk Management Committee and the President on bank-wide risk exposure, material matters relating to risk and corresponding solutions, as well as the organisation and operation of the Bank's risk management system. The Bank's Executive Vice President in charge of risk management is also responsible for formulating and, upon obtaining the relevant approval, implementing the Bank's risk management framework, principles and strategies based on the Bank's overall development strategies. Furthermore, based on his authority, the Bank's Executive Vice President in charge of risk management: approves and supervises the implementation of risk management indicators for various business activities, bank-wide risk management policies and reporting processes; carries out assessments of the risk management system; examines and approves the detailed rules on risk management; and is responsible for tailoring the Bank's risk management system to achieve its risk management objectives. The Chief Risk Officers of tier-one branches report to the Bank's Executive Vice President in charge of risk management.

Special Committees under Senior Management

- **Risk Management Committee.** By taking into consideration the external economic environment and the Bank's business development and risk management, the Risk Management Committee reviews the Bank's risk management strategies and provides suggestions on amendments to such strategies to the Bank's President at the executive meetings. It is also responsible for: the review of the Bank's risk management policies, procedures and rules and regulations, as well as their implementation upon submission and approval in accordance with the management procedure; the review of reports on the bank-wide risk profile, material matters relating to risk and risk management, and the organisation and operation of the Bank's risk management functions; and the review of risk management issues raised by relevant departments of the Bank's head office and by the Bank's branches.

- **Asset and Liability Management Committee.** The Asset and Liability Management Committee is responsible for reviewing and providing guidance for the Bank's business development plans. It is also responsible for reviewing and determining annual targets and plans for the allocation of assets, liabilities and off-balance sheet items and making adjustments to such targets and plans in accordance with specific circumstances. Further, it regularly reviews reports on the bank-wide asset and liability status. It is also responsible for the management of bank-wide liquidity risk and the interest rate risk of banking books.

- **Credit Approval Committee.** The Credit Approval Committee is responsible for the examination and approval of credit applications that are beyond the limits of authority of the Credit Approval Department of the Bank's head office and for providing guidance on matters relating to credit examination and approval throughout the Bank.

- **Non-performing Asset Disposal Committee.** The Non-performing Asset Disposal Committee reviews and approves procedures, incentive measures and relevant policies for the disposal and recovery of non-performing assets as well as examines and approves asset disposal proposals, the repayment of debts by assets, loan foreclosure on repossessed assets, loan write offs and litigation relating to non-performing assets and risk agency matters.

- **Internal Control and Compliance Early Warning Committee.** The Internal Control and Compliance Early Warning Committee reviews early warning signal reports, approves proposals for handling early warning signals, instructs relevant departments to conduct special investigations, implements action plans in relation to early warning signals and performs other compliance functions with respect to the management of early warning signals.

Head Office Risk Management Departments

Risk Management Department

The Risk Management Department coordinates and puts in place comprehensive risk management for credit, market and operational risk. It is responsible for: formulating policies and procedures for risk management; regular review and modification according to actual circumstances, and setting out relevant implementation rules; formulating, tracking and improving the Bank's credit policies, risk management system and methods and the rules and processes of making credit-related decisions; compiling and collating various types of risk management reports and reporting to senior management, the Asset and Liability Management Committee and the Risk Management Committee of the Bank and the Risk Management Committee of the Board of Directors in a timely manner; formulating strategic plans for the Bank's credit portfolios composition; analysing the performance of the Bank's credit portfolios; and organising, developing and maintaining risk management systems and models.

Credit Approval Department

In accordance with the Bank's credit policies and procedures, the Credit Approval Department is responsible for: examining, considering and approving various types of credit business applications within their limit of authority; administering the specific delegation of credit approval authority in the Bank's credit business; formulating plans for credit approval authority delegation in the Bank's credit business; organising, monitoring, administering and appraising the bank-wide implementation of credit approval authority delegation; and periodically reviewing the credit examination and approval activities of lower-level credit approval functions.

Credit Management Department

The Credit Management Department performs three core functions: (i) data analysis and model building at the portfolio level, (ii) post-credit-granting review and management and risk warning at the business level, and (iii) key operating procedure control at the process level. The Credit Management Department is responsible for coordinating credit risk monitoring and portfolio management for large, medium, small and micro-sized credit granting operations at the Bank. Additionally, the Credit Management Department conducts industry and credit asset portfolio data analysis, formulates and maintains the Bank's post-credit-granting management system, reviews and examines credit and loans granted to corporate and retail customers, monitors and administers key credit business procedures, and monitors events associated with material risks.

Legal and Compliance Department

The Legal and Compliance Department is responsible for: coordinating and organising the management of internal control, compliance risk and legal risk within the Bank; developing the relevant compliance risk management policies and systems; providing guidance for implementing bank-wide compliance tasks; organising legal and compliance inspections for the Bank's businesses and communicating with external regulatory authorities in connection with compliance matters.

Special Loan Administration Department

The Special Loan Administration Department is responsible for: formulating implementation rules on the management of non-performing assets; managing NPL; filing claims against borrowers who become bankrupt or insolvent, or handling follow-up work against borrowers who are liquidated or dissolved; handling debt restructuring in relation to non-performing assets; assessing the rating, interest suspension, waivers of interest and other issues relating to non-performing assets and reporting to the Non-performing Asset Disposal Committee for approval; and preparing application materials relating to debt write-offs for submission to the Non-performing Asset Disposal Committee for examination and approval.

Other Departments

In addition to those set forth above, certain other departments also implement risk management policies and procedures and perform certain management functions within their scope of operation.

Risk Management Structure at the Branch and Sub-branch Levels

Tier-one Branches

The Bank has implemented a programme to assign Chief Risk Officers to tier-one branches. While Chief Risk Officers at the branch level are directly under the leadership of the Bank's head office, they also report to the local branch heads and are subject to the guidance of the Risk Management Department, Credit Approval Department, Credit Management Department, Special Loan Administration Department and Legal and Compliance Department in the Bank's head office in relation to business matters so as to maintain the independence of the risk management of tier-one branches. Chief Risk officers at the branch level supervise the Risk Management Department, Special Loan Administration Department and Legal and Compliance Department of their respective branches and are responsible for managing the credit risk of such branches and examining and approving loans within their limit of authority. They also assist the branch heads in managing operational and compliance risks.

The Head of Tier-one Branches are ultimately responsible for tier-one branch-level operational and management matters. They are in charge of the overall risk management tasks of their local branches and are responsible for creating a favourable atmosphere for risk management and for establishing an effective risk management system. Based on the principle of the hierarchical management of operational and compliance risks, branch heads are responsible for establishing branch-level operational risk and compliance risk management systems at the request of the Bank's head office and have primary responsibility for the management of such risks at the branch level. In accordance with the principle of vertical management of credit risk, branch heads support their respective branch's Chief Risk Officers in managing credit risk by examining the branch/regional marketing guidelines and by exercising the "veto right" in the dual approval process for corporate credit applications.

Tier-two Branches, Cross-city and County-level Sub-branches

In order to standardise the risk management of tier-two branches, cross-city sub-branches and county-level sub-branches and to promote the healthy and orderly development of the Bank's businesses, the Bank has begun to apply the risk management system of tier-one branches to its tier-two branches, cross-city sub-branches and county-level sub-branches.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss that the Bank may suffer from default by an obligor or counterparty of his/her obligations or commitments under a contract. The Bank is exposed to credit risk mainly in the form of loan portfolios, investment portfolios, guarantees and balance sheet and off-balance sheet credit risk exposure. To address the Bank's off-balance sheet credit risk, the Bank implemented a comprehensive risk management programme for all of its off-balance sheet businesses to prevent them from over-expanding by utilising measures such as risk quotas and economic capital evaluations. The Bank incorporated its off-balance sheet businesses into its uniform credit management system and centralised its credit risk management.

The Bank manages credit risk by adopting normalised and unified processes and standards for its credit business. The Risk Management Department of the Bank's head office, in conjunction with other relevant departments, regularly reviews and modifies the workflow and standards adopted for the Bank's credit business. Credit risk management includes corporate credit, retail credit and financial institution credit management and may be broadly divided into three segments, namely: (i) acceptance of credit applications and credit investigations; (ii) credit examination and approval; and (iii) opening of credit lines and post-disbursement management.

Management of Credit Risk Associated with Corporate Credit Business

Acceptance of Credit Applications and Credit Investigation

All applications made to the Bank for corporate credit are handled by the Bank's customer relationship managers. The Bank adheres to the "two-person investigation" principle in carrying out its credit investigations. The primary customer relationship managers and supporting customer relationship managers conduct comprehensive investigations on applicants or target customers, collect relevant information and data and thoroughly assess the credit applicant's eligibility for credit, the customer's solvency, business compliance by which the credit will be utilised and the reasonableness of credit plans. The credit investigation consists mainly of on-site investigation, which is supplemented by indirect investigations. Visits are made to the applicant's financial department, production and operation premises, key managers, clients and creditors with a view to obtaining first-hand data and gaining a comprehensive understanding of the production and operation, management, financial affairs, credit status, and industry information relating to the applicant. If necessary, the Bank may verify the authenticity of the information provided by customers through third party credit investigation agencies, relevant governmental departments, social intermediaries and other commercial banks and file such information for the Bank's records. If a customer relationship manager determines that an applicant meets the requirements of the Bank's credit policies and the basic criteria for credit, the customer relationship manager will request that the applicant submits their credit application and the relevant documents required in connection with the credit application.

The risk managers work in parallel with the customer relationship managers during the credit investigation process to uncover and assess credit risk and provide their opinions on the appropriateness of credit extension. The analysis and assessment of credit business usually include: (i) risk rating; (ii) assessment of credit business; and (iii) assessment of collateral.

(i) *Risk rating*

The Bank's rating of risks associated with the corporate loan business generally consists of borrower rating and facility rating. In general, the Bank carries out both borrower rating and facility rating for the Bank's normal risk corporate loan business and, if the loan is guaranteed, the Bank carries out guarantor rating. Borrower rating is an assessment of a borrower's willingness and ability to repay its debts in the future, based on a comprehensive analysis of the quantitative and qualitative risk factors of a borrower (or a guarantor), and the rating results are shown by credit ratings. The Bank's borrower rating system is composed of 24 different grades, with each individual grade corresponding to a probability of default (PD) in a one-year horizon. Facility rating is an assessment of the expected loss rate (ER) of specific transactions. A comprehensive consideration of borrower rating and default loss rate is shown as the product of the PD and loss given default (LGD). The assessment results are classified into 12 grades.

The Bank uses an internal rating system to rate the risks associated with the Bank's corporate credit business. The Bank's internal rating system, which was developed under the guidance of Basel II, was introduced on a bank-wide basis in 2004. On the basis of business performance indicators and data on the financial status of customers and through customer assessment models, the system measures the probability of default of customers, and, on that basis, computes the preliminary results of customer rating. The customer relationship managers are responsible for the preliminary assessment of borrower rating and risk managers are responsible for review and approval of the borrower rating. The Bank treats credit risk rating results as an important basis for decision-making for its credit business, and have established clear guidelines on thresholds based on risk ratings.

(ii) *Assessment of credit business*

The investigation and assessment of the first source of repayment is the primary part of the credit investigation. Customer relationship managers are responsible for credit analysis and assessment.

The analysis and assessment of credit risk mainly include investigation of: (i) the integrity of a borrower; (ii) authority for a borrower to borrow funds; (iii) use of loans; (iv) profitability of the borrower and the professional management capability for the operation of such borrower; (v) professional knowledge of the borrower; (vi) prospects of the industry in which the borrower operates; (vii) repayment terms; (viii) sources of repayment funds; (ix) forecast of cash flow in various business cycles; (x) current credit and financial information of the borrower and relevant members of its group company; and (xi) valuation of collateral (or pledge) and its validity as well as the ability of guarantors to repay for borrowers and the validity of the guarantee.

(iii) *Assessment of collateral*

For loans with collateral, the value of collateral is usually required to be evaluated by independent appraisers. While different loan-to-value ratios will apply to loans secured by collateral based on the type and the specific condition of such collateral, the ratio should not generally exceed the maximum loan-to-value ratio for such type of collateral. Set out below are the loan-to-value ratios for major types of collateral:

Major types of collateral	**Maximum loan-to-value ratio**
Land use right mortgage (assignment)	70%
Real estate	40%-60%
Machinery and equipment	30%-40%
Certificates of deposits, treasury bonds, financial bonds	80%-90%
Warehouse receipts, bill of lading	70%
Other rights (1)	40%-80%
Other movable assets	50%

Note:

(1) Mainly include other property rights that may be pledged pursuant to the laws and administrative regulations of the PRC, such as receivables, transferable fund shares and shareholder rights.

Where loans are to be guaranteed by a third party with joint and several liability, the Bank conducts an assessment of the guarantor's financial status, credit records and ability to repay for borrowers.

Credit Examination and Approval

Approval Authority

The Bank's Credit Approval Departments are independent from the Bank's business operation units. The examination and approval of credit follow the principles of objectivity and impartiality and opinions as to decision-making are given independently without any interference from internal or external factors. All credit projects are handled in conformity with the stipulations set by the Bank with respect to the investigation and granting of credit and the processes for examination and approval.

The Bank's normal-risk corporate loans are examined and approved by the Bank's authorised approval authorities and personnel, including the Bank's head office's Credit Approval Committee and Credit Approval Department, the Chief Risk Officer of the SME Business Department of the Bank's head office, the Chief Risk Officers of the branches, the general manager of the Risk Management Department of the branches as well as the heads of branch-level SME credit management centres and other authorised personnel, in each case according to the particular authorities granted to them. The Bank's low-risk corporate loans are examined and approved by authorised examination and approval officers in various business lines.

Examination and Approval Process

(i) Normal-risk corporate credit business

Generally, the credit approval process includes the following stages of review and approval:

(1) the customer relationship manager completes a credit investigation report and, upon approval from the persons in charge of the relevant operational units, submits the report to the branch risk manager for review and issuance of a review report;

(2) upon review by the branch-level risk manager, any matter within the authority of the general manager of the branch-level Risk Management Department will be sent to him/her for review and approval. The general manager of the branch-level Risk Management Department directly issues rejections of credit applications and sends accepted applications to the head of the branch-level corporate banking business, who holds veto power, for review and as part of the dual approval process. The head of the branch-level corporate banking business then signs his or her opinion and issues the decision;

(3) upon review by the branch-level risk manager, any matter that exceeds the authority of the general manager of the branch-level Risk Management Department must be submitted as a separate review report to the branch-level Credit Review Committee for comments (certain applications are not subject to this review process and can be directly submitted to branch-level risk officer). Credit applications not approved by the Credit Review Committee are submitted to the Chief Risk Officer, who then issues the rejections. Credit applications that have been reviewed and approved by the Credit Review Committee are submitted to the branch's Chief Risk Officer for approval within the limits of his authority as part of the dual approval process, and then submitted to the branch head, who holds veto power, for review and approval; and

(4) credit applications accepted by the Chief Risk Officer but that exceed the Chief Risk Officer's approval authority may only be submitted to the Bank's head office if the branch head signs a written consent. All credit applications submitted to the head office by the branches and relevant departments of the head office are initially examined for preliminary approval by a junior examination officer of the Credit Approval Department, and then submitted to the competent higher-level review officer or institution for final approval. In accordance with the different features of credit applications, such applications may be approved by meetings or by authorised officers of the Credit Approval Department of the Bank's head office.

(ii) Examination and approval of credit applications from SMEs

For the Bank's SME customers, the approval process generally follows the above process for credit applications. However, an SME applicant of a tier-one branch shall also undergo credit investigation by the SME credit management centre of the Risk Management Department of that branch, followed by a report issued on the investigation. Any applications approved at this stage will then be examined for approval by the head of the branch-level SME credit management centre, unless such approval would exceed his authority, in which case the application will be referred to the general manager of the branch-level Risk Management Department or the branch-level Chief Risk Officer for examination and approval within the limits of his authority. An application which has been approved by the head of the branch-level SME credit management centre within the limits of his authority will then require the issuance of a signed opinion from the general manager of the SME Business Department, who holds a veto right.

For tier-two branches, cross-city sub-branches and county-level sub-branches that have a Chief Risk Officer, an application by an SME customer must be investigated by the risk manager of the branch or sub-branch and then submitted to the Chief Risk Officer of the branch or sub-branch for examination and approval within the limits of his authority. Where the approval of an application requires higher authority, the application will be referred to the tier-one branch Chief Risk Officer for examination and approval within the limits of his authority.

Since 2012, the Bank has implemented various measures in order to proactively address potential risks in connection with the downturn in macroeconomic conditions, as well as strengthen the Bank's risk management and improve asset quality. First, the Bank implemented improved business modelling and improved risk mitigation functions. Second, the Bank strengthened its risk monitoring system and conducted real-time surveillance and on-site examinations. Third, the Bank maintained monitoring of risks associated with SMEs, enhanced monitoring of customers with NPL and increased the Bank's clearing and recovery efforts.

(iii) LGFV credit business

For the Bank's LGFV credit business, the Bank has implemented a risk management system that governs the whole process of the extension of such credit by adhering to commercial principles and by standardising the Bank's operations. In conducting risk assessments to ensure that the borrowers (particularly with respect to new loans) meet the Bank's credit standards, the Bank takes into account the overall solvency of the LGFVs and their debt servicing ability so as to prudently evaluate the risks associated with granting loans to such entities, including collateral risk and maturity risk. In the post-disbursement stage, the Bank continuously monitors factors that may affect repayment and the Bank uses a comprehensive early warning system to identify, categorise, report and address maturity risk. The Bank has developed rating tools that classify the underlying risks of loans to such entities in a more accurate and objective manner and analytical tools to strengthen maturity risk analysis and monitoring.

CBRC requires PRC banks to classify LGFV loans in accordance with the level of cash flow coverage, which refers to a borrower's cash flow divided by the total loan principal and the interest incurred. As at 31 December 2017, the cash flow of the majority of the Bank's LGFV borrowers was sufficient to cover 100 per cent. (or above) of the principal and the interest incurred. The remaining loans were secured by valid guarantees or collaterals or those originated from economically developed regions equivalent to or above the prefectural level.

(iv) Corporate real estate loan business

The Bank requires the implementation of credit life cycle process management for the Bank's corporate real estate loan business, which means that the Bank focuses on mid-to high-end customers and have put in place a specialised and centralised management system for the Bank's entire corporate real estate loan business. The Bank has established the real estate finance centre under the Corporate Banking Department of the Bank's head office, which is responsible for coordinating the Bank's corporate real estate loan operations and reviewing relevant project proposals. The Credit Approval Committee of the Bank's head office, the real estate credit approval centre of the Credit Approval Department and the Chief Risk Officers at the branch level are authorised to carry out the examination and approval of loan applications. After credit extension, the Bank requires that the utilisation of credit match the construction progress of a real estate development project. During the post-disbursement stage, the Bank requires that management, control and risk investigation for loans be strengthened by strictly monitoring the source of funds for repayment and conducting regular reappraisals of the value of collateral and pledged assets. Since 2008, the Bank has been conducting special stress tests on real estate loans and loans granted to industries related to real estate and developing risk measurement tools for loans granted to industries related to real estate.

(v) Low-risk corporate credit business

The Bank's low-risk corporate credit business is conducted through a special credit approval process, and applications are examined and approved by authorised approval officers from the corporate banking business line within the limits of their authority. Low-risk corporate credit applicants are required to fulfil the following conditions: (1) the collateral and pledged assets are cash-equivalent assets or guarantees provided by financial institutions recognised by the Bank; (2) the security provided can discharge in full the obligations relating to the Bank's creditor's rights (including principal, interest and service fees); and (3) the security is not legally defective and there is no associated policy risk.

Opening of Credit Lines and Post-disbursement Management

Opening of Credit Lines

The opening of credit lines involves fulfilling prerequisites for the granting of credit, entering into relevant contracts, loan reviews and making necessary accounting entries. After a credit application is approved, a credit line can be opened only after a disbursement approval centre at the branch level has determined upon examination that the prerequisites for the granting of credit have been fulfilled, the credit contract has been signed by an authorised person, the relevant legal procedures have been completed and the validity of any security has been confirmed. Substantially all of the Bank's credit contracts are in the standard form prescribed by the Bank's Legal and Compliance Department, and those that are not are subject to approval by the Bank's Legal and Compliance Department.

Post-disbursement Management

The Bank has established a post-disbursement management system with defined responsibilities and standardised methods to continuously monitor factors that may affect repayment. The Bank conducts off-site and on-site inspections and applies risk modelling techniques on the basis of the Bank's experience in order to detect the potential risks associated with a specific borrower, issue early warnings and adopt remedial measures. Customer relationship managers are responsible for the day-to-day credit check on the operating conditions and use of credit by their respective borrowers, so as to detect any signs of potential credit default and to adopt risk mitigation measures as soon as possible. Risk monitoring centres of the Risk Management/Credit Management Departments at the branch level are responsible for post-disbursement organisation, supervision, guidance, inspection and reporting. The Bank emphasises monitoring factors that may have a negative impact on the ability of borrowers to make repayment, mainly including (i) the operating and overall credit risk status of a borrower, including its receivables and inventory, changes in operating cash flow and unusual cash outflows; (ii) the status of projects into which loans are injected; and (iii) the condition of assets collateralised or pledged as security for credit, as well as the condition of guarantors.

Early Warning

Following the principles of prompt reporting and quick response, the Bank has established a comprehensive early warning system that sets out early warning processes, including identification, categorisation, verification, reporting, handling and cancellation. The Bank has three types of early warnings based on their degree of urgency and have designed action plans to deal with different types of early warnings so that business units are able to take the necessary measures to deal with risks promptly. The Bank's head office maintains a Risk Management Committee, and each branch has early warning committees, which coordinate the early warning work of the Bank's head office and the branches, respectively. The Bank's head office's Risk Management Committee and the branch-level early warning committees are responsible for early warning management at their respective levels and hold regular meetings to review the status of systematic risk and individual risk in order to deal with early warning signals promptly and to assess the results of response measures.

Loan Classification and Provision of Reserve

In 1999, in accordance with the requirements of regulatory authorities, the Bank started to apply a five-category loan classification system. The Bank carries out loan classification and makes provisions for losses in accordance with the relevant requirements of PRC regulations as well as the requirements of PRC and international accounting standards.

The classification of loan risks and estimation of expected losses are carried out at different levels. Customer relationship managers are responsible for the preliminary classification of risks as well as for estimating the losses of NPL, the results of both of which are then subject to review by risk managers. At the credit application stage, reports are submitted to the upper level following credit granting procedure to obtain determination from the relevant examination and approval institutions, and the scope of authority for determination is the same as the scope of authority for examination and approval. For the day-to-day management of existing credit, the Bank's head office Credit Management Departments, Chief Risk Officers at the branch level and branch risk managers make the final determination within the limits of their authority.

At the beginning of 2007, on the basis of the Bank's existing five-category classification system and internal rating-based approach, the Bank adopted a 12-category loan classification system that refined the Bank's loan classification in accordance with the default risks of a corporate borrower and facility risk arising from the loan. Based on the varying degrees of credit asset risk, the Bank's 12-category loan classification further expands the "normal" grade under the original five-category loan classification system into seven grades, which are expressed from P1 to P7. The original "special mention" class is further broken down into two grades, which are expressed by SM1 and SM2. Loans under "sub-standard", "doubtful", and "loss" classes remain unchanged and are collectively referred to as non-performing credit assets.

The following table illustrates the Bank's five-category and 12-category loan classification systems:

12-Category Loan Classification	Names under the Five Category Classification	Names under the 12-Category Loan Classification
1	Normal	Grade 1 Pass (P1)
2	Normal	Grade 2 Pass (P2)
3	Normal	Grade 3 Pass (P3)
4	Normal	Grade 4 Pass (P4)
5	Normal	Grade 5 Pass (P5)
6	Normal	Grade 6 Pass (P6)
7	Normal	Grade 7 Pass (P7)
8	Special Mention	Grade 1 Special Mention (SM1)
9	Special Mention	Grade 2 Special Mention (SM2)
10	Sub-standard	Sub-standard (SS)
11	Doubtful	Doubtful (DF)
12	Loss	Loss (LS)

Through this loan classification system, the Bank classifies corporate loans on the basis of both quantitative and qualitative factors by analysing the default risk of a corporate borrower and facility risk arising from the loan and considering the estimated impairment losses.

The Bank's loan classification system is designed to help the Bank to better monitor changes in the Bank's asset quality, detect potential credit risks and more effectively conduct post-disbursement management of the Bank's loan portfolio. The Bank believes that this system has helped the Bank strengthen its loan monitoring capabilities.

The Bank makes provision for losses arising from different types of its corporate credit assets in two ways: individually assessed provisions and collectively assessed provisions. Loss estimation is carried out on an individual basis for non-performing credit assets, whereas collective loss provisions are applied to credit assets classified as "normal" and "special mention".

Termination of loans to potential high-risk customers

The Bank has established an exit management mechanism for potential high-risk customers in order to optimise the Bank's portfolio of borrowers and prevent potential risks from materialising. Potential high-risk customers are those who are expected to suffer an adverse impact on their repayment ability or to experience adverse changes in their financial condition. For such customers, the Bank normally reduces credit limits, terminates credit lines, ceases the renewal of credit facilities and requests the provision of additional risk mitigation and other measures in accordance with the relevant provisions of their respective loan contracts.

NPL Management

The Bank proactively manages NPL to reduce the associated risks to its loan portfolio, promptly write off doubtful debts and improve its recovery on disposals.

The Non-performing Asset Disposal Committees at the Bank's head office and branch level are responsible for managing and recovering the Bank's NPL. They are also responsible for approving disposal and recovery plans for non-performing assets, including asset restructuring, settlement of loans by taking collateral, write-off of loans and other related issues. Steps taken for the recovery of NPL mainly include collection, foreclosure on collateral, legal proceedings, reduction or waiver of interest, loan restructuring, write-offs and collection by third parties.

Credit Risk Management for Retail Credit Business (Excluding Credit Cards)

Acceptance of Credit Applications and Credit Investigation

When handling a new business, a customer relationship manager of the Bank's retail credit business is required to have a face-to-face interview with the credit applicant, and all documents must be signed by the applicant in the presence of the manager. The applicant will be requested to sign an application form and provide his or her identity card, proof of income, transaction contracts, certification of ownership of assets collateralised or pledged as security, a written undertaking from the guarantor (if any) and materials proving the guarantor's creditworthiness. The Bank mainly relies on income, credit history and loan repayment ability to assess the applicant.

The Bank's retail credit business customer relationship managers are responsible for assessing retail credit applicants and completing the reporting materials required for approval. The assessment mainly focuses on the credit risk of the applicant and the valuation of the loan collateral. The Bank conducts its credit investigations through on-site investigations, telephone interview and information inquiries as well as through other channels and methods to verify the authenticity of loan-related information. For mortgage loans that are doubtful or that are particularly large, customer relationship managers may take additional verification steps by making "home visits". The appraisal of the collateral for retail loans is similar to the appraisal of the collateral for corporate loans. In the case of secured loans, the Bank usually requests an independent appraiser approved by it to appraise the security provided.

On the basis of the results of inquiries made with the personal credit database of PBOC, and in light of the results of the assessment of the applicant's risk profile and the risk mitigation factors, retail customer relationship managers will prepare reporting materials for approval.

Credit Approval

The Bank's retail credit approval is carried out by branch Chief Risk Officers or persons authorised by them within the limits of their authority, except for high-risk retail credit business applicants, which must go through panel examination and approval. The Bank's retail credit business is mainly approved by authorised individuals.

Loan Disbursement and Post-disbursement Management

After the loan applications of individual customers are approved, the authorised signatory of the Bank's business units, the borrower and the guarantor (if any), jointly enter into retail loan contracts and a disbursement will be made after the loan prerequisites are satisfied. In the Bank's retail loan monitoring, the Bank focuses on the repayment ability of the borrower and the status of assets collateralised or pledged as security and any change in their value. The Bank adopts a five-category classification for retail loans by reference to the risks associated with the loans.

Once a loan becomes overdue, the customer relationship manager or specific collectors will, in the context of the individual circumstances leading to the overdue balance and the accompanying risks, demand repayment through various actions, including the use of telephone, e-mail, letters and home visits.

Based on the actual conditions of non-performing retail loans, repayment will be demanded from the borrowers and guarantors by one or several of the following ways: collection, litigation, appointment of factoring agents or repayment of loans by assets.

Credit Card Risk Management

Identification of Credit Risk

The Credit Card Centre imposes different criteria for credit cards granted to different types of customers, making full use of risk measurement methods such as application grading models, behaviour assessment models, initial credit line models and dynamic management of credit lines so as to manage credit card risk in a quantitative manner, which enables the Bank to carry out differential management of customers with differing risk profiles and income statuses. On this basis, the Bank decides whether a card should be issued and, if so, what type of card should be issued and what credit limit should be granted. The Bank's Credit Card Centre has completed building the Internal Assessment System, and is now using the measurement methods under Basel II to monitor changes in asset quality.

The Bank's Credit Card Centre has set up a specialised risk data analysis team, which pays close attention to the macroeconomic development of the PRC as well as the development of the credit card business in the banking industry. Furthermore, based on the requirements of the Bank's business, the Bank collects information relating to credit risk control measures of other banks through a number of channels and provide such information to risk policy-makers for their reference. Based on the Bank's business planning and risk management targets, the Bank adjusts its credit card policy in line with the current forecast of the credit card business in a timely manner.

The Bank investigates and identifies potential customer credit risks through a number of channels, including making full use of internal and external credit investigation means such as the Bank's credit card blacklist system, the personal credit information database of PBOC, the identity verification system of the Ministry of Public Security, China UnionPay's risk information sharing system and the industry-wide risk information sharing system.

Credit Risk Control System

The Credit Card Centre has established the Risk Management Department, Credit Approval Department, Collection Management Department, Strategy Research Department and other departments so as to strengthen the exchange and coordination of information related to risk prevention. The Bank updates guidelines for the examination and approval of credit card applications every year. The guidelines set out the Bank's risk management guiding principles, classify the clients into different types, namely supported, restricted and prohibited, and clarify the approval process for special cases. The Bank has developed its own examination and approval management system, online credit limit adjustment system, electronic debt collection system and operational risk reporting system. In addition, the Bank has carried out operational risk and control self-assessment (RCSA) for the purpose of identifying risks and refining the Bank's internal controls. The Credit Card Centre has introduced the TRIAD customer management system which aims to improve the Bank's customer satisfaction through effective allocation of resources under the Bank's customer credit line management and behaviour management, while controlling risk.

Since 2012, the Bank has made persistent efforts to improve its risk management methods. The Bank deploys differentiated risk management strategies that account for client attributes and transaction behaviour, which allows the Bank to focus on its large number of customers while also refining its credit card risk management. Meanwhile, the Bank optimised its internal ratings system based on Basel II through the Bank's re-examination algorithms, which make adjustments for the probability of default and changes in economic conditions.

Credit Risk Management for Financial Institution Credit Business

The Bank's financial institution credit business primarily includes (i) investments in domestic financial bonds and other quoted securities, financial institution placements and borrowing, and trading of derivatives and (ii) investments in overseas negotiable instruments and overseas financial institution placements. The Bank sets up credit limits with respect to countries, regions and domestic and overseas counterparties. Such limits are subject to the approval of the Credit Approval Department and the Credit Approval Committee of the Bank's head office within their respective limits of authority.

Credit Risk Management System

The Bank's credit risk management systems include the Bank's corporate credit risk management system, retail credit risk management system and financial institution credit risk management system.

The Bank's corporate credit risk management system allows for the electronic handling and streamlining of the credit granting process, from credit application, review and approval to disbursement approval and post-disbursement management. The Bank pursues the continued development of its corporate loan risk management system to enhance its functions. In particular, by targeting credit extensions to micro-enterprises, the Bank has developed an electronic procedure and risk model catering to the characteristics of micro-enterprises in the Bank's risk management system, which provide systemic support for the whole procedure, including risk identification, measurement, monitoring, mitigation and control.

The Bank's retail credit risk management system is a comprehensive retail loan risk management system, which comprises an analysis modelling software, decision-making engines, process management and numerous relevant data sets, which are key to the establishment of a comprehensive risk management system for the Bank. The entire retail credit management process can be managed through this electronic system, which includes loan applications, on-line approval, loan disbursement and post-disbursement management.

The Bank's financial institution credit risk management system facilitates the process of information collection and credit applications, customer rating, credit approvals, disbursement and post-disbursement monitoring in relation to financial institutions.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk where although a bank is solvent, it may be unable to obtain sufficient funds in a timely manner or at a reasonable cost, to cope with asset growth or settle due and payable debts. Most of the funds held by the Bank come from the deposits of the Bank's customers. In recent years, the Bank's customers' deposits have grown in quantity and diversified in types and term length. Based on an estimation of the Bank's future cash flow, the Bank takes action to maintain an appropriate percentage of liquid assets.

The Bank's Asset and Liability Management Committee is responsible for managing the Bank's overall liquidity. The Asset and Liability Management Committee, with the Bank's President as its chairman, is responsible for formulating policies relating to liquidity based on relevant regulatory requirements and the principle of prudence. The objectives of the Bank's liquidity policies are as follows:

- to maintain the Bank's liquidity at a stable and sufficient level and to ensure that the Bank is in a position to fulfil payment obligations in a timely manner and meet its liquidity demands relating to its assets, liabilities and off-balance sheet operations, both in the case of normal business operations and in stressed circumstances, by setting up a methodical and comprehensive liquidity risk management system; and
- to make reasonable and timely adjustments to the scale and structure of the Bank's assets and liabilities based on market changes and business development and to pursue the maximisation of profits and the minimisation of costs in order to maintain an appropriate level of liquidity with an aim to ensure the "safety, liquidity and efficiency" of the Bank's capital.

The Bank's Planning and Finance Department is responsible for the daily management of the Bank's liquidity risk and for formulating and timely revising the Bank's liquidity risk management strategies. It is also responsible for the identification, measurement, monitoring and reduction of bank-wide liquidity risk. The Bank's Treasury Department is responsible for the day-to-day position management and forecasts and for maintaining the Bank's highly liquid asset portfolio at an appropriate level based on the Bank's liquidity risk management strategies. In the event of a material incident relating to payment obligations or any structural change, timely reports as well as recommendations must be given to the Asset and Liability Management Committee.

The Bank mainly adopts a liquidity gap analysis to measure liquidity risk and adopts different scenario analysis and stress tests to assess the impact created by the relevant liquidity risk. While the Bank reduces its liquidity risk by term matching, diversification of liabilities and other on-balance sheet business adjustments in light of internal transfer pricing and external pricing, the Bank also attempts to adjust for any liquidity shortfall by making use of monetary swaps and other financial derivatives.

MARKET RISK MANAGEMENT

Market risk means the risk of losses to the Bank's businesses resulting from an adverse movement of market prices, including interest rates, exchange rates, commodity prices and stock prices.

The Board of Directors bears ultimate responsibility for monitoring and managing the Bank's exposure to market risk to ensure that the Bank can effectively identify, measure, monitor and control the different types of market risk to which the Bank's businesses are exposed. The Risk Management Committee of the Board of Directors is responsible for monitoring market risk management within its limit of authority delegated by the Board of Directors and reviewing the Bank's strategies, policies and procedures relating to market risk management together with relevant proposals on the acceptable market risk level put forward by senior management. Most of the market risks to which the Bank is exposed in its business operations and development are concentrated in the Bank's treasury management, including (i) money market activities, (ii) investment portfolio management and (iii) treasury transactions on behalf of customers. The Planning and Finance Department is responsible for the day-to-day monitoring and management of the underlying interest rate risk and foreign exchange risk of banking books. The Risk Management Department is responsible for establishing and improving the Bank's market risk management system, formulating market risk management policies and identifying, monitoring and reporting the Bank's market risk exposure.

In accordance with the requirements of regulatory authorities and the general practices of the banking industry, the Bank divides its on and off-balance sheet assets into two categories: trading books and banking books. Based on the nature and characteristics of the relevant accounts, the Bank adopts methods to identify, measure, monitor and control market risk. Trading books refer to the financial instruments and commodities positions that could be traded freely. Banking books represent business other than trading books. The Bank primarily measures and monitors the market risk associated with trading books through sensitivity indicators, scenario analysis and foreign exchange exposure analysis. The Bank measures and monitors the market risk associated with banking books through sensitivity gap analysis, stress tests and effective duration analysis.

The Bank aims to effectively identify, measure and monitor factors relating to market risk. In order to ensure that the market risk the Bank assumes is within its risk tolerance, the Bank has established a tiered cap system for market risk management. The first tier sets a cap on the level of overall market risk exposure deemed acceptable to the Bank. The second tier sets exposure caps on both interest rate and exchange rate risk. Third- and fourth-tier caps are business- and product-type specific. To ensure the implementation of the Bank's tiered cap system, the Bank has implemented a suite of cap management procedures, covering application, approval, monitoring, early warning, reporting and action plans with respect to such caps.

In order to further enhance the Bank's trading and market risk management ability, the Bank has established a comprehensive market risk management system. The main functions of this system include front, middle and back-office monitoring and processing of treasury transactions. The system also provides a specialised platform for trading and market risk management. At the same time, the Bank has also introduced a Value-at-Risk (VaR) measurement model in order to enhance the Bank's ability to measure and manage market risk to prepare for the Bank's implementation of Basel II.

Interest Rate Risk Management

The Bank's interest rate risk mainly relates to the repricing risk in the Bank's commercial banking business and the risk of the Bank's treasury position. The objectives of the Bank's interest rate risk management are to develop measures to monitor and control interest rate risk, to establish proper mechanisms to measure, analyse and follow up on changes of such risk and to take appropriate steps before escalation of interest rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of interest rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations.

The Bank has adopted an interest rate risk management policy that serves as the foundation for the Bank's bank account interest rate risk management mechanisms and strategies. The Bank actively explores and improves its interest rate risk management mechanisms, and endeavours to establish an appropriate asset-liability pricing mechanism by using a fund transfer pricing system, with a focus on profit. The Bank has also improved and upgraded its assets and liabilities management system and improved the relevance of system applications towards interest rate risk management.

In the Bank's interest rate risk management, the Bank has taken steps in conducting active management of assets and liabilities, and applying the results of gap analysis of asset-liability management to the adjustment of portfolios and the control of liability costs so as to increase the Bank's bank-wide net interest margin.

The Bank assesses the interest rate risk relating to banking books mainly through repricing gap analysis and net profit and interest income simulation analysis. The Bank regularly monitors the position of the gap and conducts stress tests by using gap data. On this basis, the Bank adjusts repricing term structures of interest-earning assets and interest-bearing liabilities and uses derivatives to hedge against interest rate risk. At the same time, the Bank closely monitors the movement of interest rates of local and foreign currencies, and, in line with changes in market interest rates, adjusts the Bank's interest rates for deposits and loans denominated in both local and foreign currencies so as to mitigate interest rate risk.

With respect to the Bank's financial market business, the Bank adopts such techniques as duration and present value per basis point to measure interest rate risk, and applies stress tests and scenario analysis to monitor and control risks.

Exchange Rate Risk Management

The Bank's exchange rate risk primarily arises from the proprietary foreign currency portfolio within the Treasury Department's proprietary investments, and other foreign currency transactions. The objectives of the Bank's exchange rate risk management are to develop measures to monitor and control exchange rate risk, to establish proper mechanisms to measure, analyse and follow up on changes in such risk and to take appropriate steps before escalation of exchange rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of exchange rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations. The Bank's exchange rate risk is reflected in the mismatch of the currencies in which the Bank's assets and liabilities are denominated and the possible adverse impact of exchange rate fluctuation on the Bank's profit and capital in foreign currencies.

The Bank has adopted exchange rate risk management measures across the Bank to centralise the management of exchange risks related to the Bank's account. The Bank endeavours to match relevant foreign currency assets with liabilities and controls the exchange risks by making available and utilising various currency sources. The Bank strictly controls risk exposure in foreign exchange settlement and sales and takes measures to improve the position-closing method for foreign exchange settlement and sales. The Bank also implements a "multiple price quotations per day" mechanism to reduce exchange risk. The Bank actively researches, designs and develops various derivative financial instruments and innovative financial products, aiming at managing exchange rate risk by utilising appropriate financial instruments.

OPERATIONAL RISK MANAGEMENT

Operational risk represents the risk of loss associated with deficiencies and failures of internal processes, personnel and information systems, or external events. The operational risk that the Bank faces primarily includes, among others, internal and external fraud, damage to tangible property, disruptions to the Bank's operations or information technology system and problems associated with transaction settlement as well as business processes management. Operational risk also includes legal risk but does not include strategic or reputational risk.

The Bank's operational risk management aims to control operational risk within an acceptable range, to increase service efficiency and optimise work flow, to lower management costs and increase profitability, to reduce the impact of contingencies and to ensure the normal and continuous operation of the Bank's business.

The Bank has established a hierarchical operational risk management structure, operating under the guidance of the operational risk management policies formulated by the board and implemented by the Bank's senior management, with three lines of defence. The Board of Directors is ultimately responsible for operational risk management. The Bank's senior management actively leads the relevant initiatives; branch-level management teams are responsible for operational risk management at their respective branches, with branch heads having ultimate responsibility at branch level.

Business units and functional departments constitute the first line of defence to safeguard against operational risk, directly bearing and managing the operational risk of their own departments or lines and assuming primary responsibility for operational risk management. The Risk Management Department and Legal and Compliance Department constitute the second line of defence to safeguard against operational risk, and are responsible for establishing an operational risk management framework and guarding, supporting and monitoring the implementation of the Bank's operational risk management at all levels. The Internal Audit Departments and Discipline and Inspection Departments constitute the third line of defence against operational risk. The Internal Audit Departments are responsible for auditing the implementation of the Bank's operational risk management system across the Bank and reporting related issues to the senior management and the Audit Committee of the Board of Directors, and the Discipline and Inspection Departments carry out investigations and culpability verifications and ensure that the relevant individuals are held accountable for any operational issues identified.

The Bank has preliminarily established an operational risk identification and assessment system, which is based on operational risk and control self-assessment (RCSA), supplemented by an operational risk event reporting system and key operational risk indicators and supported by internal audit and compliance assessments. Under the hierarchical management of operational risk, different business lines or business departments are responsible for applying the relevant tools to identify, assess and control operational risk and adopt appropriate risk management measures.

The Bank has implemented the operational risk and control self-assessment (RCSA) process and has incorporated this into the daily work of the Bank's business lines, branches and sub-branches. The RCSA is implemented by the institute or department that assumes direct responsibility for operational risk for the purpose of internally assessing operational risks and effectiveness of control in accordance with the principles of operational risk management.

The Bank has established an operational risk reporting system whereby various business lines and various branches and sub-branches are required to report on operational risk events in accordance with the predetermined reporting scope, route and format. The operational risk reporting system helps to pinpoint weak links in operational risk control by identifying the spread of losses, and can be used to verify the results of operational risk control self-assessment so as to evaluate the quality of the RCSA.

The Bank has set up a key risk indicator (KRI) system for operational risk, which covers the Bank's main risk categories and key product groups. By continuously monitoring key risk indicators, the Bank aims to keep abreast of changes in its operational risk exposure and to enhance the Bank's adaptable supervision capabilities so as to actively manage operational risk and be able to issue early warnings prior to the occurrence of potential operational risk incidents.

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of legal sanctions, regulatory penalties, material financial losses, or reputational damage to a commercial bank resulting from the failure to comply with applicable laws and regulations as well as relevant industry standards. Compliance risk management is an important part of the Bank's overall risk management and the Bank has accordingly placed strong emphasis on compliance risk management throughout the Bank's internal control structure and procedures. The Board of Directors is ultimately responsible for matters relating to compliance risk and the Legal and Compliance Departments at both the Bank's head office and at the branch level take responsibility for coordinating bank-wide compliance risk management, including the implementation of an integrated and coordinated compliance risk management system and the adoption of tracking and monitoring measures. The Bank continuously provides effective guidance, monitoring, alerts, identification and assessment with respect to compliance risk, and actively promotes systematic compliance management.

CAPITAL MANAGEMENT UNDER COMPREHENSIVE RISK MANAGEMENT

The Bank believes it has an established capital management system and promotes organic integration between the Bank's capital management, risk management and assets and liabilities management units. The Bank also strengthened its valued-based portfolio management system to enhance its systematic risk management capability.

The Bank's capital management organisational structure encompasses the board, supervisory committee and senior management. The Bank emphasises efficiency in the Bank's capital management by using RAROC (Risk-Adjusted Return On Capital) /EVA (Economic Value Added) indicators as guidance. The Bank also utilised a number of tools in its capital management, such as (i) advanced audit mechanisms, (ii) a multi-tiered capital management and internal capital adequacy assessment programme (ICAAP) and (iii) a risk-weighted assets system at the accounting level (including standard and advanced methods for capital measurement).

Anti-Money Laundering

In accordance with relevant legal and regulatory requirements on anti-money laundering, the Bank has formulated rules, regulations and policies for the monitoring, reporting and managing of money laundering risk, which are reviewed on an annual basis and revised as necessary to satisfy the Bank's own risk management requirements and those of relevant regulators.

The Bank carries out anti-money laundering training by internal or third-party consultants to increase the awareness among the Bank's staff of money laundering risks. The Bank has established an anti-money laundering leading team and an anti-money laundering work office. The anti-money laundering leading team is responsible for spearheading the Bank's bank-wide anti-money laundering initiatives, formulating and overseeing the implementation of relevant laws and regulatory rules on the identification and handling of large transactions and suspicious transactions. It is comprised of the respective heads of the Legal and Compliance Department, Operation Management Department, Transaction Banking Department, Corporate Banking Department and other related departments. Each such department bears management responsibility for anti-money laundering activities in accordance with its authority. The anti-money laundering work office is within the Legal and Compliance Department, and is responsible for the day-to-day bank-wide management of money laundering risk and coordinating the reporting of anti-money laundering work of relevant departments, and the consolidation and reporting of the data of large transactions and suspicious transactions.

INTERNAL CONTROL

The Bank continues to enhance its internal control functions and its corporate governance and strives to achieve the best practice standards of the banking industry.

The Bank maintains a three-tiered internal control management system, which consists of the decision-making level, the implementation level and the supervision and evaluation level.

Decision-making Level

The Board of Directors has ultimate decision-making authority and is mainly responsible for deciding the Bank's internal control strategy and making the most significant business decisions. The Board of Directors is also responsible for reviewing the internal control reports submitted by the Bank's senior management, auditors and regulators, conducting all overall assessment of the integrity and effectiveness of the bank-wide internal control system, and supervising senior management to carry out continuous improvement and refinement of the Bank's internal control system.

Implementation Level

The Bank's senior management is supervised by the Board of Supervisors and is responsible for: (i) implementing the various strategies, policies, systems and procedures approved by the Board of Directors; (ii) establishing an organisational structure with specific authorisation and duties as well as clear reporting lines; (iii) setting up a procedure for identifying, measuring and managing risks; developing and implementing sound and effective internal control measures; and (iv) adopting measures to rectify any existing internal control deficiencies.

The special committees under senior management, including, among others, the Risk Management Committee, the Asset and Liability Management Committee and the Internal Control and Compliance Early Warning Committee, are responsible for internal control and risk management within their respective limits of authority.

Business departments in the Bank's head office are responsible for departmental internal control matters, including the implementation of internal control policies and procedures, identification and management of internal control deficiencies and timely reporting on their internal control efforts to senior management.

Management at the branch level is responsible for branch-level internal control matters, including, at the request of senior management or the business departments of the Bank's head office, the formulation of specific detailed implementation rules and business procedures and the establishment and enhancement of internal control mechanisms.

Supervision and Evaluation Level

The Board of Supervisors is responsible for supervising the Bank's compliance with the relevant laws and regulations, as well as supervising the Board of Directors and senior management in their performance of their respective duties and inspecting and supervising the Bank in connection with matters relating to internal control. The Audit Department is responsible for carrying out audits, supervision and assessment of the Bank's business operations, internal control and risk profile across the Bank.

INTERNAL AUDIT

Pursuant to the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) issued by CBRC, the Bank began to reform its internal audit system at the end of 2006. The Bank has put in place an independent vertical audit management system under which the Bank's audit functions are accountable to the Board of Directors and report to the Board of Directors, the Audit Committee of the Board of Directors and the Bank's senior management. The Bank has also implemented an internal audit organisational structure comprising the Audit Department of the Bank's head office and five audit centres. The Audit Department and the audit centres are independent of other business departments and branches.

They conduct their audit, supervision and assessment of matters relating to the business and operational management, internal control and risk profile across the Bank and supervise the audited authorities and departments to perform their duties by carrying out routine audits, special audits and audits into economic liabilities arising from existing and departing officers. The Audit Department is responsible for: (i) carrying out audits of the Bank's business operations, internal controls and risk profile across the Bank; (ii) making consistent efforts to improve review and supervision of the Bank's internal controls; and (iii) continuously strengthening the normalisation and standardisation of the Bank's internal control process, which has resulted in the quality and results of the Bank's audits improving continuously and promoted stable and healthy business operations across the Bank.

The Audit Department is responsible for auditing and assessing bank-wide operational activities, risk profile, internal control and corporate governance effectiveness; formulating the parameters for audit work and audit business systems across the Bank; formulating and organising the implementation of annual work plans; managing and giving guidance to the audit centres; and conducting audits of the line departments, key businesses of the Bank's head office and key branches.

Each regional audit centre is responsible for the implementation of annual work plans at the regional level and examining and assessing business operations, risk profile, internal control and corporate governance of branches within its region.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

Directors

The following table sets out certain information relating to the Bank's directors as at the date of this Offering Circular. The business address of the Bank's Directors are at China Everbright Center, No.25 and No.25 A Taipingqiao Avenue, Xicheng District, Beijing 100020, PRC.

Name	Age	Position	Appointment Date
Mr. LI Xiaopeng	61	Chairman of the Board of Directors, Non-executive Director and Secretary of Communist Party of China ("**CPC**") Committee	16 March 2018
Mr. WU Lijun	56	Vice Chairman, Non-executive Director	25 March 2020
Mr. YAO Zhongyou	57	Non-executive Director and Member of CPC Committee	5 February 2021
Mr. QU Liang	54	Executive Director, Executive Vice President, Member of CPC Committee and Secretary of CPC Committee and President of Beijing Branch	5 February 2021
Mr. FU Wanjun	52	Executive Director, President	28 April 2021
Mr. YAO Wei	45	Non-executive Director	5 February 2021
Mr. LIU Chong	51	Non-executive Director	26 December 2019
Mr. XU Hongcai	56	Independent Non-executive Director	11 February 2015
Mr. HAN Fuling	56	Independent Non-executive Director	25 May 2021
Mr. WANG Liguo	63	Independent Non-executive Director	10 January 2017
Mr. SHAO Ruiqing..................	63	Independent Non-executive Director	5 August 2019
Mr. HONG Yongmiao..............	57	Independent Non-executive Director	12 September 2019
Mr. LI Yinquan	66	Independent Non-executive Director	11 June 2020

Mr. LI Xiaopeng, aged 61, joined the Bank as Chairman of the Board of Directors in March 2018 and has served as Secretary of CPC Committee of the Bank since December 2017. Currently, he is also the secretary of CPC Committee and chairman of China Everbright Group Ltd., honorary principal of Party School of China Everbright Group and Everbright Academy, chairman of the Board of Directors at China Everbright Group Holdings Limited, vice chairman of China Chamber of International Commerce, and the honorary chairman of the Hong Kong Chinese Enterprises. He was member of CPC Committee and deputy general manager of Henan Provincial Branch of Industrial and Commercial Bank of China ("**ICBC**"), general manager of the Banking Department of the Head Office of ICBC, secretary of CPC Committee and general manager of Sichuan Provincial Branch of ICBC, member of CPC Committee and vice president of China Huarong Asset Management Corporation, member of CPC Committee and assistant president of the head office of ICBC, secretary of CPC Committee and general manager of Beijing Municipal Branch of ICBC, member of CPC Committee, executive director and executive vice president of ICBC, deputy secretary of Secretary of CPC Committee and chairman of the Board of Supervisors of China Investment Corporation, and deputy secretary of CPC Committee, vice chairman and general manager of China Merchants Group. He was also chairman of ICBC International Holdings Limited, chairman of ICBC Financial Leasing Co., Ltd., chairman of ICBC Credit Suisse Asset Management Co., Ltd., vice chairman of China Merchants Bank Co., Ltd., chairman of China Merchants Energy Shipping Co., Ltd., chairman of China Merchants Port Holdings Company Limited, chairman of China Merchants Huajian Highway Investment Co., Ltd., chairman of China Merchants Capital Investment Co., Ltd., chairman of China Merchants Joint Development Co., Ltd., and chairman of China Merchants Investment Development Company Limited. He is a graduate of Wuhan University with a Doctoral degree in Economics, and is a senior economist. Mr. Li is a member of the Committee for Economic Affairs of the Thirteenth Session of the CPPCC National Committee.

Mr. WU Lijun, aged 56, has served as Vice Chairman and Non-executive Director of the Bank since March 2020. He is currently Deputy Secretary of CPC Committee, Vice Chairman and General Manager of China Everbright Group Ltd. He served as the Deputy Director (Deputy Bureau Director Level) of the State Material Reserve Regulatory Centre of the Ministry of Domestic Trade, person in charge of the Information Centre, Deputy Director (Presiding) of the Training Centre, Director of the Personnel Education Department and Director of the Party Organisation Department of the China Securities Regulatory Commission. He also served as the member of the CPC Party Committee and Assistant Chairman of the China Securities Regulatory Commission, the Chairman of the Board of Directors and CPC Party Secretary (Deputy Minister Level) of the Shenzhen Stock Exchange. He obtained a doctorate degree in economics from Renmin University of China. He is a senior economist.

Mr. YAO Zhongyou, aged 57, has served as Executive Director of the Bank since February 2021, Executive Vice President of the Bank from August 2014 to June 2021, and member of CPC Committee of the Bank since May 2014. He served as the deputy manager of the International Business Department of Hebei Provincial Branch of China Construction Bank (CCB), general manager, secretary of the CPC Leading Group of the CPC Committee of CCB Chengde Branch, director of the general office, deputy general manager and member of the CPC Committee of CCB Hebei Provincial Branch, deputy general manager of Equity Management Department of China Everbright (Group) Corporation, executive director, member of CPC Committee and vice president of Everbright Financial Holding Asset Management Co., Ltd., and general manager of Financial Management Department of China Everbright (Group) Corporation. He graduated from Wuhan University majoring in finance and obtained a master’s degree in economics. He is a senior economist.

Mr. QU Liang, aged 54, has served as Executive Director of the Bank since February 2021, Executive Vice President of the Bank since March 2020, and member of CPC Committee of the Bank and Secretary of CPC Committee and general manager of Beijing Branch of the Bank since September 2018. He served as the vice general manager of the Corporate Business Department of Henan Provincial Branch of Industrial and Commercial Bank of China (ICBC); director of general office, the general manager of the Corporate Banking Department II, the general manager of the Corporate Banking Department I of Zhengzhou Branch of China Merchants Bank (CMB); the vice general manager of the corporate banking division at the CMB head office, secretary of the CPC Committee, general manager of CMB Hohhot Branch; secretary of the CPC Committee, general manager of CMB Chongqing Branch; commissioner of comprehensively deepening reform leading group office (headquarters department head level) of China Everbright Group Ltd. He graduated from Zhengzhou University with a bachelor’s degree in politics, and obtained a master’s degree in economic law, at Zhengzhou University. He is a senior economist.

Mr. FU Wanjun, aged 52, has served as Director of the Bank since February 2021, President of the Bank since June 2021, and is currently a member of the CPC Committee and vice general manager of China Everbright Group Ltd. He served as the deputy manager of the Credit and Loan Department II, deputy manager and manager of the Marketing Department II, assistant general manager, deputy general manager, member of the CPC committee of Urumqi Branch of Bank of Communications (BOCOM), secretary of the CPC Committee and general manager of Yinchuan Branch of BOCOM, secretary of the CPC Committee and general manager of Xinjiang District (Urumqi) Branch of BOCOM, secretary of the CPC Committee and general manager of Chongqing Branch of BOCOM, general manager (principal level in provincial branches) of the Corporate and Institutional Business Department of BOCOM head office, business director (in charge of corporate and institutional business segment) of BOCOM. He obtained an executive master in business administration degree from Dalian University of Technology. He is a senior economist.

Mr. YAO Wei, aged 45, has served as Director of the Bank since February 2021 and is currently a standing member of CPC Committee and chief accountant of Overseas Chinese Town Group Company Limited. He successively served as deputy director and director of asset division (fixed assets), and the head of the internal control group of account division of the Finance Department in Daya Bay Nuclear Power Operations and Management Co., Ltd.; staff, budget director, tax manager, senior manager and chief of general finance division of finance department in China General Nuclear Power Group Corporation; chief accountant of CGN Wind Energy Co., Ltd.; chief accountant of CGN Meiya Power Holdings Co., Ltd. (later renamed as CGN New Energy Holdings Co., Ltd.); vice general manager (presiding) and general manager of the Finance Department, general manager of the Finance and Asset Management Department of China General Nuclear Power Group Corporation; chief accountant of CGN Solar Energy Development Co., Ltd.; chairman of CGNPC International Limited and executive director of Shenzhen Nengzhihui Investment Co., Ltd. He graduated from Zhongnan University of Economics and Law majoring in accounting and obtained a bachelor's degree in economics. He is a certified public accountant.

Mr. LIU Chong, aged 51, has served as a Non-executive Director of the Bank since December 2019. He currently serves as Member of CPC Committee and Managing Director of COSCO Shipping Development Co., Ltd., and concurrently as non-executive director of China Cinda Asset Management Co., Ltd. He successively served as Deputy General Manager of China Shipping Investment Co., Ltd., Deputy General Manager of China Shipping Logistics Co., Ltd., chief accountant of China Shipping (Hainan) Haisheng Co., Ltd., Director of Capital Management Department of China Shipping (Group) Company, Chief Accountant of China Shipping Container Lines Co., Ltd., and general manager of China Shipping Investment Co., Ltd., and vice chairman of China International Marine Container (Group) Ltd. He graduated from Sun Yat-sen University majoring in economics and obtained a bachelor's degree in Economics. He is a senior accountant.

Mr. XU Hongcai, aged 56, has served as Independent Non-executive Director of the Bank since February 2015. He is currently Managing Director of China Association of Policy Science and deputy director of its Economic Policy Committee, deputy chairman of American Returned Association of Western Returned Scholars Association (WRSA), senior researcher of China-US Relations Research of WRSA, and part-time professor of Central University of Finance and Economics. He concurrently serves as independent director of China Life Asset Management Company Limited and independent director of Hebei Bank Co., Ltd. He successively served as clerk at the Head Office of the PBOC, deputy general manager at Shanghai Office of GF Securities, vice president at Beijing Venture Capital Co., Ltd., professor of Capital University of Economics and Business, and assistant engineer of China Petrochemical Corporation. He graduated from Renmin University of China with a master's degree in Philosophy, and then graduated from the Graduate School of Chinese Academy of Social Sciences with a Doctoral degree in Economics.

Mr. HAN Fuling, aged 56, has served as Independent Non-executive Director of the Bank since May 2021 and is currently the professor and doctoral tutor of Faculty of Finance, and president of Financial Securities Research Institute of Central University of Finance and Economics. He is a consultant of the Financial and Economic Committee of the National People's Congress of the PRC, the People's Bank of China, the China Securities Regulatory Commission, and the Ministry of Human Resources and Social Security. He is a CCTV financial commentator. He served as the deputy head of the Economics Department of University of Science and Technology Beijing, and a macro analyst and researcher of the Research and Development Department of the Stock Exchange Executive Council of China. He obtained a master's degree in business administration from University of Science and Technology Beijing, and a doctorate degree in Economics from Silesian University in Poland. He is a postdoctoral fellow at the Research Institute of Economics of the Chinese Academy of Social Sciences.

Mr. WANG Liguo, aged 63, has served as Independent Non-executive Director of the Bank since January 2017. He currently works as professor (national second class) of Dongbei University of Finance and Economics, doctoral tutor, chief expert of Major Bidding Projects of the National Social Science Fund, director of China Investment Association, executive director of Construction Economics Branch of China Construction Industry Association, vice chairman of Dalian Engineering Consulting Association and director of Dalian Yadong Investment Consulting Co., Ltd. He has served as lecturer and associate professor of Dongbei University of Finance and Economics, dean of the School of Investment Engineering Management of Dongbei University of Finance and Economics, and a member of Higher Education Engineering Management Major Evaluation Committee of Ministry of Housing and Urban-Rural Development. He graduated from Dongbei University of Finance and Economics with a bachelor's degree and a master's degree in Economics and then a doctoral degree in Industrial Economics.

Mr. SHAO Ruiqing, aged 63, has served as Independent Non-executive Director of the Bank since August 2019 and is currently a professor and doctoral tutor in accounting at Shanghai Lixin University of Accounting and Finance. He also holds positions including the vice president of China Communications Accounting Society, an executive director of Accounting Society of China, the vice president and chairman of the academic committee of Shanghai Accounting Association, an executive director of Shanghai Audit Association, a member of accounting & finance expert advisory committee of Ministry of Transport of the People's Republic of China, the consulting expert of China Accounting Standards Committee of Ministry of Finance, an independent director of China Eastern Airlines Corporation Limited, an independent director of HUAYU Automotive Systems Co., Ltd., an independent director of Tibet Urban Development and Investment Co., Ltd., an independent director of Shanghai International Port (Group) Co., Ltd. He served as a teaching assistant, lecturer and associate professor of the Economics Faculty of Department of Economics of Shanghai Maritime University (during the period of which, he received the Sino-British Friendship Scholarship for studying and research in Maritime Finance at University of Wales in the United Kingdom); associate professor and dean of Accounting Faculty of Shanghai Maritime University; professor and dean of Finance & Accounting Faculty of Shanghai Maritime University (during the period of which, he received national fund from Studying Abroad Program and was a senior visiting scholar at University of Sydney, Australia); professor and deputy dean of School of Management of Shanghai Maritime University; professor, doctoral tutor and dean of School of the Economics and Management of Shanghai Maritime University; professor, doctoral tutor and vice president of Shanghai Lixin University of Accounting; deputy to the 13th Shanghai Municipal People's Congress; and external supervisor of China Merchants Bank. He respectively obtained a bachelor's degree in Economics of Shanghai Maritime University, a master's degree in Management of Shanghai University of Finance and Economics and the doctoral degree in Management of Tongji University. He is entitled to a special government allowance provided by the State Council, and is also an honorary fellow member of the Association of International Accountants.

Mr. HONG Yongmiao, aged 57, has served as Independent Non-executive Director of the Bank since September 2019, and is currently Distinguished Researcher of the Academy of Mathematics and Systems Science of Chinese Academy of Sciences, Distinguished Professor of the School of Economics and Management of University of Chinese Academy of Sciences, Member at Academy of Sciences for the Developing World, Fellow of Econometric Society, vice chairman of Economics Professional Teaching Mentoring Committee of Higher College of Ministry of Education, co-editor of *China Journal of Econometrics*. He was previously president of the Chinese Economists Society and independent non-executive director of ICBC. He respectively obtained a bachelor's degree in Science and a master's degree in Economics of Xiamen University, and a doctoral degree in Economics of University of California, San Diego in the United States.

Mr. LI Yinquan, aged 66, has served as an Independent Non-executive Director of the Bank since June 2020. He is currently the director of China Merchants Capital Investment Co., Ltd. He also served as the independent non-executive director of Genertec Universal Medical Group Company Limited, Million Cities Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited and Kimou Environmental Holding Limited, and Lizhi, Inc. He served as the assistant general manager, deputy general manager level cadre of International Business Department, head of the Preparatory Group of the New York Branch, deputy general manager of HR &and Education Department and deputy general manager of the Hong Kong Branch of the Agricultural Bank of China. He also served as the general manager of the Planning and Finance Department, chief financial officer (chief accountant), vice president of China Merchants Group Co., Ltd., as well as the general manager, CEO and chairman of China

Merchants Capital Investment Co., Ltd. and the executive director of China Merchants Holdings (International) Company Limited, the non-executive director of China Merchants Bank Co., Ltd., the executive director of China Merchants Energy Shipping Co., Ltd. and the executive director of China Merchants China Direct Investments Limited. He graduated from the Graduate School of the People's Bank of China from which he obtained a master's degree in economics. He later obtained a master's degree in finance for development in Finafrica Institute, Italy. He is a senior economist.

Supervisors

The following table sets out certain information relating to the Bank's supervisors as at the date of this Offering Circular:

Name	Age	Position	Appointment Date
Mr. LU Hong	57	Member of CPC Committee, Chairman of the Board of Supervisors, Shareholder Supervisor	26 March 2021
Mr. YIN Lianchen.................	54	Shareholder Supervisor	23 December 2014
Mr. WU Junhao.....................	55	Shareholder Supervisor	19 November 2009
Mr. WU Gaolian	68	External Supervisor	29 June 2016
Mr. WANG Zhe	60	External Supervisor	15 November 2016
Mr. QIAO Zhimin.................	68	External Supervisor	12 September 2019
Mr. XU Keshun	54	Employee Supervisor	26 July 2019
Mr. SUN Jianwei	54	Employee Supervisor	26 July 2019
Mr. SHANG Wencheng	45	Employee Supervisor	26 July 2019

Mr. LU Hong, aged 57, has served as Chairman of the Board of Supervisors and Supervisor of the Bank since March 2021, and has been Member of CPC Committee of the Bank since March 2009. He joined the Bank in 1994 and served successively as manager of Securities Affairs Department, division chief of the Office of the Board of Directors, assistant general manager of Planning and Finance Department, general manager of Planning and Finance Department of Beijing branch, deputy general manager of Financial Accounting Department of the Head Office, deputy general manager and general manager of Planning and Finance Department of the Bank. From September 2009 to March 2021, he served successively as Secretary of the Board of Directors, Executive Vice President and Executive Director of the Bank. He used to be an engineer of China Railway Economic and Planning Research Institute under the Ministry of Railways and Manager of Investment Banking Department of Huaxia Securities Co., Ltd. He graduated from Shanghai Railway Institute with a master's degree in Railway Engineering and a doctoral degree in Applied Economics from Xi'an Jiaotong University. He is a senior accountant.

Mr. YIN Lianchen, aged 54, has served as Supervisor of the Bank since December 2014. He is currently Managing Director and Chief Investment Officer of China Everbright Limited and non-executive director of Everbright Securities Co., Ltd. He successively served as General Manager of the Corporate Administration Department, Director of the Securities Brokerage Department, Director of Planning & Communication Department of China Everbright Limited, Chief Representative of Moody's KMV (China), Deputy General Manager of Beijing Yonder Investment Group, Chief of General Office of China Everbright (Group) Corporation, Assistant General Manager of China Everbright Limited, and Deputy Division Chief of Asset Management Division of Banking Regulation Department I of PBOC. He graduated from Nankai University with a master's degree in Western Financial Accounting.

Mr. WU Junhao, aged 55, has served as Supervisor of the Bank since November 2009. He is General Manager of the Financial Management Department of Shenergy (Group) Limited and concurrently serves as Director of

Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He successively served as Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., and Deputy Director, Director and Senior Director of the Asset Management Department and Deputy (Acting) Director of the Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a master's degree in Enterprise Management at East China Normal University.

Mr. WU Gaolian, aged 68, has served as External Supervisor of the Bank since June 2016. He successively served as Standing Committee Member of Party Committee, Deputy County Magistrate and Deputy Managing Magistrate of Fusong County of Jilin Province, General Manager of Jilin Tonghua Branch, Deputy General Manager of Jilin Branch, General Manager of Guangxi Branch and General Manager of Liaoning Branch of the People's Insurance Company (the People's Insurance (Property) Company of China, Ltd.), Vice President of the People's Insurance Company (Group) of China (People's Insurance Company of China Holdings Company), Director and President of China Reinsurance (Group) Corporation, Director of the Bank, and Director of China Everbright Group Ltd. He graduated from the Graduate School of Chinese Academy of Social Sciences majoring in the Economics of Money and Banking. He holds a master's degree and is a senior economist.

Mr. WANG Zhe, aged 60, has served as External Supervisor of the Bank since November 2016. He is currently Secretary General of Association of Shanghai Internet Financial Industry and serves concurrently as Vice President of Shanghai Financial Association, Independent Director of Shanghai Pudong Development Bank, and Independent Director of Boill Healthcare Holdings Limited. He successively served as Clerk of Monetary Division and Deputy Division Chief of General Office of the PBOC, Manager of China Gold Coin Shenzhen Commercial Centre, Deputy General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Centre, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman and Secretary of CPC Committee of Shanghai Gold Exchange, and Secretary of CPC Committee of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a master's degree.

Mr. QIAO Zhimin, aged 68, has served as External Supervisor of the Bank since September 2019. He is concurrently Independent Director of Wuhan Rural Commercial Bank Co., Ltd. He successively served as Deputy Division Director of the Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch and Deputy General Manager of the General Planning Department of Head Office of BOC; Deputy Director-General of the Accounting Department and Deputy Director-General of the Banking Supervision Department I of PBOC; Chief of Regulation Team (Director-General Level) for ICBC; Director of the Finance and Accounting Department of former CBRC; Vice Chairman of the Fourth Session of the Board of Supervisors and Chairman of the Fifth Session of the Board of Supervisors for China Minsheng Banking Corp., Ltd.; and Independent Non-executive Director of the Bank. He graduated from Hunan College of Finance and Economics and majored in Finance. He holds a master's degree and a certificate of senior accountant.

Mr. XU Keshun, aged 54, who has served as the Employee Supervisor of the Bank since July 2019, is currently Chief of the Office of the Board of Supervisors of the Bank (General Manager level of the Head Office). He served as the Principal Staff Member of HR Office and General Office of Henan Branch of China Construction Bank; the deputy general manager (presiding) of the HR & Education Department, the general manager of the Business Development Department of Zhengzhou Branch and the deputy general director of HR & Education Department of the head office of the China Investment Bank; the director of the Audit Division of Henan Branch of China Development Bank; a member of CPC Committee and Deputy General Manager of Zhengzhou Branch of the Bank, secretary of CPC Committee, General Manager of Yantai Branch, the secretary of CPC Committee and General Manager of Zhengzhou Branch of the Bank. He obtained a master's degree of EMBA from Guanghua School of Management of Peking University and is a senior economist.

Mr. SUN Jianwei, aged 54, who has served as the Employee Supervisor of the Bank since July 2019, is currently General Manager of the Legal & Compliance Department of the Bank. He served as the deputy manager of the Foreign Exchange and Credit Department of the International Department, assistant division chief of the Credit Review Division of the Credit Approval Department, Division Chief of the Asset Preservation Department, Division Chief of the System Collection Division, Division Chief of the System Management Division and Assistant General Manager of Asset Preservation Department of the Head Office of the Bank; a member of CPC Committee, Assistant General Manager and chief risk officer of Kunming Branch; a member of CPC Committee, Deputy General Manager, chief risk director and secretary of the Discipline Inspection Committee of Shijiazhuang Branch; the deputy secretary (presiding) of CPC Committee, Deputy General Manager (presiding), secretary of CPC Committee and General Manager of Heilongjiang Branch of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree and is an economist.

Mr. SHANG Wencheng, aged 45, who has served as the Employee Supervisor of the Bank since July 2019, is currently General Manger of the Auditing Department of the Bank. He served as the deputy chief of the Financial Management Division of the Finance and Planning Department, the accredited financial supervisor (senior manager level) of the Credit Card Centre, the accredited financial supervisor (senior manager level) of the Information Technology Department, the senior manager of the Financial Management Division, senior manager of the Management Accounting Division of Planning and Finance Department, the deputy director of Auditing Centre (East) (first assistant general manager level and then deputy general manager level of the Head Office) and deputy general manager of the Audit Department of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree, and then obtained a doctoral degree in Finance from Dongbei University of Finance and Economics. He is a senior economist, a senior accountant and a certified public accountant.

Senior Management Members

The following table sets out certain information relating to the Bank's senior management members as at the date of this Offering Circular:

Name	Age	Position
Mr. WU Chongkuan.......................	58	Member of CPC Committee (Executive Vice President Level) and Chairman of the Working Committee of the Labour Union
Mr. YAO Zhongyou.......................	57	Non-executive Director and Member of CPC Committee
Mr. DONG Tiefeng.......................	53	Member of CPC Committee, Secretary of Discipline Committee (Executive Vice President level)
Mr. QU Liang	54	Executive Director, Executive Vice President, Member of CPC Committee and Secretary of CPC Committee and President of Beijing Branch
Mr. LI Jiayan	57	Member of CPC Committee (Executive Vice President level), Secretary to the Board of Director
Ms. QI Ye.......................................	51	Executive Vice President and Member of CPC Committee
Mr. YANG Bingbing.....................	50	Executive Vice President and Member of CPC Committee

The biographies of the senior management personnel are as follows:

Mr. WU Chongkuan, aged 58, has served as Member of CPC Committee (Executive Vice President Level) of the Bank since April 2014. He is currently Chairman of the Labour Union Committee and Chairman of the Labour Union of the Bank, and Vice Chairman of the Labour Union Committee of China Everbright Group Ltd. He joined the Bank in May 1997 and took several positions including: Head and General Manager of the General Office, General Manager of Special Assets Management Department (during which he concurrently served as the Head of the Bank's Xi'an Group for Accepting Branches of China Investment Bank); Secretary of CPC Committee and General Manager of Heilongjiang Branch; Secretary of CPC Committee and General Manager of Shanghai Branch; and Director of the Working Committee of the Labour Union. He previously served as Division Chief of the Research & General Affairs Division of China International Staff Service Centre, Head and General Manager of the Fund Business Department of China Rural Development Trust Investment Company. Mr. Wu graduated from Northwestern Polytechnical University majoring in space engineering. He is a Bachelor of Engineering and an engineer.

Mr. YAO Zhongyou - please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*".

Mr. Dong Tiefeng, aged 53, has served as Member of CPC Committee and Secretary of Disciplinary Committee (Executive Vice President Level) since December 2020. He served as Deputy Division Chief of Chinese Bank Supervision Division, Deputy Division Chief of Foreign Bank Supervision Division II, Division Chief of Foreign Bank Supervision Division I of Supervision Department I of PBOC, Division Chief of Chinese Bank Supervision Division of Banking Supervision Department I, Deputy Director of Banking Supervision Department I, Deputy Director of Human Resources Department, Deputy Director of Party Committee Organisation Department, Inspector of Human Resources Department (also Party Committee Organisation Department) of the former CBRC, General Manager of Legal & Compliance Department of China Everbright Bank, Deputy Director-General of Party Organisation Department, Deputy Director-General of Publicity Department, Deputy Director-General of Human Resources Department (department head), Director-General of Party Committee Organisation Department, Director-General of Publicity Department, Deputy Director-General of Human Resources Department, Vice Principal of Party School of China Everbright (Group) Corporation, Director-General of Party Committee Organisation Department, Director-General of Publicity Department, Director-General of Human Resources Department, Vice Principal of Party School, Member of Discipline Inspection Committee, Member of CPC Committee of the Head Office, General Manager of Human Resource Department, Director-General of United Front Work Department of China Everbright Group Ltd. (CEG), Vice Principal of both CEG Party School and Everbright Academy. He graduated from School of Economics, Hebei University, majoring in world economics, and obtained a doctoral degree in economics. He is a senior economist.

Mr. QU Liang - please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*".

Ms. QI Ye, aged 51, has served as Vice President of the Bank since July 2020, and Member of CPC Committee of the Bank since May 2020. She joined the Bank in 1992 and was successively Clerk of the Credit Department of the Head Office, cadre of the Hainan Representative Office, Assistant General Manager and Executive Vice President of the Haikou Branch (Affiliated to the Branch), Deputy General Manager of the Personal Business Department of the Head Office (later renamed as the Retail Business Department), Risk Director of the Retail Banking Department (Deputy General Manager level of the Head Office), Accredited Retail Risk Director of the Risk Management Department (Deputy General Manager level of the Head Office), Risk Director of the Micro-financial Department (General Manager level of the Head Office), Deputy General Manager (General Manager level of the Head Office) and General Manager of the Retail Banking Department, and Chief Business Supervisor of the Bank. She graduated from the Economics Faculty of Beijing Normal University majoring in economic management, and later obtained a master's Degree of Business Administration from the International Business Administration program jointly organised by the Peking University and Fordham University. She is an economist.

Mr. YANG Bingbing, aged 50, has served as Executive Vice President of the Bank since July 2020, and Member of CPC Committee of the Bank since May 2020. He joined the Bank in 2005 and has served successively as Assistant General Manager and Deputy General Manager of the Risk Management Department of the Head Office, Deputy General Manager (presiding) and General Manager of the Information Technology Department, and General Manager of the Electronic Banking Department, General Manager of Digital Banking Department, and

Chief Business Supervisor of the Bank. He served as Deputy Principal Staff Member, and Principal Staff Member of the Unified Credit Management Division of the Risk Management Department of the Head Office (during which, he served as Deputy Director (presiding) of the Credit Management Division of the Risk Management Department of Bank of China (Hong Kong) Limited), Senior Risk Manager (in charge of Risk Management Planning) of the Risk Management Department of Bank of China Limited. He graduated from the School of Business Administration of the Hong Kong Polytechnic University with a master's Degree in Business Administration. He is a senior economist.

COMPANY SECRETARY

Mr. LI Jiayan, aged 57, has served as Secretary to the Board of Directors of the Bank since January 2018 and Member of CPC Committee (Executive Vice President Level) of the Bank since July 2019, and concurrently served as Representative of Securities Affairs of the Bank. He joined the Bank in November 2005, and successively served as Deputy General Manager of the Development Research Department, Deputy General Manager of the Strategic Management Department, Deputy Chief of the Office of the Board of Directors and Supervisors (Deputy General Manager Level), Deputy Chief of the Office of the Board of Directors (Listing Office), Representative of Securities Affairs (General Manager Level), Head of Listing Office (General Manager Level) and General Manager of the Capital and Securities Affairs Management Department. He used to work as Deputy Division Chief of the Project Approval Division of the Foreign Investment Office, Director of Complaints Centre for the Foreign Investors, and Division Chief of the Coordination and Management Division of the Foreign Investment Office under Wuhan Municipal Government, and Executive Deputy General Manager of Wuhan PKF International Investment Co., Ltd. He graduated from School of Law, Wuhan University with a bachelor's degree and a master's degree in Law. Then he went to School of Law of the University of California, Berkeley, for further study, where he obtained a master's degree and a doctoral degree in Law.

BOARD OF DIRECTORS COMMITTEES

There are seven committees under the Board of Directors, namely the Strategy Committee, Audit Committee, Risk Management Committee, Nomination Committee, Remuneration Committee, Related Party Transactions Control Committee and Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The committees operate in accordance with the terms of reference established by the Board of Directors of the Bank.

Strategy Committee

The Strategy Committee consists of five directors, namely Mr. LI Xiaopeng, Mr. WU Lijun, Mr. FU Wanjun, Mr. XU Hongcai, and Mr. HONG Yongmiao, among whom Mr. LI Xiaopeng acts as chairman of the Strategy Committee. The primary duties and responsibilities of the Strategy Committee include (i) formulating business objectives and medium and long-term development strategies, and advising the Board accordingly; (ii) reviewing plans on capital management and replenishment, and supervising and inspecting the implementation; and (iii) developing business plan, reform plan for operation and management mechanism, major external investment programs and capital operation schemes, supervising and inspecting the implementation, and advising the Board accordingly.

Audit Committee

The Audit Committee consists of five directors, namely, Mr. WANG Liguo, Mr. XU Hongcai, Mr. SHAO Ruiqing, Mr. YAO Wei and Mr. LI Yinquan among which Mr. SHAO Ruiqing acts as chairman of the Audit Committee. The Audit Committee has the appropriate accounting qualifications as required under Rule 3.10(2) of the Listing Rules. The primary duties and responsibilities of the Audit Committee include: (i) supervising and evaluating the Bank's internal control; (ii) inspecting the Bank's risks, and compliance status, accounting policies, financial reporting procedures and financial position; (iii) reviewing the Bank's financial information and its disclosure, and taking charge of the annual audit; (iv) supervising and guiding the internal audit, examining important policies and reports such as internal audit charter, and reviewing medium and long-term audit plans and annual audit plan; (v) supervising and evaluating external auditors; (vi) coordinating internal and external audits; and (vii) reviewing and supervising the mechanisms for employees of the Bank to report misconducts related to financial report, internal control, etc.

Risk Management Committee

The Risk Management Committee consists of four directors, namely, Mr. YAO Zhongyou, Mr. LIU Chong, Mr. FU Wanjun and Mr. SHAO Ruiqing among whom Mr. FU Wanjun acts as chairman of the Risk Management Committee. The primary duties and responsibilities of the Risk Management Committee include: (i) determining the risk management policies of the Bank and the overall risk tolerance; (ii) supervising the duty performance of the Senior Management of the Bank in controlling credit market, operational, liquidity, compliance and reputational risks, etc.; (iii) evaluating the basic risk policy, management situation and risk tolerance of the Bank; (iv) regularly submitting risk management reports to the Board of Directors; (v) drafting the Bank's management objective of capital adequacy ratio, and monitoring capital adequacy ratios; (vi) reviewing and approving matters related to the implementation of Basel III; and (vii) supervising the Management's performance of anti-money laundering (AML) duties, and enhancing the effectiveness of data goverance.

Nomination Committee

The Nomination Committee consists of five directors, namely, Mr. LI Xiaopeng, Mr. HONG Yongmiao, Mr. XU Hongcai, Mr. HAN Fuling and Mr. LI Yinquan among whom Mr. XU Hongcai acts as chairman of the Nomination Committee. The primary duties and responsibilities of the Nomination Committee include: (i) selecting qualified candidates for Directors and Senior Management; (ii) drafting the procedures and the selection criteria for Directors and Senior Management, preliminarily reviewing the appointment qualifications and conditions of candidates, and advising the Board accordingly; and (iii) regularly assessing the Board structure, the number of Board members and the Board composition, and offering recommendations on the proposed adjustment of the Board of Directors according to the Bank's strategy.

Remuneration Committee

The Remuneration Committee consists of six directors, namely, Mr. LI Xiaopeng, Mr. HAN Fuling, Mr. WANG Liguo, Mr. SHAO Ruiqing, Mr. HONG Yongmiao and Mr. LI Yinquan among whom Mr. HONG Yongmiao acts as chairman of the Remuneration Committee. The primary duties and responsibilites of the Remuneration Committee include: (i) drafting the remuneration plan for Directors and the Senior Management, making recommendations to the Board and overseeing the implementation of the plan; (ii) reviewing the duty performance of Directors and the Senior Management and making recommendations to the Board on the examination and evaluation of them; and (iii) reviewing the remuneration management policy and rules of the Bank, advising the Board accordingly and supervising the implementation of these policies, etc.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee consists of six members, namely Mr. XU Hongcai, Mr. HAN Fuling, Mr. WANG Liguo, Mr. SHAO Ruiqing, Mr. LI Yinquan and Mr. HONG Yongmiao, among whom Mr. LI Yinquan acts as the chairman of the Related Party Transactions Control Committee. The primary duties and responsibilities of the Related Party Transactions Control Committee include: (i) filing the common related party transactions; (ii) reviewing major related party transactions and submitting the results to the Board of Directors for consideration; (iii) providing detailed reports to the Board of Directors on the overall status, risk level and structural distribution of related party transactions conducted in the year; (iv) developing the related party transactions management measures and submitting the same to the Board of Directors for approval before implementation; and (vi) identifying the related parties of the Bank and reporting them to the Board of Directors and the Board of Supervisors, and timely announcing such related parties to relevant staff members of the Bank..

Inclusive Finance Development and Consumer Rights and Interests Protection Committee

The Inclusive Finance Development and Consumer Rights and Interests Protection Committee consists of six members, namely, Mr. FU Wanjun, Mr. QU Liang, Mr. YAO Wei, Mr. LIU Chong, Mr. HAN Fuling and Mr. WANG Liguo, among whom Mr. FU Wanjun acts as the chairman of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The primary duties and responsibilities of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee include: (i) formulating development strategy plan for the Bank's inclusive finance business; (ii) reviewing the Bank's general policy, evaluation measures and annual business plan for inclusive finance; (iii) guiding and supervising the Senior Management on the development of inclusive finance work; (iv) guiding and urging the establishment and improvement of the Bank's management policies and mechanisms for the protection of consumer rights and interests; (v) studying relevant audit reports, regulatory circulars and internal evaluation results related to the Bank's consumer rights and interests protection work, and urging timely rectification by the Senior Management supervision consumer rights and interests protection work of the Senior Management..

CHINA EVERBRIGHT GROUP LIMITED

As at the date of this Offering Circular, China Everbright Group Limited directly held 23,359,409,561 A shares and 1,782,965,000 H shares of the Bank, together representing approximately 46.53 per cent. of the Bank's total issued ordinary shares.

EXCHANGE RATES

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by 2 per cent. against U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows Renminbi to fluctuate against U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in Renminbi appreciating against U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, PBOC further widened the floating band against U.S. dollar to 2.0 per cent. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by PBOC on 11 August 2015, Renminbi depreciated significantly against U.S. dollar. In January and February 2016, Renminbi experienced further fluctuation in value against U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making Renminbi freely convertible in the future.

The following table sets forth information concerning exchange rates between Renminbi and U.S. dollar for the periods presented:

	Renminbi per U.S. dollar Noon Buying Rate (1)			
Period	**End**	**Average (2)**	**High**	**Low**
		(RMB per U.S.$1.00)		
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.8878	7.1681	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344
March	6.5518	6.5109	6.5716	6.4932
April	6.4749	6.5186	6.5649	6.4710
May	6.3674	6.4321	6.4749	6.3674
June	6.4566	6.4250	6.4811	6.3796
July	6.4609	6.4763	6.5104	6.4562

Period	Renminbi per U.S. dollar Noon Buying Rate [1] End	Average [2]	High	Low
		(RMB per U.S.$1.00)		
August (through 6th August 2021)	6.4825	6.4682	6.4825	6.4608

Notes:

(1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

HONG KONG

Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Notes can be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is required to be withheld in Hong Kong in respect of any gains arising from resale of the Notes.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable it is payable by the relevant Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes, it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

Profits Tax

Profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum is revenue in nature and has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the Enterprise Income Tax Law promulgated on 16 March 2007 and recently amended on 29 December 2018 and the PRC Individual Income Tax Law, as amended on 31 August 2018, and their implementation regulations, an income tax is imposed on payment of interest in respect of debt securities which are issued by enterprises established within the territory of PRC to non-resident Noteholders, including non-resident enterprises and non-resident individuals. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, unless otherwise provided in other preferential taxation policies under special taxation arrangements.

On 23 March 2016, the Ministry of Finance 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 confirms that business tax was replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in 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 capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the relevant Issuer.

(i) In the event that the Issuer is the Bank

In the event that the Issuer is the Bank, the Bank will be subject to withhold PRC income tax on the payment of interest of the Notes to non-resident Noteholders. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, in each case, unless a lower rate is available under an applicable tax treaty. For example, the tax so charged on interests paid on the Notes to non-resident Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between the mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to such arrangement. Further, given that the Bank is located in the PRC, in the event that the Issuer is the Bank, holders of the Notes would be regarded as providing the financial services within China and consequently, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent.. Given that the Bank pays interest income to Noteholders who are located outside of the PRC, the Bank, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC. The Bank has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "Terms and Conditions of the Notes".

(ii) In the event that the Issuer is a Branch Issuer

In the event that the Issuer is a Branch Issuer, the relevant Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non- resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the relevant Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the relevant Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Conditions. If the Bank shall perform the obligation of paying interest of the Notes in the event and only when the relevant Branch Issuer fails to perform its obligations of paying the interest of the Notes, the Bank will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and PRC VAT tax and local levies at the rate of 6.72 per cent. of the interest component of the amount payable by the Bank to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if such capital gains are determined as income sourced in the PRC, accordingly such capital gains would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable, such as those provided under the arrangement for avoidance of double taxation between the PRC and Hong Kong. There is uncertainty as to whether gains realized on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as income sourced within the PRC which as a result will be subject to PRC individual income tax.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the relevant Branch Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC. The above statements on VAT may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law, IIT Law and the VAT reform detailed above, in the case of (i) and (ii), the relevant Branch Issuer or the Bank shall withhold EIT or IIT, (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC-resident Noteholder and the relevant Branch Issuer or the Bank shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC. However, in the event that such relevant Branch Issuer and the Bank are required to make such a deduction or withholding (whether by way of EIT, IIT or VAT otherwise), each relevant Branch Issuer and the Bank have 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 14 (Taxation)".

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The relevant Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

BANKING REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with CBIRC and PBOC acting as the principal regulatory authorities. CBIRC is primarily responsible for supervising and regulating banking institutions, and PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC banking industry consist principally of the Law of PRC on the People's Bank of China (中國人民銀行法, the "**PBOC Law**"), the PRC Commercial Banking Law（中華人民共和國商業銀行法）, the Law on Supervision and Administration of Banking Sector（中華人民共和國銀行業監督管理法）, and rules and regulations promulgated thereunder.

Principal Regulators

Prior to April 2003, PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, China Banking Regulatory Commission (the "**CBRC**") was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from PBOC. PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions. In March 2018, the PRC Government announced the merger of the CBRC with the China Insurance Regulatory Commission (the "CIRC"), to form the CBIRC.

CBIRC

Functions and Powers

CBIRC is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the banking sector in the PRC.

According to the Law on Supervision and Administration of Banking Sector, the main responsibilities of CBIRC include:

(i) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(ii) reviewing and approving the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licences for commercial banks, their branches and subsidiaries, branches and representative offices of foreign banks in the PRC;

(iii) regulating the business activities of banking institutions, including the products and services they offer;

(iv) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(v) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;

(vi) conducting on-site inspection and off-site surveillance of the business activities and risk exposure status of banking institutions;

(vii) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics;

(viii) imposing corrective and punitive measures for violations of applicable banking regulations;

(ix) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(x) working with authorities (including the PBOC and the Ministry of Finance);

(xi) to establish emergency disposal mechanisms and to deal with any emergencies in the banking sector;

(xii) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(xiii) carrying out international communication and cooperation activities related to supervisions of the banking sector.

Banks are also subject to the regulation of CIRC in conducting bancassurance business.

Examination and Supervision

CBIRC, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. CBIRC also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of banks' business activities and risk exposure status to evaluate and analyze the operational risk of the banks. If a banking institution is not in compliance with a regulation, CBIRC has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

PBOC

As the central bank of the PRC, PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PBOC Law, PBOC is empowered to:

(i) drafting and enforcing relevant rules and regulations that are related to fulfilling its functions;

(ii) formulating and implementing monetary policy in accordance with law;

(iii) issue the Renminbi and administering its flow;

(iv) regulating the inter-bank lending market and the inter-bank bond market;

(v) implementing foreign exchange management, supervising inter-bank foreign exchange market;

(vi) supervising and regulating gold market;

(vii) holding, managing and operating the state foreign exchange and gold reserves;

(viii) managing the State treasury as fiscal agent;

(ix) ensuring normal operation of the payment and settlement systems;

(x) providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement;

(xi) developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast for the financial industry;

(xii) participating in international financial activities at the capacity of the central bank; and

(xiii) participating financial business as prescribed by the PBOC Law to carry out monetary policies.

Other Regulatory Authorities

In addition to CBIRC and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, SAFE, CSRC and NDRC. For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of CSRC; and in issuing the notes overseas by the domestic banks, the domestic banks are subject to the regulation of NDRC.

Regulations Regarding Capital Adequacy

Capital Adequacy Guidelines

In June 2012, the CBRC issued the Administrative Measures on the Capital of Commercial Banks (Trial) (商業銀行資本管理辦法（試行）, the "Capital Measures") regulating capital adequacy ratios ("CAR") of PRC commercial banks. The Capital Measures, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of capital and risk-weighted assets. The overall CAR requirements are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the Capital Measures as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Common Equity Tier 1 Capital Adequacy Ratio} = \frac{\text{Common Equity Tier 1 Capital – deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

In November 2012, the then CBRC further released the Guiding Opinion on Commercial Banks' Innovation on Capital Instruments (中國銀監會關於商業銀行資本工具創新的指導意見， the "2012 Guiding Opinions"), setting out the general principles of the innovation of capital instruments of commercial banks and criteria of qualified capital instruments. In 22 November 2019, the 2012 Guiding Opinions was abolished by CBIRC and was superseded by the Guiding Opinions on Innovation of Capital Instruments of Commercial Banks issued by CBIRC (Revised) (中國銀保監會關於商業銀行資本工具創新的指導意見(修訂).

PRC CURRENCY CONTROLS

CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled under in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow have been increased in September 2015. The PBOC permits enterprises in the Shanghai FTZ may establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pooling programme. In November 2016, PBOC Shanghai Headquarters further allowed banks in Shanghai to provide multinational enterprise groups with services of full-function onshore cash pooling, which will enable broader scope for utilising pooled cash.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "**foreign debt**") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "**outbound loans**"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "**cross-border security**"). Under current rules promulgated by SAFE and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financing denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening up. In January 2016, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There can be no assurance that the PRC government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 12 August 2021, agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Forms of the Notes*" and "*Terms and Conditions of the Notes*". The Bank (or the relevant Branch Issuer) will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. 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**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The relevant Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement. The relevant Issuer may agree to pay, through the Dealers, a commission to certain private banks on certain tranches of Notes based on the principal amount of Notes purchased by the clients of such private banks. Any such commissions will be described in the relevant Pricing Supplement.

The relevant Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of the relevant Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Dealer Agreement provides that the relevant Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the relevant Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies from time to time for which they have received, or will receive, fees and expenses. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the relevant Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of the Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes, which could adversely affect the trading price and liquidity of the Notes.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the relevant Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilisation or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities may only be carried on by the Stabilisation Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the relevant Issuer or its subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

SELLING RESTRICTIONS

United States of America

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States.

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not 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 European Economic Area. 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.

If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of Notes to the public in that Member 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 EU Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, **provided that** any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the EU 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 EU Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU 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 EU Prospectus Regulation,

provided that no such offer of Notes referred to in paragraphs (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**EU Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Prohibition of Sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not 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 United Kingdom. For the purposes of this provision,

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

    (i) retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or

    (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by 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 specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Article 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, **provided that** any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the 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 the UK Prospectus Regulation;

(c) at any time to fewer than 150 persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the 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 the UK Prospectus Regulation.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other UK Regulatory restrictions

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) in relation to any Notes having a maturity of less than one year:

   (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

   (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

   - 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 Financial Services and Markets Act 2000 (the "**FSMA**") by the relevant Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer; and

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.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, 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.

Hong Kong

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

PRC

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the offer of the Notes is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of China and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Taiwan

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly, in Taiwan, to investors other than "professional institutional investors" as defined under Paragraph 2, Article 19-7 of the Regulations Governing Securities Firms of Taiwan, currently including overseas or domestic Banks, insurance companies, bills finance companies, securities firms, fund management companies, government investment institutions, government funds, pension funds, mutual funds, unit trusts, securities investment trust enterprises, securities investment consulting enterprises, trust enterprises, futures commission merchants, futures service enterprises, and other institutions approved by the Financial Supervisory Commission of Taiwan.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required.

These selling restrictions may be modified by the agreement of the relevant Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. LISTING

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange. Separate application may be made for the listing of the Notes on the Hong Kong Stock Exchange. The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies).

2. AUTHORISATION

The establishment of the Programme and the issue of the Notes thereunder were authorised by the resolutions of the board of directors of the Bank passed on 27 March 2020 and the shareholders' resolutions of the Bank passed on 5 June 2020 and approval from the office meeting of the Bank's president which took place on 21 May 2021. Each of the Bank and the relevant Issuer has obtained, or will obtain from time to time, all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of their respective obligations under the Notes. In connection with Notes issued by the relevant Issuer, the relevant Issuer 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 such Issuer may be adversely affected in the event any required registration is not obtained. Each of the Bank and the relevant Issuer does not however expect that any registration would be refused.

3. LEGAL AND ARBITRATION PROCEEDINGS

None of the relevant Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the relevant Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

4. SIGNIFICANT/MATERIAL CHANGE

The Group has adopted new standards, including IFRS 9 (Financial Instruments), from 1 January 2018. Considering the impact of these standards on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 shareholders' equity at the adoption date, but did not restate comparative periods. The adoption of IFRS 9 has reduced the shareholders' equity by 2.87 per cent. as at 1 January 2018.

Other than as set out above, since 31 December 2020, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the relevant Issuer, the Bank or the Group.

5. AUDITOR

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2019 and 2020, which are included elsewhere in this Offering Circular, have been audited by Ernst & Young, as stated in its respective reports appearing herein.

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the principal place of business of the Bank in Hong Kong at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and the specified office of the Fiscal Agent at 20th Floor, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong for so long as the Notes are capable of being issued under the Programme:

(i) the memorandum and articles of association of the Bank;

(ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020;

(iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;

(iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the UK, the European Economic Area nor offered in the UK or the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Fiscal Agent as to its holding of Notes and identity);

(v) a copy of this Offering Circular together with any Supplement to this Offering Circular;

(vi) the Deed of Covenant; and

(vii) the Agency Agreement (which contains the forms of the Notes in global and definitive form).

6. DOCUMENTS ON DISPLAY

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Bank at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and the specified office of the Fiscal Agent at 20th Floor Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong for so long as the Notes are capable of being issued under the Programme:

(i) the memorandum and articles of association of the Bank;

(ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2019 and 2020;

(iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;

(iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the UK, the European Economic Area nor offered in the UK or the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity);

(v) a copy of this Offering Circular together with any Supplement to this Offering Circular;

(vi) the Deed of Covenant; and

(vii) the Agency Agreement (which contains the forms of the Notes in global and definitive form).

7. CLEARING OF THE NOTES

The Legal Entity Identifier of the Bank is 549300U6PKQ4H1P34E17. The Notes may be accepted for clearance through Euroclear, Clearstream and CMU. The appropriate CMU instrument number, common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

8. NATIONAL DEVELOPMENT AND REFORM COMMISSION FILINGS

Where applicable for a relevant Tranche of Notes, registration will be completed by the relevant Issuer pursuant to the NDRC Circular. After the issuance of such relevant Tranche of Notes, the relevant Issuer undertakes to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Circular.

INDEX TO FINANCIAL STATEMENTS

Note:

(1) The Bank's consolidated financial statements set out herein are reproduced from the Bank's annual report for the year ended 31 December 2020 and quarterly report for the three months ended 31 March 2021, respectively. Page references referred to in the auditor's reports named above refer to pages set out in such annual or quarterly reports (as the case may be).

(2) The Bank's consolidated financial statements for the three months ended 31 March 2021 is unaudited and unreviewed and do not contain any financial notes.

Independent Auditor's Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity; • Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact to expected credit losses under multiple economic scenarios given different weights; and • Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2019, gross loans and advances to customers amounted to RMB2,720.364 billion, representing 57.47% of total assets, and impairment allowance for loans and advances to customers amounted to RMB76.666 billion), impairment of loans and advances is considered a key audit matter. Relevant disclosures are included in Note III 1, Note V 17 and Note V 51(a) to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and any significant increase in credit risk; • Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios; and • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and • Evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2019, financial assets and financial liabilities measured at fair value amounted to RMB496.460 billion and RMB13.993 billion respectively, representing 10.49% and 0.32% of total assets and total liabilities respectively. Financial instruments which required either direct (i.e. prices) or indirect (i.e. derived from prices) inputs, hence categorised within Level 2 of the fair value hierarchy, represented 56.14% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 0.93% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter. Relevant disclosures are included in Note III 2 and Note V 52 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to valuation of financial instruments, including relevant data quality and IT systems involved. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the financial statements adequately presented the risk of the Group.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of, and disclosures about, structured entities	
The Group has established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, this is considered a key audit matter. Relevant disclosures are included in Note III 6 and Note V 44 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls structured entities. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 2019 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2019	2018 (Restated)
Interest income		210,044	185,688
Interest expense		(108,126)	(107,524)
Net interest income	1	101,918	78,164
Fee and commission income		25,977	22,431
Fee and commission expense		(2,808)	(2,658)
Net fee and commission income	2	23,169	19,773
Net trading gains	3	585	1,071
Dividend income		42	8
Net gains arising from investment securities	4	4,900	9,862
Net foreign exchange gains		1,339	724
Other net operating income		986	784
Operating income		132,939	110,386
Operating expenses	5	(38,429)	(33,706)
Operating profit before impairment		94,510	76,680
Credit impairment losses	8	(48,965)	(35,744)
Other impairment losses	9	(382)	(84)
Profit before tax		45,163	40,852
Income tax	10	(7,722)	(7,131)
Net profit		37,441	33,721
Net profit attributable to:			
Equity shareholders of the Bank		37,354	33,659
Non-controlling interests		87	62
		37,441	33,721
Earnings per share			
Basic earnings per share (in RMB/share)	11	0.68	0.61
Diluted earnings per share (in RMB/share)	11	0.62	0.55

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2019	2018
Net profit		37,441	33,721
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits		(180)	(102)
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		6	3
– Related income tax effect	24(b)	(2)	(1)
Subtotal		(176)	(100)
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		3,158	2,982
– Changes in allowance for expected credit losses		409	(311)
– Reclassified to profit or loss upon disposal		(1,982)	1,095
– Related income tax effect	24(b)	(374)	(957)
– Exchange differences on translation of financial statements		48	67
Subtotal		1,259	2,876
Other comprehensive income, net of tax		1,083	2,776
Total comprehensive income		38,524	36,497
Total comprehensive income attributable to:			
Equity shareholders of the Bank		38,436	36,434
Non-controlling interests		88	63
		38,524	36,497

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2019	31 December 2018
Assets			
Cash and deposits with the central bank	12	364,340	366,575
Deposits with banks and other financial institutions	13	31,358	41,005
Precious metals		10,826	23,628
Placements with banks and other financial institutions	14	60,270	96,685
Derivative financial assets	15	13,805	15,212
Financial assets held under resale agreements	16	6,835	37,773
Loans and advances to customers	17	2,644,136	2,361,278
Finance lease receivables	18	83,723	63,333
Financial investments	19	1,433,546	1,301,080
– Financial assets at fair value through profit or loss		211,406	222,737
– Debt instruments at fair value through other comprehensive income		180,005	153,987
– Equity instruments at fair value through other comprehensive income		623	367
– Financial investments measured at amortised cost		1,041,512	923,989
Fixed assets	21	19,342	18,241
Right-of-use assets	22	11,684	–
Goodwill	23	1,281	1,281
Deferred tax assets	24	16,306	10,794
Other assets	25	35,979	20,447
Total assets		4,733,431	4,357,332
Liabilities and equity			
Liabilities			
Due to the central bank	27	224,838	267,193
Deposits from banks and other financial institutions	28	444,320	490,091
Placements from banks and other financial institutions	29	166,225	152,037
Financial liabilities at fair value through profit or loss	30	100	354
Derivative financial liabilities	15	13,893	14,349
Financial assets sold under repurchase agreements	31	25,603	40,411
Deposits from customers	32	3,017,888	2,571,961
Accrued staff costs	33	8,007	8,028
Taxes payable	34	9,322	5,666
Lease liabilities	35	11,069	–
Debt securities issued	36	371,904	440,449
Other liabilities	37	54,208	44,320
Total liabilities		4,347,377	4,034,859

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2019	31 December 2018
Equity			
Share capital	38	52,489	52,489
Other equity instruments	39	70,067	35,108
of which: preference shares		64,906	29,947
Capital reserve	40	53,533	53,533
Other comprehensive income	41	2,737	1,655
Surplus reserve	42	26,245	24,371
General reserve	42	59,417	54,036
Retained earnings		120,494	100,296
Total equity attributable to equity shareholders of the Bank		384,982	321,488
Non-controlling interests		1,072	985
Total equity		386,054	322,473
Total liabilities and equity		4,733,431	4,357,332

Approved and authorised for issue by the board of directors on 27 March 2020.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Liu Jin
President
Executive Director

Yao Zhongyou
Vice President in Charge of Finance

Sun Xinhong
General Manager of Financial Accounting Department

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

2019		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	37,354	37,354	87	37,441
Other comprehensive income	41	–	–	–	–	1,082	–	–	–	1,082	1	1,083
Capital contribution by other equity instrument holders		–	34,959	–	–	–	–	–	–	34,959	–	34,959
Appropriation of profit:	43											
– Appropriation to surplus reserve		–	–	–	–	–	1,874	–	(1,874)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	5,381	(5,381)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2019		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054

2018		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436
Impact of adopting new Standards		–	–	–	–	725	–	–	(9,480)	(8,755)	(16)	(8,771)
Balance at 1 January 2018		52,489	29,947	5,161	53,533	(1,120)	21,054	52,257	82,684	296,005	660	296,665
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	33,659	33,659	62	33,721
Other comprehensive income	41	–	–	–	–	2,775	–	–	–	2,775	1	2,776
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	265	265
Appropriation of profit:	43											
– Appropriation to surplus reserve		–	–	–	–	–	3,317	–	(3,317)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	1,779	(1,779)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(9,501)	(9,501)	(3)	(9,504)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2018		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473

The notes form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	2019	2018
Cash flows from operating activities		
Net profit	37,441	33,721
Adjustments for		
Impairment losses on assets	49,347	35,828
Depreciation and amortisation	4,664	2,164
Unwinding of discount	(828)	(792)
Dividend income	(42)	(8)
Unrealised foreign exchange gains	(112)	(400)
Net gains on investment securities	(54,654)	(55,661)
Net gains on disposal of trading securities	(1,021)	(922)
Revaluation losses/(gains) on financial instruments at fair value through profit or loss	2,162	(22)
Interest expense on debt securities issued	15,221	18,234
Interest expense on lease liabilities	489	–
Net losses on disposal of fixed assets	25	15
Income tax	7,722	7,131
	60,414	39,288
Changes in operating assets		
Net (increase)/decrease in deposits with the central bank, banks and other financial Institutions	(42,733)	53,454
Net decrease in placements with banks and other financial institutions	20,549	29,391
Net (increase)/decrease in financial assets held for trading	(6,928)	14,954
Net increase in loans and advances to customers	(331,235)	(416,007)
Net decrease in financial assets held under resale agreements	30,913	53,700
Net increase in other operating assets	(35,775)	(8,000)
	(365,209)	(272,508)
Changes in operating liabilities		
Net decrease in deposits from banks and other financial institutions	(45,587)	(90,295)
Net increase in placements from banks and other financial institutions	13,820	44,491
Net decrease in financial assets sold under repurchase agreements	(14,793)	(5,182)
Net (decrease)/increase in amount due to the central bank	(41,570)	30,550
Net increase in deposits from customers	446,317	266,043
Income tax paid	(10,239)	(8,200)
Net increase in other operating liabilities	21,947	15,327
	369,895	252,734
Net cash flows from operating activities	65,100	19,514
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	637,019	376,114
Investment income received	59,415	49,386
Proceeds from disposal of fixed assets and other long-term assets	305	375
Payments on acquisition of investments	(766,714)	(366,047)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(4,448)	(4,063)
Net cash flows from investing activities	(74,423)	55,765

The notes form an integral part of these consolidated financial statements.

	Note V	2019	2018
Cash flows from financing activities			
Capital injected into subsidiaries by non-controlling shareholders		–	265
Proceeds from issuance of preference shares		34,959	–
Repayments of debts issued		(68,034)	(8,615)
Interest paid on debt securities issued		(15,732)	(18,141)
Dividends paid		(9,902)	(10,953)
Other net cash flows from financing activities		(2,744)	–
Net cash flows from financing activities		(61,453)	(37,444)
Effect of foreign exchange rate changes on cash and cash equivalents		595	1,922
Net (decrease)/increase in cash and cash equivalents	47(a)	(70,181)	39,757
Cash and cash equivalents as at 1 January		187,680	147,923
Cash and cash equivalents as at 31 December	47(b)	117,499	187,680
Interest received		161,077	163,589
Interest paid (excluding interest expense on debt securities issued)		(93,880)	(84,763)

The notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China (the "PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 20) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"),the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

These financial statements have been approved by the Board of Directors on 27 March 2020.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the "Accounting Standards for Business Enterprises-Basic Standard" issued by the Ministry of Finance of the People's Republic of China (the "MOF"), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the "PRC GAAP"). There is no difference in the net profit for the year or total equity as at the end of the year between the Group's consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretation.

IFRS 16	*Leases*
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*
IAS 19 Amendments	*Plan Amendment, Curtailment or Settlement*
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)	

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 and IFRIC 4. Under IFRS 16, the classification of finance leases and operating leases for lessees is removed, and lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and lease of low-value assets elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. The Group has adopted IFRS 16 from 1 January 2019 and applied the modified retrospective approach without restating comparative figures. The Group has not reassessed the existing contracts before 1 January 2019 (date of initial application) and has used practical expedients. As a lessee, the Group has elected to exercise the recognition exemption not to recognise the right-of-use assets and lease liabilities for the leases of which the underlying assets are of low value or for which the contract would end within 12 months from the date of initial application, and has recognised the profit or loss on a straight-line basis over the lease term. Therefore, the financial information for the year ended 31 December 2019 related to leasing presented on the financial information is not comparable with the comparative financial information presented in the 2018 financial statements in accordance with the former lease standards.

For the minimum lease payment for the operating leases disclosed in the financial statements of 2018, the Group used its incremental borrowing interest rate on 1 January 2019 to discount the lease payment. The reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is as follows:

Minimum lease payment for operating leases as at 31 December 2018	12,079
Less: Minimum lease payment with recognition exemption – short-term leases	(112)
Add: Minimum lease payment rising from reasonably exercising an option to extend the lease and others	1,206
Less: The impact of lease payment discounted at incremental borrowing interest rate as at 1 January 2019	(2,131)
Lease liabilities as at 1 January 2019	11,042
Right-of-use assets as at 1 January 2019	11,829

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2019 (continued)

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for "significant market fluctuations" in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 *Financial Instruments* ("IFRS 9") to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The adoption of the above standards, amendments and interpretation does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 3 Amendments	*Definition of a Business*	1 January 2020
IAS 1 and IAS 8 Amendments	*Definition of Material*	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	*Interest Rate Benchmark Reform*	1 January 2020
IFRS 17	*Insurance Contracts*	1 January 2021
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019 (continued)

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest-rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest-rate benchmark reform. The amendments must be applied retrospectively.

IFRS 17 *Insurance Contracts* replaces IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The above standards, amendments and interpretations does not have any significant impact on the consolidated financial statements.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2 Consolidation

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

4 Foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in "Other comprehensive income". Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in "Other comprehensive income". Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the statement of profit or loss.

Assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the end of the year. Equity items, excluding "Retained Earnings", are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders, equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

5.1 Recognition and de-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

(1) the contractual rights to the cash flows from the financial asset expire; or

(2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flow collected to a third party in full and on time under the “pass-through agreement” and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

5.2 Classification and measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Business models

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial assets portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identity whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification:

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in “other comprehensive income”, except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when accounting mismatch can be eliminated or significantly reduced can financial assets be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as financial assets designated at fair value through profit or loss, it cannot be reclassified as other financial assets; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swap to manage the associated interest rate risk.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss, other financial liabilities or designated as effective hedging instruments at initial recognition. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial liabilities, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, includes financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognized in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognized in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

5.4 Impairment of financial instruments

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 51(a)).

5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

In terms of the hedge accounting method, the Group's hedge is classified as:

(1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk).

(2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognized definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Gains or losses arising from hedging instruments are recognized in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognized in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

For the fair value hedges related to the debt instrument measured at amortized cost, the adjustment of the book value of the hedged item should be amortized by the effective interest rate method during the remaining period of the hedge and recognized in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognized hedge gains or losses are amortized in the same way and recognized in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortized fair value is recognized in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedge

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognized in other comprehensive income, and the ineffective part shall be recognized in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognized in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognized in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.7 Convertible corporate bonds

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

5.8 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined as the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

5.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

8 Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note II 2.

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at the actual consideration paid if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note II 15) in the statement of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Fixed assets

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's fixed assets mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

9.1 Premises, electronic equipment and others

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value(%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

9.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

9.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019)

10.1 Lease classification

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

10.2 Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes the periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise the corresponding option.

10.3 As lessee

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. In calculating the present value of the lease payments after modification, the revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019) (continued)

10.3 As lessee (continued)

Lease modification (continued)

For the impact on the adjustments of a lease liability, the Group accounts for the remeasurement by:

(1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease or shorten the lease term, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or

(2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The incremental borrowing rate of lessee

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

Short-term leases and leases of low-value assets

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

10.4 As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets.In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019) (continued)

10.5 Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made at or before the commencement date of the lease less any lease incentives received; (3) any initial direct cost incurred when the Group is a lessee; and (4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

10.6 Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the amounts expected to be payable under a residual value guarantee; (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iii) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

11 Leases (applicable for the year ended 31 December 2018)

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

11.1 As lessee under operating leases

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

11.2 As lessor under operating leases

Rental income under an operating lease is recognised as "other net operating income" in the statement of profit or loss on a straight-line basis over the lease term. Contingent rental income is recognised as income in the accounting period in which it is earned.

11.3 As lessor under finance leases

When the Group is a lessor under finance leases, the sum of present value of minimum lease payments receivable from the lessee, and initial direct cost is recognized as a receivable, the unguaranteed residual value is also recorded. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. The Group uses the effective interest method to recognise finance income for the current year.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the year, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statement of financial position.

12 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

13 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 15). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

14 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

15 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: fixed assets, right-of-use assets, construction in progress, intangible assets, goodwill and investments in subsidiaries.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognised the impairment loss in the income statement. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

15 Provision for impairment losses on non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

16 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

16.1 Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

16 Employee benefits (continued)

16.2 Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

16.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

– When the Group can no longer withdraw an offer of those benefits; and

– When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

16.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

17 Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

18 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

19 Other equity instruments-preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payables are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

20 Income recognition

The income should be recognized when the group's performance obligation in the contract is fulfilled, which refers the revenue is recognized when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

20.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

20.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

20.3 Other income

Other income is recognised on an accrual basis.

21 Expenses recognition

21.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

21.2 Other expenses

Other expenses are recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

22 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

23 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

24 Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

25 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- modification of contractual cash flows

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and the discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

5 Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

(Expressed in millions of Renminbi, unless otherwise stated)

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax: value-added tax is charged at 6%,13%,or 16% on taxable added value.

(b) City construction tax: city construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge: education surcharge is calculated as 3% of business tax.

(d) Income tax: the income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A."), the Luxembourg subsidiary, is 19%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2019	2018 (Restated)
Interest income arising from			
Deposits with the central bank		5,020	5,100
Deposits with banks and other financial institutions		1,470	858
Placements with banks and other financial institutions		3,208	6,571
Loans and advances to customers	(a)		
– Corporate loans and advances		70,854	61,585
– Personal loans and advances		72,578	59,247
– Discounted bills		2,020	1,276
Finance lease receivables		4,444	3,379
Financial assets held under resale agreements		2,377	1,802
Investments		48,073	45,870
Subtotal		210,044	185,688
Interest expenses arising from			
Due to the central bank		8,012	8,481
Deposits from banks and other financial institutions		12,712	22,866
Placements from banks and other financial institutions		6,520	5,793
Deposits from customers			
– Corporate customers		47,074	39,161
– Individual customers		16,880	11,865
Financial assets sold under repurchase agreements		1,707	1,124
Debt securities issued		15,221	18,234
Subtotal		108,126	107,524
Net interest income		101,918	78,164

Note:

(a) *The interest income arising from impaired financial assets amounted to RMB828 million for the year ended 31 December 2019 (2018: RMB792 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2019	2018 (Restated)
Fee and commission income		
Bank card service fees	14,163	11,523
Agency services fees	2,744	2,734
Underwriting and advisory fees	1,909	1,594
Settlement and clearing fees	1,538	1,279
Custody and other fiduciary business fees	1,446	1,358
Acceptance and guarantee fees	1,360	1,120
Wealth management service fees	634	876
Others	2,183	1,947
Subtotal	25,977	22,431
Fee and commission expense		
Bank card transaction fees	1,908	1,713
Settlement and clearing fees	144	288
Others	756	657
Subtotal	2,808	2,658
Net fee and commission income	23,169	19,773

3 Net trading gains

	2019	2018
Trading financial instruments		
– Derivatives	(355)	(332)
– Debt securities	920	1,307
Subtotal	565	975
Financial instruments designated at fair value through profit or loss	(1)	4
Precious metal contracts	21	92
Total	585	1,071

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	2019	2018
Net gains arising from financial investments at fair value through profit or loss	4,622	9,813
Net (losses)/gains arising from debt instruments at fair value through other comprehensive income	(1,915)	803
Net gains arising from loans and advances to customers at fair value through other comprehensive income	189	347
Net gains/(losses) arising from financial investments measured at amortised cost	22	(6)
Net revaluation gains/(losses) reclassified from other comprehensive income on disposal	1,982	(1,095)
Total	4,900	9,862

5 Operating expenses

	Note	2019	2018
Staff costs			
– Salaries and bonuses		12,759	11,827
– Pension and annuity		2,167	1,811
– Housing allowances		881	775
– Staff welfares		443	400
– Supplementary retirement benefits		110	86
– Others		2,041	1,970
Subtotal		18,401	16,869
Premises and equipment expenses			
– Depreciation of the right-of-use assets		2,429	–
– Depreciation of fixed assets		1,485	1,419
– Rental and property management expenses		565	2,853
– Interest expense on lease liabilities		489	–
– Amortisation of intangible assets		400	338
– Amortisation of other long-term assets		350	407
Subtotal		5,718	5,017
Tax and surcharges		1,400	1,165
Other general and administrative expenses	(a)	12,910	10,655
Total		38,429	33,706

Note:

(a) Auditors' remuneration for the year ended 31 December 2019 was RMB9.50million (2018: RMB9.00 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows:

		2019							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors									
Lu Hong	(i)	–	952	1,228	–	2,180	44	126	2,350
Non-executive directors									
Li Xiaopeng		–	–	–	–	–	–	–	–
Cai Yunge		–	–	–	–	–	–	–	–
Wang Xiaolin		–	–	–	–	–	–	–	–
Shi Yongyan		–	–	–	–	–	–	–	–
Dou Hongquan	(ii)	–	–	–	–	–	–	–	–
He Haibin		–	–	–	–	–	–	–	–
Liu Chong	(ii)	–	–	–	–	–	–	–	–
Yu Chunling	(ii)	–	–	–	–	–	–	–	–
Independent non-executive directors									
Fok Oi Ling		370	–	–	–	370	–	–	370
Xu Hongcai		271	–	–	–	271	–	–	271
Wang Liguo		360	–	–	–	360	–	–	360
Shao Ruiqing	(ii)	150	–	–	–	150	–	–	150
Hong Yong-miao	(ii)	93	–	–	–	93	–	–	93
Supervisors									
Li Xin		–	984	1,195	–	2,179	44	126	2,349
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Wang Zhe		290	–	–	–	290	–	–	290
Qiao Zhimin	(ii)	75	–	–	–	75	–	–	75
Xu Keshun	(ii)	–	363	570	–	933	21	64	1,018
Sun Jianwei	(ii)	–	364	456	–	820	18	64	902
Shang Wencheng	(ii)	–	348	519	–	867	21	64	952

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

		2019							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former executive directors									
Ge Haijiao	(ii)	–	200	150	–	350	16	105	471
Former non-executive directors									
Fu Dong	(ii)	–	–	–	–	–	–	–	–
Zhao Wei	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive director									
Qiao Zhimin	(ii)	284	–	–	–	284	–	–	284
Xie Rong	(ii)	216	–	–	–	216	–	–	216
Feng Lun	(ii)	343	–	–	–	343	–	–	343
Former Supervisors									
Sun Xinhong	(ii)	–	348	570	–	918	–	–	918
Jiang Ou	(ii)	–	349	456	–	805	–	–	805
Huang Dan	(ii)	–	264	519	–	783	–	–	783
Yu Erniu		–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

	2018							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors								
Ge Haijiao	–	22	17	–	39	3	11	53
Zhang Jinliang	–	311	–	–	311	9	81	401
Ma Teng	–	568	–	–	568	20	59	647
Li Jie	–	756	–	–	756	27	81	864
Non-executive directors								
Li Xiaopeng								
Cai Yunge								
Fu Dong	–	–	–	–	–	–	–	–
Shi Yongyan	–	–	–	–	–	–	–	–
Wang Xiaolin	–	–	–	–	–	–	–	–
He Haibin	–	–	–	–	–	–	–	–
Zhao Wei	–	–	–	–	–	–	–	–
Independent non-executive directors								
Fok Oi Ling	370	–	–	–	370	–	–	370
Qiao Zhimin	390	–	–	–	390	–	–	390
Xie Rong	370	–	–	–	370	–	–	370
Feng Lun	360	–	–	–	360	–	–	360
Wang Liguo	340	–	–	–	340	–	–	340
Xu Hongcai	–	–	–	–	–	–	–	–
Supervisors								
Li Xin	–	1,067	91	–	1,158	41	125	1,324
Yin Lianchen	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Yu Erniu	–	–	–	–	–	–	–	–
Wu Gaolian	–	–	–	–	–	–	–	–
Wang Zhe	290	–	–	–	290	–	–	290
Sun Xinhong	–	693	1,205	–	1,898	30	120	2,048
Jiang Ou	–	598	896	–	1,494	33	125	1,652
Huang Dan	–	522	1,425	–	1,947	40	125	2,112
Former non-executive directors								
Zhang Shude	–	–	–	–	–	–	–	–
Li Huaqiang	–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

Notes:

(i) *On 30 July 2019, Mr. Lu Hong was elected as the executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 10 October 2019, the CBIRC approved his qualification of the executive director.*

(ii) *On 30 July 2019, Mr. Dou Hongquan was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 10 October 2019, the CBIRC approved his qualification of the non-executive director.*

On 30 July 2019, Mr. Liu Chong was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 26 December 2019, the CBIRC approved his qualification of the non-executive director.

On 30 July 2019, Ms. Yu Chunling was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 2 November 2019, the CBIRC approved her qualification of the non-executive director.

On 30 May 2019, Mr. Shao Ruiqing was elected as an independent director at the Bank's 2018 Annual Shareholders' General Meeting. On 5 August 2019, the CBIRC approved his qualification of the independent director.

On 30 May 2019, Mr. Hong Yongmiao was elected as an independent director at the Bank's 2018 Annual Shareholders' General Meeting. On 12 September 2019, the CBIRC approved his qualification of the independent director.

On 7 January 2019, due to expiration of his term of office, Mr. Qiao Zhimin resigned from the positions of independent non-executive director, director and member of the Remuneration Committee, member of the Nomination Committee, member of the Risk Management Committee, member of the Audit Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. However, in order to ensure the number of independent non-executive directors meets the statutory requirements, Mr. Qiao Zhimin would continue to perform his duties before the qualifications of the succeeding independent non-executive director Mr. Hong Yongmiao were approved by CBIRC.

On 26 July 2019, the staff congress of the Bank elected Mr. Xu Keshun, Mr. Sun Jianwei and Mr. Shang Wencheng as the staff supervisors of the Bank. Mr. Sun Xinhong, Mr. Jiang ou and Ms. Huang Dan left their post on 26 July 2019.

On 22 January 2019, CBIRC approved Mr. Ge Haijiao to serve as executive director of the Bank. On 30 September 2019, due to job assignment, Mr. Ge Haijiao resigned from the positions of executive director, director and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of the Strategy Committee, and member of the Risk Management Committee of the Board of Directors of the Bank.

On 16 August 2019, due to job assignment, Mr. Fu Dong resigned from the positions of non-executive director, member of the Audit Committee, and member of the Risk Management Committee of the Board of Directors of the Bank.

On 30 July 2019, the 2019 Second Extraordinary General Shareholders' Meeting re-elected the Board of Directors, and Mr. Zhao Wei ceased to serve as the Bank's non-executive director.

On 7 January 2019, due to expiration of his term of office, Mr. Xie Rong resigned from the positions of independent director, director and member of the Audit Committee, member of the Nomination Committee, member of the Remuneration Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. However, in order to ensure the number of independent directors meets the statutory requirements, Mr. Xie Rong continued to perform his duties until the qualification of the succeeding independent director Mr. Shao Ruiqing was approved by CBIRC.

On 30 July 2019, the 2019 Second Extraordinary General Shareholders' Meeting re-elected the Board of Directors, and Mr. Feng Lun ceased to serve as the Bank's independent director. He would continue to perform his duties before the qualifications of the succeeding independent director are approved by CBIRC.

On July 30 2019, after the Second Extraordinary General Shareholders' Meeting of 2019, Mr. Yu Erniu left his post at the end of his term of office.

(iii) *The total compensation package for these directors and supervisors for the year ended 31 December 2019 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2019.*

The above directors' and supervisors' emoluments for the year ended 31 December 2019 were calculated in accordance with their actual tenure.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Individuals with highest emoluments

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	1,899	2,894
Discretionary bonuses	27,512	25,694
Contributions to pension schemes	248	905
Others	488	721
Total	30,147	30,214

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2019	2018
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	–	–
RMB4,500,001-5,000,000	2	–
RMB5,000,001 and above	3	5

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

8 Credit impairment losses

	2019	2018
Loans and advances to customers		
– measured at amortised cost	47,821	34,714
– measured at fair value through other comprehensive income	(35)	(369)
Debt instruments at fair value through other comprehensive income	439	58
Financial investments measured at amortised cost	(314)	485
Finance lease receivables	752	170
Others	302	686
Total	48,965	35,744

9 Other impairment losses

	2019	2018
Other assets	382	84
Total	382	84

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Income tax

(a) Income tax:

	Note V	2019	2018
Current tax		13,727	9,101
Deferred tax	24(b)	(5,887)	(1,808)
Adjustments for prior year	10(b)	(118)	(162)
Total		7,722	7,131

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2019	2018
Profit before tax		45,163	40,852
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		11,291	10,213
Effect of different tax rates applied by certain subsidiaries		(5)	–
Non-deductible expenses			
– Staff costs		88	2
– Impairment losses on assets		527	1,250
– Others		309	334
Subtotal		924	1,586
Non-taxable income	(i)	(4,370)	(4,506)
Subtotal		7,840	7,293
Adjustments for prior year		(118)	(162)
Income tax		7,722	7,131

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Net profit attributable to equity holders of the Bank	37,354	33,659
Less: Dividends on preference shares declared	1,450	1,450
Net profit attributable to ordinary shareholders of the Bank	35,904	32,209
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Basic earnings per share (in RMB/share)	0.68	0.61

Weighted average number of ordinary shares in issue (in million shares)

	2019	2018
Issued ordinary shares as at 1 January	52,489	52,489
Weighted average number of ordinary shares in issue	52,489	52,489

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2019	2018
Net profit attributable to ordinary shareholders of the Bank	35,904	32,209
Add: Interest expense on convertible bonds, net of tax	899	864
Net profit used to determine diluted earnings per share	36,803	33,073
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,264	7,264
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,753	59,753
Diluted earnings per share (in RMB/share)	0.62	0.55

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Cash and deposits with the central bank

	Notes	31 December 2019	31 December 2018
Cash on hand		4,355	4,721
Deposits with the central bank			
– Statutory deposit reserves	(a)	297,528	254,574
– Surplus deposit reserves	(b)	57,546	103,684
– Foreign currency risk reserves	(c)	3,732	857
– Fiscal deposits		1,050	2,603
Subtotal		364,211	366,439
Accrued interest		129	136
Total		364,340	366,575

Notes:

(a) *The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. At the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:*

	31 December 2019	*31 December 2018*
Reserve ratio for RMB deposits	*10.50%*	*12.00%*
Reserve ratio for foreign currency deposits	*5.00%*	*5.00%*

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2019, the foreign currency risk reserve ratio was 20% (31 December 2018: 20%).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Deposits in Mainland China		
– Banks	12,868	12,815
– Other financial institutions	528	246
Deposits outside Mainland China		
– Banks	18,399	28,382
Subtotal	31,795	41,443
Accrued interest	6	10
Total	31,801	41,453
Less: Provision for impairment losses	(443)	(448)
Net balances	31,358	41,005

14 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Placements in Mainland China		
– Banks	4,160	20,767
– Other financial institutions	29,777	53,420
Placements outside Mainland China		
– Banks	26,291	22,162
– Other financial institutions	–	–
Subtotal	60,228	96,349
Accrued interest	213	530
Total	60,441	96,879
Less: Provision for impairment losses	(171)	(194)
Net balances	60,270	96,685

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Derivatives and hedge accounting

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the reporting year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting year, while they do not represent exposure at risk.

(a) Derivative financial assets and liabilities

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,298,443	3,655	(3,680)
Currency derivatives			
– Foreign exchange forward	29,168	229	(197)
– Foreign exchange swap and cross-currency interest rate swap	1,365,001	9,483	(9,557)
– Foreign exchange option	78,260	392	(386)
Credit derivatives	4,254	46	(73)
Total	2,775,126	13,805	(13,893)

	31 December 2018		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,972,544	4,323	(4,280)
– Interest rate futures	3,275	2	(24)
Currency derivatives			
– Foreign exchange forward	18,331	166	(237)
– Foreign exchange swap and cross-currency interest rate swap	1,215,774	9,984	(9,112)
– Foreign exchange option	124,117	640	(661)
– Foreign exchange futures	27	–	–
Credit derivatives	4,756	97	(35)
Total	3,338,824	15,212	(14,349)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amounts

	31 December 2019	31 December 2018
Counterparty default risk-weighted assets		
– Interest rate derivatives	492	77
– Currency derivatives	3,449	1,547
– Credit derivatives	317	–
Credit value adjustment	1,710	724
Total	5,968	2,348

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA"). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

As at 31 December 2019, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB14 million (31 December 2018: Nil), and the fair value of the derivative financial instrument was RMB-95 thousands (31 December 2018: Nil).

In 2019, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Banks	2,000	5,395
– Other financial institutions	4,702	31,919
Outside Mainland China		
– Other financial institutions	126	427
Subtotal	6,828	37,741
Accrued interest	8	34
Total	6,836	37,775
Less: Provision for impairment losses	(1)	(2)
Net balances	6,835	37,773

(b) Analysed by type of security held

	31 December 2019	31 December 2018
Bonds		
– Government bonds	2,062	8,196
– Other debt securities	4,766	29,545
Subtotal	6,828	37,741
Accrued interest	8	34
Total	6,836	37,775
Less: Provision for impairment losses	(1)	(2)
Net balances	6,835	37,773

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers

(a) Analysed by nature

	31 December 2019	31 December 2018
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,463,630	1,306,473
Discounted bills	488	1,339
Personal loans and advances		
– Personal housing mortgage loans	414,211	381,772
– Personal business loans	158,871	145,502
– Personal consumption loans	140,545	125,425
– Credit cards	443,881	400,504
Subtotal	1,157,508	1,053,203
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	26,403	26,156
Discounted bills	64,175	34,158
Subtotal	90,578	60,314
Total	2,712,204	2,421,329
Accrued interest	8,160	7,158
Gross loans and advances to customers	2,720,364	2,428,487
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)	(67,209)
Net loans and advances to customers	2,644,136	2,361,278
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)	(473)

As at the end of the year, part of the above loans and advances to customers was pledged for repurchase agreements. See Note V 26(a).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	270,177	9.96%	102,716
Water, environment and public utility management	261,465	9.64%	111,707
Real estate	211,918	7.81%	130,785
Leasing and commercial services	170,068	6.27%	65,501
Wholesale and retail trade	113,140	4.17%	42,016
Construction	94,793	3.50%	35,149
Transportation, storage and postal services	87,226	3.22%	36,653
Finance	76,907	2.84%	12,380
Production and supply of electricity, gas and water	45,948	1.69%	13,517
Agriculture, forestry, husbandry and fishery	41,459	1.53%	12,962
Others	116,932	4.31%	45,051
Subtotal of corporate loans and advances	1,490,033	54.94%	608,437
Personal loans and advances	1,157,508	42.68%	550,653
Discounted bills	64,663	2.38%	62,914
Total	2,712,204	100.00%	1,222,004
Accrued interest	8,160		
Gross loans and advances to customers	2,720,364		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)		
Net loans and advances to customers	2,644,136		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)		

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2018		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	248,914	10.28%	78,477
Water, environment and public utility management	222,568	9.19%	103,210
Real estate	192,075	7.93%	120,395
Leasing and commercial services	150,159	6.20%	59,439
Wholesale and retail trade	111,021	4.59%	38,958
Transportation, storage and postal services	94,783	3.91%	40,528
Construction	71,435	2.95%	26,018
Finance	74,177	3.06%	3,325
Production and supply of power, gas and water	43,638	1.80%	11,195
Agriculture, forestry, husbandry and fishery	32,356	1.34%	8,962
Others	91,503	3.78%	38,537
Subtotal of corporate loans and advances	1,332,629	55.03%	529,044
Personal loans and advances	1,053,203	43.50%	519,182
Discounted bills	35,497	1.47%	31,119
Total	2,421,329	100.00%	1,079,345
Accrued interest	7,158		
Gross loans and advances to customers	2,428,487		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)		
Net loans and advances to customers	2,361,278		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)		

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(c) Analysed by type of collateral

	31 December 2019	31 December 2018
Unsecured loans	852,885	778,691
Guaranteed loans	637,315	563,293
Secured loans		
– By tangible assets other than monetary assets	862,021	814,026
– By monetary assets	359,983	265,319
Total	2,712,204	2,421,329
Accrued interest	8,160	7,158
Gross loans and advances to customers	2,720,364	2,428,487
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)	(67,209)
Net loans and advances to customers	2,644,136	2,361,278
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)	(473)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	31 December 2019		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	556,102	20.49%	219,717
Central	447,249	16.49%	256,676
Bohai Rim	349,559	12.89%	199,916
Western	348,706	12.86%	200,481
Pearl River Delta	341,541	12.59%	220,143
Northeastern	121,928	4.50%	80,011
Overseas	96,174	3.55%	38,005
Head Office	450,945	16.63%	7,055
Total	2,712,204	100.00%	1,222,004

	31 December 2018		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	478,383	19.76%	197,173
Central	382,965	15.82%	219,430
Bohai Rim	341,728	14.11%	188,325
Western	325,532	13.44%	195,562
Pearl River Delta	291,896	12.06%	187,691
Northeastern	119,667	4.94%	78,825
Overseas	78,040	3.22%	9,682
Head Office	403,118	16.65%	2,657
Total	2,421,329	100.00%	1,079,345

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers which constitute 10% or more of gross loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors is as follows:

	31 December 2019			
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)
Yangtze River Delta	6,831	(6,439)	(4,847)	(3,625)
Central	5,031	(4,094)	(2,461)	(3,218)
Bohai Rim	5,797	(2,159)	(2,435)	(3,032)
Western	4,951	(2,849)	(4,212)	(2,707)
Pearl River Delta	4,155	(4,219)	(1,829)	(1,811)
Total	26,765	(19,760)	(15,784)	(14,393)

	31 December 2018			
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)
Bohai Rim	9,196	(2,387)	(2,056)	(5,856)
Yangtze River Delta	5,599	(6,787)	(4,798)	(2,898)
Pearl River Delta	4,516	(3,945)	(1,816)	(2,135)
Central	4,477	(4,412)	(2,954)	(2,328)
Western	4,398	(3,076)	(3,930)	(2,032)
Total	28,186	(20,607)	(15,554)	(15,249)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue year

	31 December 2019				
	Overdue for three months or less (inclusive)	Overdue for three months to one year (inclusive)	Overdue for one year to three years (inclusive)	Overdue for more than three years	Total
Unsecured loans	15,557	11,118	323	33	27,031
Guaranteed loans	4,954	4,953	3,726	609	14,242
Secured loans					
– By tangible assets other than monetary assets	5,692	4,973	4,421	1,429	16,515
– By monetary assets	1,434	1,449	837	36	3,756
Subtotal	27,637	22,493	9,307	2,107	61,544
Accrued interest	69	–	–	–	69
Total	27,706	22,493	9,307	2,107	61,613
As a percentage of gross loans and advances to customers	1.01%	0.83%	0.34%	0.08%	2.26%

	31 December 2018				
	Overdue for three months or less (inclusive)	Overdue for three months to one year (inclusive)	Overdue for one year to three years (inclusive)	Overdue for more than three years	Total
Unsecured loans	10,014	8,443	394	29	18,880
Guaranteed loans	6,625	7,418	2,667	522	17,232
Secured loans					
– By tangible assets other than monetary assets	6,525	4,715	4,492	1,772	17,504
– By monetary assets	1,427	741	1,103	2	3,273
Subtotal	24,591	21,317	8,656	2,325	56,889
Accrued interest	349	–	–	–	349
Total	24,940	21,317	8,656	2,325	57,238
As a percentage of gross loans and advances to customers	1.03%	0.88%	0.35%	0.10%	2.36%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	31 December 2019				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,546,902	123,090	42,212	2,712,204	1.56%
Accrued interest	6,701	1,158	301	8,160	
Gross loans and advances to customers	2,553,603	124,248	42,513	2,720,364	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,060)	(27,574)	(24,594)	(76,228)	
Net loans and advances to customers	2,529,543	96,674	17,919	2,644,136	

	31 December 2018				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,245,353	137,555	38,421	2,421,329	1.59%
Accrued interest	5,354	1,576	228	7,158	
Gross loans and advances to customers	2,250,707	139,131	38,649	2,428,487	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(23,335)	(21,264)	(22,610)	(67,209)	
Net loans and advances to customers	2,227,372	117,867	16,039	2,361,278	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1	(2,089)	2,038	51	–
Transfer to Stage 2	742	(787)	45	–
Transfer to Stage 3	156	2,233	(2,389)	–
Charge for the year	(3,899)	(10,693)	(38,804)	(53,396)
Release for the year	4,365	899	311	5,575
Disposal	–	–	13,826	13,826
Write-off and transfer out	–	–	26,576	26,576
Recovery of loans and advances written off	–	–	(2,428)	(2,428)
Unwinding of discount on allowance	–	–	828	828
As at 31 December 2019	(24,060)	(27,574)	(24,594)	(76,228)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(18,666)	(18,271)	(21,134)	(58,071)
Transfer to Stage 1	(1,073)	1,048	25	–
Transfer to Stage 2	867	(898)	31	–
Transfer to Stage 3	164	3,038	(3,202)	–
Charge for the year	(7,412)	(7,137)	(24,318)	(38,867)
Release for the year	2,785	956	412	4,153
Disposal	–	–	10,149	10,149
Write-off and transfer out	–	–	16,162	16,162
Recovery of loans and advances written off	–	–	(1,527)	(1,527)
Unwinding of discount on allowance	–	–	792	792
As at 31 December 2018	(23,335)	(21,264)	(22,610)	(67,209)

Notes:

(i) *The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2019, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB438 million (31 December 2018: RMB473 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	31 December 2019	31 December 2018
Rescheduled loans and advances to customers	11,888	15,788
Of which: Rescheduled loans and advances to customers overdue for more than 90 days	898	801

18 Finance lease receivables

	Note	31 December 2019	31 December 2018
Minimum finance lease receivables		99,825	74,656
Less: Unearned finance lease income		(14,662)	(10,287)
Present value of minimum lease receivable		85,163	64,369
Accrued interest		936	588
Less: Impairment losses		(2,376)	(1,624)
Net balance	(i)	83,723	63,333

Minimum finance lease receivables analysed by remaining period are listed as follows:

	31 December 2019	31 December 2018
Less than 1 year (inclusive)	23,619	19,073
1 year to 2 years (inclusive)	20,418	14,924
2 years to 3 years (inclusive)	17,123	12,298
3 years to 4 years (inclusive)	12,628	8,718
4 years to 5 years (inclusive)	9,745	6,301
More than 5 years	16,292	13,342
Total	99,825	74,656

Note:

(i) *As at the end of the year, part of finance lease receivables were pledged for borrowings from banks. See Note V 26(a).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments

	Notes	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss	(a)	211,406	222,737
Debt instruments at fair value through other comprehensive income	(b)	180,005	153,987
Equity instruments at fair value through other comprehensive income	(c)	623	367
Financial investments measured at amortised cost	(d)	1,041,512	923,989
Total		1,433,546	1,301,080

(a) Financial assets at fair value through profit or loss

	Notes	31 December 2019	31 December 2018
Debt instruments held for trading	(i)	18,602	10,886
Financial assets designated at fair value through profit or loss	(ii)	4	6
Other financial assets at fair value through profit or loss	(iii)	192,800	211,845
Total		211,406	222,737

(i) Debt instruments held for trading

	Notes	31 December 2019	31 December 2018
Issued by the following governments or institutions:			
In Mainland China			
– Government		132	–
– Banks and other financial institutions		4,975	1,006
– Other institutions	(1)	9,436	8,323
Outside Mainland China			
– Banks and other financial institutions		2,624	170
– Other institutions		1,435	1,387
Total	(2)	18,602	10,886
Listed	(3)	4,716	2,257
Of which listed in Hong Kong		1,703	1,809
Unlisted		13,886	8,629
Total		18,602	10,886

Notes:

(1) *Debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.*

(2) *At the end of the year, some of the debt instruments held for trading are used as pledges for repurchase agreement. See Note V 26(a).*

(3) *Listed investments include debt instruments traded on the stock exchange markets.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(ii) Financial assets designated at fair value through profit or loss

	31 December 2019	31 December 2018
Fixed interest rate personal mortgage loans	4	6

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Fund investments	159,760	180,633
Equity instruments	2,019	1,182
Others	31,021	30,030
Total	192,800	211,845

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	31 December 2019	31 December 2018
In Mainland China			
– Government		40,880	32,527
– Banks and other financial institutions	(1)	51,640	46,569
– Other institutions	(2)	56,371	54,903
Outside Mainland China			
– Government		98	–
– Banks and other financial institutions		7,574	1,709
– Other institutions		19,777	14,942
Subtotal		176,340	150,650
Accrued interest		3,665	3,337
Total	(3)(4)	180,005	153,987
Listed	(5)	43,019	27,077
Of which listed in Hong Kong		29,884	19,855
Unlisted		133,321	123,573
Subtotal		176,340	150,650
Accrued interest		3,665	3,337
Total		180,005	153,987

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

Notes:

(1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.

(2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at 31 December 2019, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximates to RMB826 million (31 December 2018: RMB384 million).

(4) At the end of the year, part of the debt instruments at fair value through other comprehensive income was pledged for repurchase agreements and time deposits. See Note V 26(a).

(5) Listed investments include debt instruments traded on the stock exchange markets.

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(384)	–	–	(384)
Transfer to Stage 3	2	–	(2)	–
Charge for the year	(343)	–	(116)	(459)
Release for the year	20	–	–	20
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(708)	–	(118)	(826)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(325)	–	–	(325)
Charge for the year	(75)	–	–	(75)
Release for the year	17	–	–	17
Exchange fluctuation and others	(1)	–	–	(1)
As at 31 December 2018	(384)	–	–	(384)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2019	31 December 2018
Equity instruments at fair value through other comprehensive income	(i)	623	367
Listed	(ii)	21	15
Of which listed in Hong Kong		–	–
Unlisted		602	352
Total		623	367

Notes:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2019, the fair value was RMB623 million (31 December 2018: RMB367 million). In 2019, the Group received dividends of approximately RMB11 million from the above equity instruments (2018: RMB8 million).

(ii) Listed investments include equity instruments traded on the stock exchange markets.

(d) Financial investments measured at amortised cost

	Notes	31 December 2019	31 December 2018
Debt securities	(i)	773,460	497,775
Others	(ii)	256,649	410,350
Subtotal		1,030,109	908,125
Accrued interest		15,786	20,558
Total		1,045,895	928,683
Less: Provision for impairment losses		(4,383)	(4,694)
Net balance		1,041,512	923,989
Listed	(iii)	139,562	79,879
Of which listed in Hong Kong		20,905	10,193
Unlisted		886,164	823,552
Subtotal		1,025,726	903,431
Accrued interest		15,786	20,558
Net balance		1,041,512	923,989

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities measured at amortised cost were analysed by type and location of counterparty, as follows:

	Notes	31 December 2019	31 December 2018
In Mainland China			
– Government		340,733	259,640
– Banks and other financial institutions	(1)	228,028	174,930
– Other institutions	(2)	183,628	51,150
Outside Mainland China			
– Government		1,891	1,088
– Banks and other financial institutions		5,486	3,789
– Other institutions		13,694	7,178
Subtotal		773,460	497,775
Accrued interest		13,140	9,175
Total	(3)	786,600	506,950
Less: Provision for impairment losses		(1,657)	(1,599)
Net balance		784,943	505,351
Fair value		796,461	512,668

Notes:

(1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.

(2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at the end of the year, part of the debt securities measured at amortised cost was pledged for repurchase agreements, time deposits and derivative transactions. See Note V 26(a).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments include debt instruments traded on the stock exchange markets.

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Transfer to Stage 2	3	(3)	–	–
Transfer to Stage 3	8	–	(8)	–
Charge for the year	–	(98)	(723)	(821)
Release for the year	1,010	–	125	1,135
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(2,513)	(101)	(1,769)	(4,383)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(3,288)	–	(916)	(4,204)
Charge for the year	(435)	–	(247)	(682)
Release for the year	197	–	–	197
Exchange fluctuation and others	(5)	–	–	(5)
As at 31 December 2018	(3,531)	–	(1,163)	(4,694)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Investments in subsidiaries

	31 December 2019	31 December 2018
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co.,Ltd.	5,000	–
Total	12,383	7,383

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd.	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd.	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co.,Ltd. (Note i)	Qingdao, Shandong	5,000	100%	100%	Wealth management	Limited company

(i) In September 2019, the Bank registered and established its wholly-owned subsidiary, Everbright Wealth Co.,Ltd. ("Everbright Wealth") in Qingdao, Shandong province, with a registered capital of RMB5 billion.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Fixed assets

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	69	170	1,256	871	459	2,825
Transfers in/(out)	1,146	–	(1,146)	–	–	–
Disposals	(3)	(332)	–	(399)	(133)	(867)
Foreign currency conversion difference	–	94	–	–	–	94
As at 31 December 2019	12,949	5,657	2,210	6,667	4,498	31,981
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the year	(404)	(200)	–	(480)	(401)	(1,485)
Disposals	3	38	–	374	125	540
Foreign currency conversion difference	–	(6)	–	–	–	(6)
As at 31 December 2019	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 31 December 2019	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2019	8,686	5,249	2,210	1,772	1,425	19,342

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Fixed assets (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2018	11,404	2,752	1,606	6,060	3,753	25,575
Additions	247	3,129	622	468	496	4,962
Transfers in/(out)	128	–	(128)	–	–	–
Disposals	(42)	(322)	–	(334)	(80)	(778)
Foreign currency conversion difference	–	166	–	1	3	170
As at 31 December 2018	11,737	5,725	2,100	6,195	4,172	29,929
Accumulated depreciation						
As at 1 January 2018	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Charge for the year	(360)	(130)	–	(593)	(336)	(1,419)
Disposals	1	1	–	317	68	387
Foreign currency conversion difference	–	(8)	–	–	(2)	(10)
As at 31 December 2018	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Provision for impairment						
As at 1 January 2018	(159)	–	–	–	–	(159)
As at 31 December 2018	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2018	7,875	5,485	2,100	1,406	1,375	18,241

Notes:

(i) *As at 31 December 2019, title deeds were not yet finalised for the premises with a carrying amount of RMB45 million (31 December 2018: RMB141 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 31 December 2019, Everbright Financial Leasing, the Group's subsidiary leases certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB5,249 million (31 December 2018: RMB5,485 million).*

The net book values of premises at the end of the year are analysed by the remaining terms of the leases as follows:

	31 December 2019	31 December 2018
Held in Mainland China		
– Medium term leases (10 – 50 years)	8,454	7,795
– Short term leases (less than 10 years)	232	80
Total	8,686	7,875

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Right-of-use assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	2,557	8	2,565
Charge for the year	(303)	(3)	(306)
Foreign currency conversion difference	1	–	1
As at 31 December 2019	14,023	66	14,089
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(2,412)	(17)	(2,429)
Reduction for the year	24	–	24
As at 31 December 2019	(2,388)	(17)	(2,405)
Net book value			
As at 31 December 2019	11,635	49	11,684

23 Goodwill

	31 December 2019	31 December 2018
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed an "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank's cash flow forecast is 13% (2018: 14%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Deferred tax assets and liabilities

(a) Analysed by nature

	Note V	31 December 2019		31 December 2018	
		Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets		65,221	16,306	43,175	10,794
Deferred income tax liabilities	37	(6)	(1)	–	–
Total		65,215	16,305	43,175	10,794

(b) Movements of deferred tax

	Provision for impairment losses (Note(i))	Fair value changes of financial instruments (Note(ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Recognised in profit or loss	5,042	705	140	5,887
Recognised in other comprehensive income	(102)	(274)	–	(376)
31 December 2019	14,664	(243)	1,884	16,305

	Provision for impairment losses (Note(i))	Fair value changes of financial instruments (Note(ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
31 December 2017	4,918	1,131	1,547	7,596
Impact of adopting new standards	2,446	(98)	–	2,348
1 January 2018	7,364	1,033	1,547	9,944
Recognised in profit or loss	2,284	(673)	197	1,808
Recognised in other comprehensive income	76	(1,034)	–	(958)
31 December 2018	9,724	(674)	1,744	10,794

Notes:

(i) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*

(ii) *Fair value changes of financial instruments are subject to tax when realised.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25 Other assets

	Note	31 December 2019	31 December 2018
Other receivables	(a)	25,614	11,201
Fixed asset purchase prepayment		795	509
Long-term deferred expense		871	1,103
Intangible assets		1,646	1,171
Repossessed assets		478	458
Land use rights		88	94
Accrued interest		2,988	2,198
Others		3,499	3,713
Total		35,979	20,447

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

26 Pledged assets

(a) Assets pledged as collateral

Financial assets pledged by the Group as collaterals for liabilities include discounted bills, debt securities and finance lease receivables. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2019 is RMB86,363 million (31 December 2018: RMB95,841 million).

(b) Collateral received

The Group accepted securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2019. As at 31 December 2019, the Group's collateral received from banks and other financial institutions has expired (31 December 2018: Nil). As at 31 December 2019, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2018: Nil). These transactions are conducted under standard terms in the normal course of business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 Due to the central bank

	31 December 2019	31 December 2018
Due to central banks	221,480	263,050
Accrued interest	3,358	4,143
Total	224,838	267,193

28 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Deposits in Mainland China		
– Banks	170,505	168,466
– Other financial institutions	269,224	316,855
Deposits outside Mainland China		
– Banks	1,836	1,831
Subtotal	441,565	487,152
Accrued interest	2,755	2,939
Total	444,320	490,091

29 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Placements in Mainland China		
– Banks	89,480	75,109
– Other financial institutions	1,004	7,156
Placements outside Mainland China		
– Banks	74,625	69,024
Subtotal	165,109	151,289
Accrued interest	1,116	748
Total	166,225	152,037

30 Financial liabilities at fair value through profit or loss

	31 December 2019	31 December 2018
Short position in debt securities	100	354
Total	100	354

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Banks	23,064	40,347
Outside Mainland China		
– Banks	2,390	–
– Other financial institutions	131	46
Subtotal	25,585	40,393
Accrued interest	18	18
Total	25,603	40,411

(b) Analysed by collateral

	31 December 2019	31 December 2018
Bank acceptances	10,814	7,336
Debt securities	14,771	33,057
Subtotal	25,585	40,393
Accrued interest	18	18
Total	25,603	40,411

32 Deposits from customers

	31 December 2019	31 December 2018
Demand deposits		
– Corporate customers	783,859	732,628
– Individual customers	217,892	191,592
Subtotal	1,001,751	924,220
Time deposits		
– Corporate customers	1,262,657	990,038
– Individual customers	466,413	320,312
Subtotal	1,729,070	1,310,350
Pledged deposits	232,522	220,284
Other deposits	21,682	83,854
Subtotal deposits from customers	2,985,025	2,538,708
Accrued interest	32,863	33,253
Total	3,017,888	2,571,961

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Accrued staff costs

	Note	31 December 2019	31 December 2018
Salary and welfare payable		6,269	6,904
Pension payable	(a)	620	281
Supplementary retirement benefits payable	(b)	1,118	843
Total		8,007	8,028

Notes:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Wills Towers Watson Management Consulting (Shenzhen) Co.,Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2019	31 December 2018
Present value of supplementary retirement benefits liability	1,118	843

(ii) Movements of SRB of the Group are as follows:

	2019	2018
As at 1 January 2019	843	669
Current service costs	77	56
Interest costs	33	30
Recalculation part of the defined benefit plan	180	102
Payments made	(15)	(14)
As at 31 December 2019	1,118	843

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 41.

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December 2019	31 December 2018
Discount rate	4.00%	4.00%
Medical cost trend rate	5.88%	5.88%
Average expected future lifetime	22.80	22.80

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Accrued staff costs (continued)

Notes: (continued)

(b) *Supplementary retirement benefits ("SRB")* (continued)

(iv) *Sensitivity analysis:*

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below.

	31 December 2019	
	Increases	*Decreases*
Discount rate (1% movement)	*(301)*	*330*
Medical cost trend rate (1% movement)	*356*	*(251)*

	31 December 2018	
	Increases	*Decreases*
Discount rate (1% movement)	*(222)*	*244*
Medical cost trend rate (1% movement)	*260*	*(183)*

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (a) and (b) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits.

34 Taxes payable

	31 December 2019	31 December 2018
Income tax payable	6,446	3,076
Value added tax payable	2,446	2,169
Others	430	421
Total	9,322	5,666

35 Lease liabilities

	31 December 2019
Within 1 year (inclusive)	2,611
1 to 2 years (inclusive)	2,283
2 to 3 years (inclusive)	1,937
3 to 5 years (inclusive)	2,711
More than 5 years	3,292
Total undiscounted lease liabilities	12,834
Lease liabilities	11,069

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued

	Note	31 December 2019	31 December 2018
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	55,782	54,940
Tier-two capital bonds issued	(c)	39,983	56,170
Convertible bonds issued	(d)	27,547	26,618
Interbank deposits issued	(e)	199,057	265,894
Certificates of deposits issued	(f)	19,249	9,711
Medium term notes	(g)	20,428	16,747
Subtotal		368,746	436,780
Accrued interest		3,158	3,669
Total		371,904	440,449

(a) Subordinated debts issued

	Note	31 December 2019	31 December 2018
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.

(ii) As at 31 December 2019, the fair value of the total subordinated debt issued approximated to RMB6,998 million (31 December 2018: RMB6,960 million).

(b) Financial bonds issued

	Note	31 December 2019	31 December 2018
Financial fixed rate bonds maturing in February 2020	(i)	27,999	27,976
Financial fixed rate bonds maturing in July 2020	(ii)	21,995	21,978
Financial fixed rate bonds maturing in November 2021	(iii)	4,990	4,986
Financial fixed rate bonds maturing in January 2022	(iv)	798	–
Total		55,782	54,940

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(b) Financial bonds issued (continued)

Notes:

(i) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(ii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iii) *Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.*

(iv) *Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.*

(v) *As at 31 December 2019, the fair value of the total financial bonds issued approximated to RMB56,058 million (31 December 2018: RMB55,369 million).*

(c) Tier-two capital bonds issued

	Note	31 December 2019	31 December 2018
Tier-two capital fixed rate bonds maturing in June 2024	(i)	–	16,200
Tier-two capital fixed rate bonds maturing in March 2027	(ii)	27,988	27,980
Tier-two capital fixed rate bonds maturing in August 2027	(iii)	11,995	11,990
Total		39,983	56,170

Notes:

(i) *Fixed rate tier-two capital bonds of RMB16.20 billion with a term of ten years were issued on 9 June 2014. The coupon rate was 6.20% per annum. The Group had an option to redeem the debts on 10 June 2019 at the nominal amount. The Group redeemed the bonds on 10 June 2019.*

(ii) *Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.*

(iii) *Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.*

(iv) *As at 31 December 2019, the fair value of the total tier-two capital bonds issued approximated to RMB40,935 million (31 December 2018: RMB56,669 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(d) Convertible bonds issued

	31 December 2019	31 December 2018
Fixed rate six years convertible bonds issued in March 2017	27,547	26,618

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V 39	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2019		1,857	–	1,857
Accumulated conversion amount as at 1 January 2019		(1)	–	(1)
Balance as at 1 January 2019		26,618	5,161	31,779
Amortisation during the year		929	–	929
Conversion amount during the year	(iv)	–	–	–
Balance as at 31 December 2019		27,547	5,161	32,708

Notes:

(i) *Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of par value, including interest for the sixth year.*

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2019, the new conversion price is RMB3.97per share.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

Notes: (continued)

(iv) *As at 31 December 2019, a total of RMB965,000 (31 December 2018: RMB730,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares was 228,101 shares (31 December 2018: 170,354 shares).*

(v) *In 2019, a total of RMB150 million interest on the convertible bonds was been paid by the Bank (2018: RMB60 million).*

(e) Interbank deposits issued

In 2019, 113 interbank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB216,490 million (2018: RMB615,500 million). The carrying amount of interbank deposits due in 2019 was RMB285,690 million (2018: RMB631,950 million). As at 31 December 2019, the fair value of outstanding interbank deposits issued was RMB196,493 million (31 December 2018: RMB263,247 million).

(f) Certificates of deposits issued

As at 31 December 2019, the certificates of deposits were issued by the Bank's Hong Kong branch, Seoul branch and Sydney branch measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	31 December 2019	31 December 2018
Medium term notes with fixed rate maturing in 15 September 2019	(i)	–	3,423
Medium term notes with fixed rate maturing in 8 March 2020	(ii)	3,472	3,423
Medium term notes with floating rate maturing in 13 June 2020	(iii)	3,484	3,432
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,342	2,356
Medium term notes with floating rate maturing in 13 June 2021	(v)	2,091	2,059
Medium term notes with floating rate maturing in 19 September 2021	(vi)	2,083	2,054
Medium term notes with floating rate maturing in 24 June 2022	(vii)	3,484	–
Medium term notes with floating rate maturing in 11 December 2022	(viii)	3,472	–
Total		20,428	16,747

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(g) Medium term notes (continued)

Notes:

(i) *Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.*

(ii) *Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.*

(iii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.*

(iv) *Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.*

(v) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.*

(vi) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.*

(vii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.*

(viii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.*

(ix) *As at 31 December 2019, the fair value of the medium term notes approximated to RMB20,478 million (31 December 2018: RMB16,689 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Other liabilities

	Note	31 December 2019	31 December 2018
Deferred income	37(a)	6,710	6,808
Bank loans	37(b)	17,597	5,744
Deferred emoluments payment	37(c)	5,660	5,078
Finance lease payables		4,876	3,750
Provisions	37(d)	2,751	2,258
Payment and collection clearance accounts		1,761	908
Dormant accounts		354	310
Dividend payables		21	21
Deferred tax liabilities	24	1	–
Others		14,477	19,443
Total		54,208	44,320

Notes:

(a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*

(b) *As at 31 December 2019, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms from 1 to 9 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loan was RMB17,597 million (31 December 2018: RMB5,744 million).*

(c) *As at 31 December 2019, the deferred emolument payment amounted to RMB5,660 million (31 December 2018: RMB5,078 million), which is related to deferred emoluments payment to employees in respect of services provided to the Group. Such amount will be distributed according to plans.*

(d) *As at 31 December 2019, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB255 million (31 December 2018: RMB147 million).*

38 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	31 December 2019	31 December 2018
Ordinary shares listed in Mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	52,489	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments

	Note V	31 December 2019	31 December 2018
Preference shares (Notes(a), (b), (c), (d))		64,906	29,947
Equity of convertible bonds	36(d)	5,161	5,161
Total		70,067	35,108

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	5.30%	100	200	20,000	Mandatory conversion triggering events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion triggering events
Everbright P3					
2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
SubTotal				65,000	
Less:					
Issuing costs				(94)	
Book value				64,906	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments

(b) Main clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions for distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholders' resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds and holders of convertible bonds, but will be senior to the ordinary shareholders.

(v) Mandatory conversion triggering events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the Common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

Upon the occurrence of a Non-Viability Triggering Event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments (continued)

(b) Main clauses (continued)

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in preference shares outstanding

	1 January 2019		Additions for the year		31 December 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	300	29,947	350	34,959	650	64,906

	1 January 2018		Additions for the year		31 December 2018	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	300	29,947	–	–	300	29,947

(d) Interests attributable to equity instruments' holders

Items	31 December 2019	31 December 2018
Total equity attributable to equity shareholders of the Bank	384,982	321,488
– Equity attributable to ordinary shares holders of the Bank	320,076	291,541
– Equity attributable to preference shares holders of the Bank	64,906	29,947
Total equity attributable to non-controlling interests	1,072	985
– Equity attributable to non-controlling interests of ordinary shares	1,072	985
– Equity attributable to non-controlling interests of preference shares	–	–

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Capital reserve

	31 December 2019	31 December 2018
Share premium	53,533	53,533

41 Other comprehensive income

	31 December 2019	31 December 2018
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	14	10
Remeasurement of a defined benefit plan	(303)	(123)
Subtotal	(289)	(113)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	2,959	1,748
– Net change in fair value	1,998	1,094
– Net change in expected credit losses	961	654
Exchange differences on translation of financial statements	67	20
Subtotal	3,026	1,768
Total	2,737	1,655

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2018	(1,948)	887	8	(46)	(21)	(1,120)
Changes in amount for the previous year	3,042	(233)	2	66	(102)	2,775
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the year	904	307	4	47	(180)	1,082
As at 31 December 2019	1,998	961	14	67	(303)	2,737

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

43 Appropriation of profits

(a) At the Board Meeting held on 27 March 2020, the Board of Directors approved the following profit appropriations for the year ended 31 December 2019:

- Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated amount of withdrawal has reached 50% of the Bank's registered capital;
- Appropriated RMB5,380 million to general reserve;
- The 2019 annual dividend of RMB769 million should be paid to third preference shareholders in cash dividend RMB2.20 per share before tax based on the coupon dividend yield of 4.80%; and
- Declared cash dividends of RMB11,233 million to all ordinary shareholders of 52,489 million shares representing RMB2.14 per 10 shares before tax.

(b) At the Annual General Meeting of shareholders held on 30 May 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018:

- Appropriated RMB3,317 million (10% of the net profit of the Bank) to surplus reserve;
- Appropriated RMB1,701 million to general reserve; and
- Declared cash dividends to all ordinary shareholders of RMB8,451 million representing RMB1.61 per 10 shares before tax.

(c) At the Board Meeting held on 30 May 2019, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, accruing from 25 June 2018, and are calculated using 5.30% of dividend yield ratio for the Everbright P1.

(d) At the Board Meeting held on 30 July 2019, the dividend distribution of the Everbright P2 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, accruing from 13 August 2018, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2019		31 December 2018	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	159,760	159,760	180,633	180,633
– Asset management plans	18,686	18,686	8,693	8,693
Financial investments measured at amortised cost				
– Asset management plans	256,569	256,569	418,639	418,639
– Asset-backed securities	119,439	119,439	31,509	31,509
Total	554,454	554,454	639,474	639,474

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2019, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial position.

As at 31 December 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB778,837 million (31 December 2018: RMB689,002 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 amounted to RMB771 million (2018: RMB18,124 million).

In 2019, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB634 million (2018: RMB876 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (continued)

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. Such financing provided by the Group was included in "Placements with banks and other financial institutions". As at 31 December 2019, the balance of above trading was RMB9,106 million (31 December 2018: RMB15,230 million). The maximum exposure to loss of those placements approximated to the carrying amount. In 2019, the amount of interest receivables provided by the above financing being recognised was not material for the Group in the statement of profit or loss.

In addition, as at 31 December 2019, the Group held interests in the unconsolidated structured entities of asset securitisation transactions. Refer to Note V 45. In 2019, the Group's income from these structured entities was immaterial.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Credit assets backed securitisation

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB13 million as at 31 December 2019 (31 December 2018: RMB118 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2019, the credit assets backed securities which the Group has continuing involvement have been liquidated.

Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transfer and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2019, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2019, loans with an original carrying amount of RMB2,590 million (31 December 2018: RMB3,776 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2019, the carrying amount of assets that the Group continues to recognise was RMB614 million (31 December 2018: RMB1,097 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the year, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements.

	31 December 2019	31 December 2018
Total common equity tier-one capital	320,793	292,093
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	61,431	60,349
Surplus reserve	26,245	24,371
General reserve	59,417	54,036
Retained earnings	120,494	100,296
Qualifying portions of non-controlling interests	717	552
Common equity tier-one capital deductions	(2,930)	(2,455)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(1,646)	(1,171)
Net deferred tax assets arising from operating losses that depend on future profits	(3)	(3)
Net common equity tier-one capital	317,863	289,638
Additional tier-one capital	65,002	30,021
Additional tier-one capital instruments	64,906	29,947
Qualifying portions of non-controlling interests	96	74
Tier-one capital net	382,865	319,659
Tier-two capital	82,640	92,353
Qualifying portions of tier-two capital instruments issued and share premium	46,683	62,870
Excess loan loss provisions	35,766	29,336
Qualifying portions of non-controlling interests	191	147
Net capital base	465,505	412,012
Total risk-weighted assets	3,456,054	3,166,668
Common equity tier-one capital adequacy ratio	9.20%	9.15%
Tier-one capital adequacy ratio	11.08%	10.09%
Capital adequacy ratio	13.47%	13.01%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Notes to consolidated cash flow statement

(a) Net change in cash and cash equivalents

	31 December 2019	31 December 2018
Cash and cash equivalents as at 31 December	117,499	187,680
Less: Cash and cash equivalents as at 1 January	187,680	147,923
Net (decrease)/increase in cash and cash equivalents	(70,181)	39,757

(b) Cash and cash equivalents

	31 December 2019	31 December 2018
Cash on hand	4,355	4,721
Deposits with the central bank	57,546	103,684
Deposits with banks and other financial institutions	26,581	34,686
Placements with banks and other financial institutions	29,017	44,589
Total	117,499	187,680

48 Related party relationships and transactions

(a) The immediate and ultimate parent companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. ("China Everbright Group") and China Investment Corporation, respectively.

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note V 48(b)(ii).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Information of other related parties

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co.,Ltd ("Everbright Securities").	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment and Assets Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co.,Ltd.	Affiliate of China Everbright Group Ltd.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Information of other related parties (continued)

Other related parties having transactions with the Group: (continued):

Related party	Relationship with the Group
Affiliated companies (continued)	
– Everbright Jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Tianjin) Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance Holding Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service (Group) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Cachet Pharmaceutical Company Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service Limited	Affiliate of China Everbright Group Ltd.
– Everbright Technology Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happiness International Commercial Factoring Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Sunshine Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Ningbo Jin'ou Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Guokaitai Industrial Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Zhongqing Chuangyi Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shenzhen Qianhai Everbright Investment Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Senior Healthcare Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Culture Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Development Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
–Beijing Caiwan Internet Information Service Co., Ltd	Affiliate of China Everbright Group Ltd.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Information of other related parties (continued)

Other related parties having transactions with the Group: (continued):

Related party	Relationship with the Group
Other related parties	
– Overseas Chinese Town Holding Company	Shareholder, common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co.,Ltd.	Common key management
– Haitong Securities Co.,Ltd.	Common key management
– China UnionPay Co.,Ltd.	Common key management
– Orient Securities Co.,Ltd.	Common key management
– Konka Group Co.,Ltd	Common key management
– China Pacific Property Insurance Co.,Ltd.	Common key management
– China Pacific Life Insurance Co.,Ltd.	Common key management
– First-trust Fund Management Co.,Ltd.	Common key management
– COSCO Shipping Development Co.,Ltd.	Common key management
– China COSCO Shipping Co.,Ltd.	Common key management
– Shenergy Group Co.,Ltd.	Common key management
– Bohai Securities Co., Ltd.	Common key management
– Shanghai Gas (Group) Co., Ltd.	Common key management
– China Marine Bunker (PetroChina) Co., Ltd.	Common key management
– Shenzhen Guangming Group Co., Ltd.	Common key management
– Shenzhen Vphonor Information Technology Co., Ltd.	Common key management
– Shanghai Zhongbo Enterprise Management Development Co.,Ltd.	Common key management
– Shanghai Insurance Exchange Co.,Ltd.	Common key management
– Beijing Jingneng Clean Energy Co.,Ltd.	Common key management
– Shijiazhuang Hualin Food Co.,Ltd.	Common key management
– Zhengzhou Chemical Light Industry Co.,Ltd.	Common key management

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows:

	China Everbright Group (Note V48(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2019:				
Interest income	–	533	501	1,034
Interest expense	(159)	(371)	(331)	(861)
Balances with related parties as at 31 December 2019:				
Placements with banks and other financial institutions	–	508	2,002	2,510
Derivative financial assets	–	–	12	12
Loans and advances to customers	–	7,251	9,064	16,315
Financial assets at fair value through profit or loss	–	7,727	–	7,727
Debt instruments at fair value through other comprehensive income	178	385	–	563
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	113,480	256	113,736
Other assets	–	3,261	–	3,261
Total	178	132,612	11,432	144,222
Deposits from banks and other financial institutions	–	3,147	1,528	4,675
Derivative financial liabilities	–	–	11	11
Deposits from customers	4,652	15,696	35,638	55,986
Other liabilities	–	693	167	860
Total	4,652	19,536	37,344	61,532
Significant other sheet items with related parties as at 31 December 2019:				
Guarantee granted (Note)	180	–	–	180

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows (continued):

	China Everbright Group (Note V 48(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2018:				
Interest income	–	368	134	502
Interest expense	(48)	(405)	(471)	(924)
Balances with related parties as at 31 December 2018:				
Placements with banks and other financial institutions	–	1,001	–	1,001
Derivative financial assets	–	–	5	5
Financial assets held under resale agreements	–	–	292	292
Loans and advances to customers	–	7,911	6,330	14,241
Financial assets at fair value through profit or loss	–	14,296	–	14,296
Debt instruments at fair value through other comprehensive income	301	1,209	171	1,681
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	194,750	138	194,888
Other assets	–	682	200	882
Total	301	219,849	7,234	227,384
Deposits from banks and other financial institutions	–	1,911	1,473	3,384
Derivative financial liabilities	–	–	4	4
Deposits from customers	6,402	14,665	20,051	41,118
Total	6,402	16,576	21,528	44,506
Significant other sheet items with related parties as at 31 December 2018:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	67	–	67

Note: As at 31 December 2019, the Bank had guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2018: RMB180 million) due to one of the state-owned commercial banks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was incorporated as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposits which are bearer bonds tradable in the secondary market. Accordingly, the Group had no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year.

The Group's material transactions with CIC, Huijin and its affiliates during the year are summarised as follows:

	2019	2018
Interest income	1,051	1,556
Interest expense	(3,548)	(4,183)

The Group's material balances with CIC, Huijin and its affiliates during the year are summarised as follows:

	31 December 2019	31 December 2018
Deposits with banks and other financial institutions	9,552	12,983
Precious metals	51	–
Placements with banks and other financial institutions	13,909	17,941
Derivative financial assets	3,764	4,098
Financial assets held under resale agreements	997	5,201
Loans and advances to customers	694	2,388
Financial assets at fair value through profit or loss	36,270	28,663
Debt instruments at fair value through other comprehensive income	27,611	27,310
Financial investments measured at amortised cost	106,537	67,966
Other assets	419	609
Deposits from banks and other financial institutions	81,621	76,488
Placements from banks and other financial institutions	70,629	58,276
Derivative financial liabilities	3,678	3,948
Financial assets sold under repurchase agreements	2,970	4,455
Deposits from customers	14,586	19,952
Other liabilities	30	11

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(d) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(e) Key management personnel

	2019 RMB'000	2018 RMB'000
Remuneration	30,970	19,199
Retirement benefits	1,037	1,165
– Basic social pension insurance	567	691

The total compensation packages for senior management of the Group for the year ended 31 December 2019 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2019 financial statements.

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	8,867	9,041
Maximum aggregate amount of relevant loans outstanding during the year	8,994	9,247

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Statement of financial position of the Bank

	Note V	31 December 2019	31 December 2018
Assets			
Cash and deposits with the central bank		364,184	366,418
Deposits with banks and other financial institutions		28,648	39,243
Precious metals		10,826	23,628
Placements with banks and other financial institutions		60,466	98,057
Derivative financial assets		13,754	15,112
Financial assets held under resale agreements		6,709	37,348
Loans and advances to customers		2,642,764	2,361,930
Financial investments		1,425,223	1,295,523
– Financial assets at fair value through profit or loss		207,634	221,059
– Debt instruments at fair value through other comprehensive income		175,565	150,244
– Equity instruments at fair value through other comprehensive income		618	362
– Financial investments measured at amortised cost		1,041,406	923,858
Investments in subsidiaries	20	12,383	7,383
Fixed assets		14,041	12,721
Right-of-use assets		11,599	–
Goodwill		1,281	1,281
Deferred tax assets		15,446	10,194
Other assets		34,243	18,617
Total assets		4,641,567	4,287,455
Liabilities and equity			
Liabilities			
Due to the central bank		224,758	267,143
Deposits from banks and other financial institutions		450,716	492,275
Placements from banks and other financial institutions		108,045	102,908
Derivative financial liabilities		13,821	14,291
Financial assets sold under repurchase agreements		24,542	40,364
Deposits from customers		3,016,555	2,570,877
Accrued staff costs		7,834	7,880
Taxes payable		8,729	5,260
Lease liabilities		10,986	–
Debts securities issued		366,061	435,435
Other liabilities		28,218	32,172
Total liabilities		4,260,265	3,968,605
Equity			
Share capital		52,489	52,489
Other equity instruments		70,067	35,108
of which: preference shares		64,906	29,947
Capital reserve		53,533	53,533
Other comprehensive income		2,617	1,791
Surplus reserve		26,245	24,371
General reserve		58,523	53,143
Retained earnings		117,828	98,415
Total equity		381,302	318,850
Total liabilities and equity		4,641,567	4,287,455

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchases transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities

	2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	25,445	55,890	20,583	–	101,918
Internal net interest income/ (expense)	21,510	(17,459)	(4,051)	–	–
Net interest income	46,955	38,431	16,532	–	101,918
Net fee and commission income	6,100	16,115	954	–	23,169
Net trading gains	–	–	585	–	585
Dividend income	–	–	–	42	42
Net (losses)/gains arising from investment securities	(862)	6	5,660	96	4,900
Foreign exchange gains	297	75	967	–	1,339
Other net operating income	785	56	67	78	986
Operating income	53,275	54,683	24,765	216	132,939
Operating expenses	(15,703)	(20,465)	(2,136)	(125)	(38,429)
Operating profit before impairment	37,572	34,218	22,629	91	94,510
Credit impairment losses	(20,562)	(28,306)	(97)	–	(48,965)
Other impairment losses	(340)	(15)	–	(27)	(382)
Profit before tax	16,670	5,897	22,532	64	45,163
Other segment information					
– Depreciation and amortisation	2,072	2,360	232	–	4,664
– Capital expenditure	2,284	1,976	188	–	4,448

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,938,565	1,276,983	1,499,765	531	4,715,844
Segment liabilities	2,405,750	779,244	1,157,929	4,432	4,347,355

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	23,034	47,890	7,240	–	78,164
Internal net interest income/ (expense)	15,716	(14,998)	(718)	–	–
Net interest income	38,750	32,892	6,522	–	78,164
Net fee and commission income	5,542	13,485	746	–	19,773
Net trading gains	–	–	1,071	–	1,071
Dividend income	–	–	–	8	8
Net (losses)/gains arising from investment securities	(298)	6	10,163	(9)	9,862
Foreign exchange gains	279	83	362	–	724
Other net operating income	563	52	71	98	784
Operating income	44,836	46,518	18,935	97	110,386
Operating expenses	(14,708)	(16,887)	(2,019)	(92)	(33,706)
Operating profit before impairment	30,128	29,631	16,916	5	76,680
Credit impairment losses	(22,086)	(12,776)	(882)	–	(35,744)
Other impairment losses	(84)	–	–	–	(84)
Profit before tax	7,958	16,855	16,034	5	40,852
Other segment information					
– Depreciation and amortisation	1,000	1,045	119	–	2,164
– Capital expenditure	3,358	634	71	–	4,063

	31 December 2018				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,705,352	1,174,769	1,464,480	656	4,345,257
Segment liabilities	2,067,338	662,614	1,300,411	4,475	4,034,838

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2019	31 December 2018
Segment assets		4,715,844	4,345,257
Goodwill	23	1,281	1,281
Deferred tax assets	24	16,306	10,794
Total assets		4,733,431	4,357,332
Segment liabilities		4,347,355	4,034,838
Dividend payables	37	21	21
Deferred tax liabilities	37	1	–
Total liabilities		4,347,377	4,034,859

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, and with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include fixed assets, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income.

Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the areas serviced by the following branches of the Bank and Everbright Wealth: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai.

– "Central" refers to the areas serviced by the following branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright and Ruijin Everbright: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

– "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(b) Geographical information (continued)

– "Overseas" refers to the areas serviced by the following subsidiaries and branches of the Bank: Hong Kong, Seoul, Luxembourg and Sydney; and

– "Head Office" refers to the head office of the Bank.

	Operating Income								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Over – seas	Head Office	Total
2019	23,837	18,419	20,936	22,031	15,912	6,638	2,258	22,908	132,939
2018	18,056	14,180	16,163	16,125	12,111	5,198	1,652	26,901	110,386

	Non-current assets (Note(i))								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Over – seas	Head Office	Total
31 December 2019	3,729	3,244	3,782	8,568	2,843	1,539	566	8,489	32,760
31 December 2018	2,526	1,190	839	6,531	1,212	904	117	6,187	19,506

Note:

(i) Including fixed assets, right-of-use assets, intangible assets and land use rights.

51 Risk management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. Also, Senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Strategic Customer and Investment Banking Department, Inclusive Finance Department, Credit Card Centre, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution".

– The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardised systems and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implements control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, standardised review and approval policies and processes in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardised loan recovery procedures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Treasury business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

Credit risk measurement

Measurement of ECL
The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting year, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting year according to the ECL in the next 12 months.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting year as impairment allowance. At the end of each reporting year, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flows

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting year. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the year with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, compared with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status

- Be classified into Special Mention category within the five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments.) and forward-looking information in order to establish the model of PD, LGD and EAD.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Parameters of ECL measurement (continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, PPI, CPI, Investment in fixed assets, Home price index, Aggregate financing to the real economy.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined a statistical model and experts' judgement in this process, according to the result of the model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines a statistical model with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or lifetime (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1, and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the items in the statement of financial position as at the end of the year is disclosed in Note V 54(a).

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	364,340	–	–	–	364,340
Deposits with banks and other financial institutions	31,358	–	–	–	31,358
Placements with banks and other financial institutions	60,000	270	–	–	60,270
Financial assets held under resale agreements	6,835	–	–	–	6,835
Loans and advances to customers	2,529,543	96,674	17,919	–	2,644,136
Finance lease receivables	80,839	2,869	15	–	83,723
Financial investments	1,215,372	1,375	4,770	212,029	1,433,546
Others (Note)	29,249	–	–	13,848	43,097
Total	4,317,536	101,188	22,704	225,877	4,667,305

	31 December 2018				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	366,575	–	–	–	366,575
Deposits with banks and other financial institutions	41,005	–	–	–	41,005
Placements with banks and other financial institutions	96,685	–	–	–	96,685
Financial assets held under resale agreements	37,773	–	–	–	37,773
Loans and advances to customers	2,227,372	117,867	16,039	–	2,361,278
Finance lease receivables	60,890	1,979	464	–	63,333
Financial investments	1,077,619	–	357	223,104	1,301,080
Others (Note)	16,718	–	–	15,238	31,956
Total	3,924,637	119,846	16,860	238,342	4,299,685

Note: Others comprise precious metal (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	31 December 2019					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments	Others (Note)
Impaired						
Gross amount	42,513	1,063	366	–	6,539	1,944
Provision for impairment losses	(24,594)	(1,048)	(366)	–	(1,769)	(326)
Subtotal	17,919	15	–	–	4,770	1,618
Overdue but not impaired						
– Less than 3 months (inclusive)	25,304	58	300	–	1,476	–
Provision for impairment losses	(6,492)	(1)	(30)	–	(101)	–
Subtotal	18,812	57	270	–	1,375	–
Neither overdue nor impaired						
Gross amount	2,652,547	84,978	91,576	6,836	1,429,914	41,726
Provision for impairment losses	(45,142)	(1,327)	(218)	(1)	(2,513)	(247)
Subtotal	2,607,405	83,651	91,358	6,835	1,427,401	41,479
Total	2,644,136	83,723	91,628	6,835	1,433,546	43,097

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2018					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments	Others (Note)
Impaired						
Gross amount	38,649	1,076	366	–	1,520	1,785
Provision for impairment losses	(22,610)	(612)	(366)	–	(1,163)	(228)
Subtotal	16,039	464	–	–	357	1,557
Overdue but not impaired						
– Less than 3 months (inclusive)	23,893	1,143	–	–	–	–
– Between 3 months and 6 months (inclusive)	243	2	–	–	–	–
Gross amount	24,136	1,145	–	–	–	–
Provision for impairment losses	(3,778)	(64)	–	–	–	–
Subtotal	20,358	1,081	–	–	–	–
Neither overdue nor impaired						
Gross amount	2,365,702	62,736	137,966	37,775	1,304,254	30,803
Provision for impairment losses	(40,821)	(948)	(276)	(2)	(3,531)	(404)
Subtotal	2,324,881	61,788	137,690	37,773	1,300,723	30,399
Total	2,361,278	63,333	137,690	37,773	1,301,080	31,956

Note: Others comprise precious metals (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2019	31 December 2018
Impaired		
Carrying amount	366	366
Provision for impairment losses	(366)	(366)
Subtotal	–	–
Overdue but not impaired		
– grade B to BBB	270	–
Neither overdue nor impaired		
– grade A to AAA	73,880	171,905
– grade B to BBB	5,879	3,312
– unrated (Note)	18,435	246
Subtotal	98,193	175,463
Total	98,463	175,463

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the year are as follows:

	31 December 2019	31 December 2018
Impaired		
Carrying amount	1,662	1,520
Provision for impairment losses	(1,038)	(1,163)
Subtotal	624	357
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	1,033	–
– grade AA- to AA+	810	–
– grade A- to A+	25,497	8,935
– grade lower than A–	30,001	8,396
Subtotal	57,341	17,331
Other agency ratings		
– grade AAA	740,453	520,033
– grade AA- to AA+	63,240	32,986
– grade A- to A+	548	7,872
– grade lower than A–	2,119	11,725
– unrated	120,451	83,182
Subtotal	926,811	655,798
Total	984,776	673,486

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured monitored and control all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Asset and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk
Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Assets and Liability Management Department of the Group is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk
Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis point (1%) movement in the interest rates.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, whichever is earlier:

	31 December 2019						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.46%	364,340	15,487	348,853	–	–	–
Deposits with banks and other financial institutions	1.73%	31,358	6	29,359	1,993	–	–
Placements with banks and other financial institutions	2.97%	60,270	213	42,793	16,775	489	–
Financial assets held under resale agreements	2.51%	6,835	8	6,827	–	–	–
Loans and advances to customers	5.64%	2,644,136	29,609	1,992,591	531,959	86,871	3,106
Finance lease receivables	5.78%	83,723	951	69,524	289	9,195	3,764
Financial investments	4.26%	1,433,546	67,851	234,363	201,092	599,514	330,726
Others	–	109,223	106,094	–	–	–	3,129
Total assets	4.76%	4,733,431	220,219	2,724,310	752,108	696,069	340,725
Liabilities							
Due to the central bank	3.34%	224,838	3,358	7,000	214,480	–	–
Deposits from banks and other financial institutions	2.89%	444,320	2,913	339,180	102,227	–	–
Placements from banks and other financial institutions	3.10%	166,225	1,122	98,731	66,372	–	–
Financial assets sold under repurchase agreements	2.22%	25,603	18	20,422	5,163	–	–
Deposits from customers	2.28%	3,017,888	34,570	1,867,333	645,265	470,708	12
Debt securities issued	3.69%	371,904	3,158	142,222	174,052	5,789	46,683
Others	–	96,599	76,614	12,735	4,195	3,048	7
Total liabilities	2.58%	4,347,377	121,753	2,487,623	1,211,754	479,545	46,702
Asset-liability gap	2.18%	386,054	98,466	236,687	(459,646)	216,524	294,023

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, whichever is earlier (continued):

	31 December 2018						
	Effective interest rate (*) (Restated)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	366,575	14,111	352,464	–	–	–
Deposits with banks and other financial institutions	1.79%	41,005	76	40,929	–	–	–
Placements with banks and other financial institutions	3.86%	96,685	530	69,506	25,663	986	–
Financial assets held under resale agreements	3.21%	37,773	34	37,515	68	156	–
Loans and advances to customers	5.45%	2,361,278	29,287	1,822,602	435,372	70,817	3,200
Finance lease receivables	5.37%	63,333	1,801	60,331	490	711	–
Financial investments	4.42%	1,301,080	39,210	280,950	224,484	541,874	214,562
Others	–	89,603	85,956	–	–	–	3,647
Total assets	4.69%	4,357,332	171,005	2,664,297	686,077	614,544	221,409
Liabilities							
Due to the central bank	3.29%	267,193	4,143	34,500	228,550	–	–
Deposits from banks and other financial institutions	3.84%	490,091	2,704	257,323	230,064	–	–
Placements from banks and other financial institutions	3.32%	152,037	754	103,060	48,085	138	–
Financial assets sold under repurchase agreements	2.54%	40,411	18	37,330	3,063	–	–
Deposits from customers	2.15%	2,571,961	35,659	2,067,304	364,245	104,753	–
Debt securities issued	4.31%	440,449	3,669	58,022	221,007	94,881	62,870
Others	–	72,717	59,823	8,612	3,631	651	–
Total liabilities	2.78%	4,034,859	106,770	2,566,151	1,098,645	200,423	62,870
Asset-liability gap	1.91%	322,473	64,235	98,146	(412,568)	414,121	158,539

* *Effective interest rate represents the ratio of interest income/expense to average interest-bearing assets/liabilities*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2019, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB969 million (31 December 2018: decrease by RMB1,222 million), and equity to decrease by RMB5,039 million (31 December 2018: decrease by RMB4,820 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,017 million (31 December 2018: increase by RMB1,267 million), and equity to increase by RMB5,316 million (31 December 2018: increase by RMB5,074 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the year apply to all derivative and non-derivative financial instruments of the Group;

– At the end of the year, an interest rate movement of one hundred basis points is based on the assumption of interest rate movements over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the portfolio of asset and liabilities;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	353,625	10,258	457	364,340
Deposits with banks and other financial institutions	8,822	15,096	7,440	31,358
Placements with banks and other financial institutions	33,091	23,340	3,839	60,270
Financial assets held under resale agreements	6,708	127	–	6,835
Loans and advances to customers	2,488,590	100,219	55,327	2,644,136
Finance lease receivables	82,800	923	–	83,723
Financial investments	1,345,906	79,341	8,299	1,433,546
Others	98,151	10,053	1,019	109,223
Total assets	4,417,693	239,357	76,381	4,733,431
Liabilities				
Due to the central bank	224,838	–	–	224,838
Deposits from banks and other financial institutions	442,306	1,488	526	444,320
Placements from banks and other financial institutions	55,186	92,685	18,354	166,225
Financial assets sold under repurchase agreements	23,074	2,529	–	25,603
Deposit from customers	2,839,940	146,468	31,480	3,017,888
Debt securities issued	332,159	35,802	3,943	371,904
Others	86,763	7,987	1,849	96,599
Total liabilities	4,004,266	286,959	56,152	4,347,377
Net position	413,427	(47,602)	20,229	386,054
Off-balance sheet credit commitments	1,220,466	53,513	13,517	1,287,496
Derivative financial instruments (Note)	(28,453)	51,603	(17,294)	5,856

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2018			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	359,143	6,990	442	366,575
Deposits with banks and other financial institutions	14,614	18,094	8,297	41,005
Placements with banks and other financial institutions	58,436	31,783	6,466	96,685
Financial assets held under resale agreements	37,348	–	425	37,773
Loans and advances to customers	2,245,883	71,428	43,967	2,361,278
Finance lease receivables	62,291	1,042	–	63,333
Financial investments	1,247,713	43,016	10,351	1,301,080
Others	83,712	3,856	2,035	89,603
Total assets	4,109,140	176,209	71,983	4,357,332
Liabilities				
Due to the central bank	267,193	–	–	267,193
Deposits from banks and other financial institutions	489,301	145	645	490,091
Placements from banks and other financial institutions	50,288	80,231	21,518	152,037
Financial assets sold under repurchase agreements	40,364	–	47	40,411
Deposit from customers	2,408,136	134,718	29,107	2,571,961
Debt securities issued	416,623	18,437	5,389	440,449
Others	63,190	6,691	2,836	72,717
Total liabilities	3,735,095	240,222	59,542	4,034,859
Net position	374,045	(64,013)	12,441	322,473
Off-balance sheet credit commitments	932,340	52,390	26,861	1,011,591
Derivative financial instruments (Note)	(33,881)	46,775	(10,192)	2,702

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2019	31 December 2018
Exchange rates against RMB for the HK dollar	0.8949	0.8763
Exchange rates against RMB for the US dollar	6.9687	6.8633

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2019, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB7 million (31 December 2018: decrease by RMB16 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB7 million (31 December 2018: increase by RMB16 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis point fluctuation in the foreign currency exchange rates (central parity) against RMB;

– At the end of the year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movements over the next 12 months;

– Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payment of various business, whether under a normal operating environment or a state of stress; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2019							
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	301,750	62,590	–	–	–	–	–	364,340
Deposit with banks and other financial institutions	–	28,209	439	717	1,993	–	–	31,358
Placements with banks and other financial institutions	270	–	34,032	8,630	16,841	497	–	60,270
Financial assets held under resale agreements	–	–	6,835	–	–	–	–	6,835
Loans and advances to customers	33,760	409,336	162,556	132,922	635,142	612,104	658,316	2,644,136
Finance lease receivables	4	4	2,277	3,446	13,853	49,946	14,193	83,723
Financial investments	9,100	159,827	37,613	36,928	235,099	614,108	340,871	1,433,546
Others	63,610	28,678	2,015	2,765	5,698	3,325	3,132	109,223
Total assets	408,494	688,644	245,767	185,408	908,626	1,279,980	1,016,512	4,733,431
Liabilities								
Due to the central bank	–	–	7,210	–	217,628	–	–	224,838
Deposits from banks and other financial institutions	–	179,958	73,454	87,280	103,628	–	–	444,320
Placements from banks and other financial institutions	–	6	50,449	48,909	66,861	–	–	166,225
Financial assets sold under repurchase agreements	–	–	15,720	4,715	5,168	–	–	25,603
Deposits from customers	–	1,150,257	366,487	385,159	645,265	470,708	12	3,017,888
Debt securities issued	–	–	17,233	85,324	175,856	46,808	46,683	371,904
Others	–	41,076	8,245	3,294	18,649	20,388	4,947	96,599
Total liabilities	–	1,371,297	538,798	614,681	1,233,055	537,904	51,642	4,347,377
Net position	408,494	(682,653)	(293,031)	(429,273)	(324,429)	742,076	964,870	386,054
Notional amount of derivative financial instruments	–	–	404,966	378,775	1,314,045	673,700	3,640	2,775,126

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2018							
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	258,034	108,541	–	–	–	–	–	366,575
Deposit with banks and other financial institutions	–	33,789	6,177	1,039	–	–	–	41,005
Placements with banks and other financial institutions	–	–	45,345	24,436	25,918	986	–	96,685
Financial assets held under resale agreements	–	–	37,549	–	68	156	–	37,773
Loans and advances to customers	32,418	378,666	86,818	153,203	560,558	497,661	651,954	2,361,278
Finance lease receivables	184	121	1,324	3,046	11,135	35,875	11,648	63,333
Financial investments	2,453	180,633	49,292	43,254	243,026	561,212	221,210	1,301,080
Others	57,255	13,780	1,316	3,556	6,692	3,644	3,360	89,603
Total assets	350,344	715,530	227,821	228,534	847,397	1,099,534	888,172	4,357,332
Liabilities								
Due to the central bank	–	–	12,896	22,613	231,684	–	–	267,193
Deposits from banks and other financial institutions	–	140,751	89,005	28,207	232,128	–	–	490,091
Placements from banks and other financial institutions	–	6	58,966	44,503	48,425	137	–	152,037
Financial assets sold under repurchase agreements	–	–	35,206	2,142	3,063	–	–	40,411
Deposits from customers	–	1,163,169	246,800	321,019	565,913	275,060	–	2,571,961
Debt securities issued	–	–	21,153	36,869	221,007	94,881	66,539	440,449
Others	–	40,232	7,326	3,303	8,556	10,878	2,422	72,717
Total liabilities	–	1,344,158	471,352	458,656	1,310,776	380,956	68,961	4,034,859
Net position	350,344	(628,628)	(243,531)	(230,122)	(463,379)	718,578	819,211	322,473
Notional amount of derivative financial instruments	–	–	501,608	608,087	1,636,249	592,720	160	3,338,824

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the financial liabilities at the end of the year:

	31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	224,838	228,879	–	7,224	–	221,655	–	–
Deposits from banks and other financial institutions	444,320	448,811	179,959	75,916	87,926	105,010	–	–
Placements from banks and other financial institutions	166,225	167,904	6	50,558	49,207	68,133	–	–
Financial assets sold under repurchase agreements	25,603	25,667	–	15,723	4,734	5,210	–	–
Deposits from customers	3,017,888	3,049,947	1,150,257	372,046	390,510	655,277	481,840	17
Debt securities issued	371,904	405,350	–	17,555	93,250	182,147	59,086	53,312
Other financial liabilities	76,519	79,880	21,059	8,237	3,298	19,361	21,857	6,068
Total non-derivative financial liabilities	4,327,297	4,406,438	1,351,281	547,259	628,925	1,256,793	562,783	59,397
Derivative financial liabilities								
Derivative financial instruments settled on net basis		327	–	17	108	158	44	–
Derivative financial instruments settled on gross basis								
– Cash inflow		1,388,726	–	363,750	307,177	704,146	13,653	–
– Cash outflow		(1,387,827)	–	(362,637)	(307,299)	(704,213)	(13,678)	–
Total derivative financial liabilities		899	–	1,113	(122)	(67)	(25)	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the reporting period (continued):

	31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	267,193	271,562	–	12,912	22,727	235,923	–	–
Deposits from banks and other financial institutions	490,091	494,874	140,753	89,153	28,425	236,543	–	–
Placements from banks and other financial institutions	152,037	154,101	6	59,036	44,991	49,910	158	–
Financial assets sold under repurchase agreements	40,411	40,456	–	35,218	2,150	3,088	–	–
Deposits from customers	2,571,961	2,608,140	1,165,410	251,751	327,937	573,689	289,353	–
Debt securities issued	440,449	528,781	–	21,394	42,667	277,120	114,881	72,719
Other financial liabilities	58,368	59,799	40,212	5,434	774	2,290	8,115	2,974
Total non-derivative financial liabilities	4,020,510	4,157,713	1,346,381	474,898	469,671	1,378,563	412,507	75,693
Derivative financial liabilities								
Derivative financial instruments settled on net basis		84	–	–	42	–	41	1
Derivative financial instruments settled on gross basis								
– Cash inflow		1,232,949	–	300,060	289,923	636,594	6,372	–
– Cash outflow		(1,231,956)	–	(300,482)	(288,764)	(636,343)	(6,367)	–
Total derivative financial liabilities		993	–	(422)	1,159	251	5	–

This analysis of the financial instruments by contractual undiscounted cash flow might diverge from actual results.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	312,090	5,474	6,179	323,743
Guarantees, acceptances and other credit commitments	912,051	51,355	347	963,753
Total	1,224,141	56,829	6,526	1,287,496

	31 December 2018			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	273,488	580	5,116	279,184
Guarantees, acceptances and other credit commitments	684,888	44,768	2,751	732,407
Total	958,376	45,348	7,867	1,011,591

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed below:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering various business and management activities, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting year. The fair values of unlisted equity investments are estimated using comparable firms approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting year.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting year, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting year.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the year, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of the loans and advances to customers, finance lease receivables and financial investments measured at amortised cost except for debt securities investments are priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note V 19.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of the year:

	Carrying value		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets				
Debt securities investments measured at amortised cost	784,943	505,351	796,461	512,668
Financial liabilities				
Debt securities issued	371,904	440,449	371,869	435,137

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank performs valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in the valuation include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,104	–	10,104
– Interest rate derivatives	–	3,653	2	3,655
– Credit derivatives	–	46	–	46
Loans and advances to customers	–	90,578	–	90,578
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,716	13,886	–	18,602
– Financial assets designated at fair value through profit or loss	–	–	4	4
– Other financial assets at fair value through profit or loss	164,806	23,964	4,030	192,800
Debt instruments at fair value through other comprehensive income	43,527	136,478	–	180,005
Equity instruments at fair value through other comprehensive income	21	–	602	623
Precious metals	43	–	–	43
Total	213,113	278,709	4,638	496,460
Liabilities				
Financial liabilities at fair value through profit or loss	100	–	–	100
Derivative financial liabilities				
– Currency derivatives	–	10,140	–	10,140
– Interest rate derivatives	–	3,678	2	3,680
– Credit derivatives	–	72	1	73
Total	100	13,890	3	13,993

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,790	–	10,790
– Interest rate derivatives	2	4,316	7	4,325
– Credit derivatives	–	97	–	97
Loans and advances to customers	–	60,314	–	60,314
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	2,257	8,629	–	10,886
– Financial assets designated at fair value through profit or loss	–	–	6	6
– Other financial assets at fair value through profit or loss	198,482	10,228	3,135	211,845
Debt instruments at fair value through other comprehensive income	27,384	126,603	–	153,987
Equity instruments at fair value through other comprehensive income	15	–	352	367
Precious metals	26	–	–	26
Total	228,166	220,977	3,500	452,643
Liabilities				
Financial liabilities at fair value through profit or loss	354	–	–	354
Derivative financial liabilities				
– Currency derivatives	–	10,010	–	10,010
– Interest rate derivatives	24	4,273	7	4,304
– Credit derivatives	–	34	1	35
Total	378	14,317	8	14,703

During the year, there was no significant conversion between Level 1 and Level 2 of the Group's financial instruments.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets designated at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(5)	(725)	–	(730)	4	4
Purchases	–	1,906	250	2,156	–	–
Settlements	–	(288)	–	(288)	1	1
31 December 2019	2	4,034	602	4,638	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	(5)	(725)	–	(730)	4	4

The movements during the year ended 31 December 2018 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets designated at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2018	4	41,875	98	41,977	(3)	(3)
Total gains or losses:						
– In profit or loss	5	(2,196)	–	(2,191)	(4)	(4)
Purchases	–	2,618	254	2,872	(1)	(1)
Settlements	(2)	(39,156)	–	(39,158)	–	–
31 December 2018	7	3,141	352	3,500	(8)	(8)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	5	(2,196)	–	(2,191)	(4)	(4)

During the year ended 31 December 2019 and 31 December 2018, there were no significant transfers into or out of Level 3.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	142,394	654,067	–	796,461
Financial liabilities				
Debt securities issued	31,658	340,211	–	371,869

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	81,743	430,925	–	512,668
Financial liabilities				
Debt securities issued	26,492	408,645	–	435,137

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using the cash flow the discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2019, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December 2019	31 December 2018
Entrusted loans	139,790	148,654
Entrusted funds	139,790	148,654

54 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2019	31 December 2018
Loan commitments		
– Original contractual maturity within one year	19,855	33,056
– Original contractual maturity more than one year (inclusive)	13,732	12,688
Credit card commitments	290,156	233,440
Subtotal	323,743	279,184
Acceptances	609,169	477,110
Letters of guarantees	128,746	123,416
Letters of credit	225,653	131,696
Guarantees	185	185
Total	1,287,496	1,011,591

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	31 December 2019	31 December 2018
Credit risk-weighted amount of credit commitments	380,959	351,409

The credit risk-weighted amount of credit commitments represent to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2019	31 December 2018
Contracted but not paid		
– Purchase of property and equipment	1,100	790
Approved but not contracted for		
– Purchase of property and equipment	2,817	1,942
Total	3,917	2,732

(d) Underwriting and redemption commitments

The Group had no unexpired commitments for underwriting bonds as at 31 December 2019.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2019	31 December 2018
Redemption commitments	6,626	8,192

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54 Commitments and contingent liabilities (continued)

(e) Outstanding litigation and disputes

As at 31 December 2019, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,384 million (31 December 2018: RMB1,007 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels(Note V 37). The Group considers that the provisions made are reasonable and adequate.

55 Events after the financial reporting date

Establishment of Beijing Sunshine Consumer Finance Co., Ltd

The 28th Meeting of the Seventh Session of the Board of Directors of the Bank held on 15 September approved the proposal of establishing the Beijing Sunshine Consumer Finance Company Limited together with China Youth Tourism Holding Co., Ltd. and other promoters. The Bank will invest RMB600 million, representing 60% of the equity.

The Bank has received the Approval Regarding the establishment of Beijing Sunshine Consumer Finance Company Limited (CBIRC Approval [2020] No. 16) from CBIRC. At present, the relevant preparatory work is still in progress.

Impact assessment of the Coronavirus Disease 2019

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, prevention and control measures against the pandemic have been adopted nationwide. The PBOC, the MOF, the CBIRC, the CSRC and the State Administration of Foreign Exchange jointly issued the requirements of the Notice on Further Enhancing Financial Support for the Prevention and Control of the Novel Coronavirus Pneumonia Outbreak. Various ministries and commissions have also issued a series of policy measures to strengthen financial institutions' support for the prevention and control of the pandemic. The Group actively responded to the call of the Government, fulfilled social responsibilities and implemented various policy measures.

The COVID-19 will affect the business operations in certain industries and certain areas including Hubei province, even the overall economic operation in various areas. This in turn may affect the quality or the yields of the Group's credit assets and other financial assets, the extent of which will depend on factors including evolvement of the pandemic, macro policies, resumption of work and activities in enterprises.

The Group will continue to closely pay attention to the development of COVID-19, assessing and actively responding to its impact on the financial position and operating results of the Group.

56 Comparative figures

In accordance with the presenting pattern of the financial statements, the Group has reclassified some comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks*, commercial banks' Liquidity Coverage Ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December 2019
Liquidity coverage ratio	125.12%
High Quality Liquid Assets	630,894
Net cash outflows in 30 days from the end of the year	504,250

Liquidity Ratio*

	As at 31 December 2019	Average for The year ended 31 December 2019	As at 31 December 2018	Average for The year ended 31 December 2018
RMB current assets to RMB current liabilities	72.63%	69.29%	64.26%	58.20%
Foreign currency current assets to foreign currency current liabilities	93.29%	79.43%	62.15%	74.74%

* *Liquidity ratio is calculated in accordance with the banking level.*

Leverage Ratio

	31 December 2019
Leverage Ratio	6.83%

Pursuant to the Leverage Ratio Management of Commercial Banks Amendments which has been effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Net Stable Funding Ratio

The net stable fund ratio is designed to ensure commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 31 December 2019, the Group met the regulatory requirement with the net stable funding ratio standing at 105.34%.

Indicators	31 December 2019
Available and stable funds	2,693,533
Required stable funds	2,556,972
Net stable funding ratio	105.34%

2 CURRENCY CONCENTRATIONS

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	239,357	39,857	36,524	315,738
Spot liabilities	(286,959)	(33,950)	(22,202)	(343,111)
Forward purchases	759,868	20,366	7,268	787,502
Forward sales	(708,265)	(25,171)	(19,757)	(753,193)
Net long position	4,001	1,102	1,833	6,936
Net structural position	–	34	15	49

	31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	176,209	38,616	33,367	248,192
Spot liabilities	(240,222)	(39,524)	(20,018)	(299,764)
Forward purchases	704,568	11,509	1,436	717,513
Forward sales	(657,793)	(8,780)	(14,357)	(680,930)
Net (short)/long position	(17,238)	1,821	428	(14,989)
Net structural position	9	25	63	97

The net structural position of the Group includes the structural position, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include fixed assets.

(Expressed in millions of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 31 December 2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	69,367	2,868	32,485	104,720
– of which attributed to Hong Kong	19,907	537	15,350	35,794
Europe	9,874	39	32,268	42,181
North and South America	12,736	–	23,352	36,088
Total	91,977	2,907	88,105	182,989

	As at 31 December 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	73,966	910	24,329	99,205
– of which attributed to Hong Kong	22,898	782	15,034	38,714
Europe	7,633	40	21,444	29,117
North and South America	11,352	269	15,801	27,422
Total	92,951	1,219	61,574	155,744

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segments

	31 December 2019	31 December 2018
Head Office	8,963	7,455
Bohai Rim	5,201	5,077
Yangtze River Delta	5,899	5,140
Pearl River Delta	3,129	4,216
Western	4,550	4,149
Central	3,687	4,102
Northeastern	2,470	2,151
Overseas	8	8
Total	33,907	32,298

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue days

	31 December 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	8,851	8,268
– between 6 months and 1 year (inclusive)	13,642	13,049
– over 1 year	11,414	10,981
Total	33,907	32,298
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.33%	0.34%
– between 6 months and 1 year (inclusive)	0.50%	0.54%
– over 1 year	0.42%	0.45%
Total	1.25%	1.33%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(c) Collateral of loans and advances past due but not impaired

	31 December 2019	31 December 2018
Covered portion of loans and advances past due but not impaired	6,357	7,790
Uncovered portion of loans and advances past due but not impaired	18,947	16,346
Total loans and advances past due but not impaired	25,304	24,136
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	16,258	27,886

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in mainland China. As at 31 December 2019, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.

Independent Auditor's Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity; • Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights; • Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows. Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2020, gross loans and advances to customers amounted to RMB3,017.968 billion, representing 56.22% of total assets, and impairment allowance for loans and advances to customers amounted to RMB76.127 billion), impairment of loans and advances is considered a key audit matter. Relevant disclosures are included in Note III 1, Note V 16 and Note V50 (a) to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • In response to the macroeconomic changes, the COVID-19 pandemic implications and the supporting policies from government authorities, assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and any significant increase in credit risk. • Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions and the weight of multiple macroeconomic scenarios; and • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and • Evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and the impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2020, financial assets and financial liabilities measured at fair value amounted to RMB652.100 billion and RMB25.782 billion respectively, representing 12.15% and 0.53% of total assets and total liabilities, respectively. Financial instruments which required either direct (i.e. prices) or indirect (i.e. derived from prices) inputs, hence categorised within Level 2 of the fair value hierarchy, represented 56.98% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 1.72% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter. Relevant disclosures are included in Note III 2 and Note V 51(c) to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to the valuation of financial instruments, including relevant data quality and IT systems involved. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the financial statements adequately presented the risk of the Group.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of, and disclosures about, structured entities	
The Group has established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, this is considered a key audit matter. Relevant disclosures are included in Note III 6 and Note V 43 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 2020 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2020	2019
Interest income		221,475	210,044
Interest expense		(110,778)	(108,126)
Net interest income	1	110,697	101,918
Fee and commission income		27,005	25,977
Fee and commission expense		(2,682)	(2,808)
Net fee and commission income	2	24,323	23,169
Net trading gains	3	484	585
Dividend income		15	42
Net gains arising from investment securities	4	5,203	4,878
Net gains on derecognition of financial assets measured at amortised cost		591	22
Net foreign exchange gains		310	1,339
Other net operating income		1,082	986
Operating income		142,705	132,939
Operating expenses	5	(40,271)	(38,429)
Credit impairment losses	8	(56,733)	(48,965)
Other impairment losses		(199)	(382)
Operating profit		45,502	45,163
Losses on investment of joint ventures		(5)	–
Profit before tax		45,497	45,163
Income tax	9	(7,592)	(7,722)
Net profit		37,905	37,441
Net profit attributable to:			
Equity shareholders of the Bank		37,824	37,354
Non-controlling interests		81	87
		37,905	37,441
Earnings per share			
Basic earnings per share (in RMB/share)	10	0.68	0.68
Diluted earnings per share (in RMB/share)	10	0.61	0.62

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2020	2019
Net profit		37,905	37,441
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits		22	(180)
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		2	6
– Related income tax effect	23(b)	–	(2)
Subtotal		24	(176)
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		(636)	3,158
– Changes in allowance for expected credit losses		(219)	409
– Reclassified to the profit or loss upon disposal		(774)	(1,982)
– Related income tax effect	23(b)	406	(374)
– Exchange differences on translation of financial statements		(148)	48
Subtotal		(1,371)	1,259
Other comprehensive income, net of tax		(1,347)	1,083
Total comprehensive income		36,558	38,524
Total comprehensive income attributable to:			
Equity shareholders of the Bank		36,480	38,436
Non-controlling interests		78	88
		36,558	38,524

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2020	31 December 2019
Assets			
Cash and deposits with the central bank	11	360,287	364,340
Deposits with banks and other financial institutions	12	46,059	31,358
Precious metals		9,353	10,826
Placements with banks and other financial institutions	13	69,290	60,270
Derivative financial assets	14	25,264	13,805
Financial assets held under resale agreements	15	43,592	6,835
Loans and advances to customers	16	2,942,435	2,644,136
Finance lease receivables	17	100,788	83,723
Financial investments	18	1,670,415	1,433,546
– Financial assets at fair value through profit or loss		304,908	211,406
– Debt instruments at fair value through other comprehensive income		222,807	180,005
– Equity instruments at fair value through other comprehensive income		875	623
– Financial investments measured at amortised cost		1,141,825	1,041,512
Investment in joint ventures	19	257	–
Property, plant and equipment	20	23,301	19,342
Right-of-use assets	21	11,137	11,684
Goodwill	22	1,281	1,281
Deferred tax assets	23	19,587	16,306
Other assets	24	45,064	35,979
Total assets		5,368,110	4,733,431
Liabilities and equity			
Liabilities			
Due to the central bank	26	241,110	224,838
Deposits from banks and other financial institutions	27	469,345	444,320
Placements from banks and other financial institutions	28	161,879	166,225
Financial liabilities at fair value through profit or loss	29	4	100
Derivative financial liabilities	14	25,778	13,893
Financial assets sold under repurchase agreements	30	14,182	25,603
Deposits from customers	31	3,480,667	3,017,888
Accrued staff costs	32	15,169	13,667
Taxes payable	33	8,772	9,322
Lease liabilities	34	10,762	11,069
Debt securities issued	35	440,870	371,904
Other liabilities	36	44,574	48,548
Total liabilities		4,913,112	4,347,377

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2020	31 December 2019
Equity			
Share capital	37	54,032	52,489
Other equity instruments	38	109,062	70,067
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	–
Capital reserve	39	58,434	53,533
Other comprehensive income	40	1,393	2,737
Surplus reserve	41	26,245	26,245
General reserve	41	67,702	59,417
Retained earnings		136,581	120,494
Total equity attributable to equity shareholders of the Bank		453,449	384,982
Non-controlling interests		1,549	1,072
Total equity		454,998	386,054
Total liabilities and equity		5,368,110	4,733,431

Approved and authorised for issue by the board of directors on 26 March 2021.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Yao Zhongyou
Vice president in charge of Finance
Executive Director

Sun Xinhong
General Manager of
Financial Accounting Department

The notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

(Expressed in millions of Renminbi, unless otherwise stated)

2020		Attributable to equity shareholders of the Bank											
			Other equity instruments										
	Note V	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2020		52,489	64,906	–	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054
Changes in equity for the year:													
Net profit		–	–	–	–	–	–	–	–	37,824	37,824	81	37,905
Other comprehensive income	40	–	–	–	–	–	(1,344)	–	–	–	(1,344)	(3)	(1,347)
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	400	400
Capital contribution by other equity instrument holders		–	–	39,993	–	–	–	–	–	–	39,993	–	39,993
Conversion of convertible bonds into share capital and capital reserve		1,543	–	–	(998)	4,901	–	–	–	–	5,446	–	5,446
Appropriation of profit:	42												
– Appropriation to general reserve		–	–	–	–	–	–	–	8,285	(8,285)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	–	(11,233)	(11,233)	(1)	(11,234)
– Dividends to preference shareholders		–	–	–	–	–	–	–	–	(2,219)	(2,219)	–	(2,219)
Balance at 31 December 2020		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998

2019		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	37,354	37,354	87	37,441
Other comprehensive income	40	–	–	–	–	1,082	–	–	–	1,082	1	1,083
Capital contribution by other equity instrument holders		–	34,959	–	–	–	–	–	–	34,959	–	34,959
Appropriation of profit:	42											
– Appropriation to surplus reserve		–	–	–	–	–	1,874	–	(1,874)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	5,381	(5,381)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2019		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054

The notes form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	2020	2019
Cash flows from operating activities		
Net profit	37,905	37,441
Adjustments for:		
Credit impairment losses	56,733	48,965
Other impairment losses	199	382
Depreciation and amortisation	5,164	4,664
Unwinding of discount	(767)	(828)
Dividend income	(15)	(42)
Unrealised foreign exchange losses/(gains)	503	(112)
Net gains on investment securities	(57,032)	(54,632)
Net gains on derecognition of financial assets measured at amortised cost	(591)	(22)
Losses on investments of joint ventures	5	–
Net gains on disposal of trading securities	(733)	(1,021)
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(139)	2,162
Interest expense on debt securities issued	11,669	15,221
Interest expense on lease liabilities	487	489
Net losses on disposal of property, plant and equipment	23	25
Income tax	7,592	7,722
	61,003	60,414
Changes in operating assets		
Net decrease/(increase) in deposits with the central bank, banks and other financial Institutions	1,990	(42,733)
Net decrease in placements with banks and other financial institutions	5,781	20,549
Net increase in financial assets held for trading	(13,763)	(6,928)
Net increase in loans and advances to customers	(349,060)	(331,235)
Net (increase)/decrease in financial assets held under resale agreements	(36,770)	30,913
Net increase in other operating assets	(26,405)	(35,775)
	(418,227)	(365,209)
Changes in operating liabilities		
Net increase/(decrease) in deposits from banks and other financial institutions	25,957	(45,587)
Net (decrease)/increase in placements from banks and other financial institutions	(3,699)	13,820
Net decrease in financial assets sold under repurchase agreements	(11,451)	(14,793)
Net increase/(decrease) in amounts due to the central bank	17,271	(41,570)
Net increase in deposits from customers	452,197	446,317
Income tax paid	(11,297)	(10,239)
Net increase in other operating liabilities	5,403	21,947
	474,381	369,895
Net cash flows from operating activities	117,157	65,100
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	702,616	637,019
Investment income received	55,630	59,415
Proceeds from disposal of Property, plant and equipment and other assets	13	305
Payments on acquisition of investments	(924,959)	(766,714)
Payments on acquisition of Property, plant and equipment, intangible assets and other long-term assets	(6,860)	(4,448)
Net cash flows from investing activities	(173,560)	(74,423)

The notes form an integral part of these consolidated financial statements.

	Note V	2020	2019
Cash flows from financing activities			
Capital injected into subsidiaries by non-controlling shareholders		400	–
Proceeds from issuance of other equity instrument holders		39,993	34,959
Proceeds from insurance of debts		514,774	224,259
Repayments of debts issued		(439,051)	(292,293)
Interest paid on debt securities issued		(12,981)	(15,732)
Dividends paid		(13,453)	(9,902)
Other net cash flows from financing activities		(2,924)	(2,744)
Net cash flows used in financing activities		86,758	(61,453)
Effect of foreign exchange rate changes on cash and cash equivalents		(2,778)	595
Net increase/(decrease) in cash and cash equivalents	46 (a)	27,577	(70,181)
Cash and cash equivalents as at 1 January		117,499	187,680
Cash and cash equivalents as at 31 December	46 (b)	145,076	117,499
Interest received		163,990	161,077
Interest paid (excluding interest expense on debt securities issued)		(90,899)	(93,880)

The notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China (the "PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 19) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"),the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

These financial statements have been approved by the Board of Directors on 26 March 2021.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note III.

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the "Accounting Standards for Business Enterprises-Basic Standard" issued by the Ministry of Finance of the People's Republic of China (the "MOF"), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the "PRC GAAP"). There is no difference in the net profit for the year or total equity as at the end of the year between the Group's consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the Conceptual Framework for Financial Reporting 2018 and the following new standards, amendments and interpretations.

IFRS 3 Amendments	*Definition of a Business*
IAS 1 and IAS 8 Amendments	*Definition of Material*
IFRS 9, IAS 39 and IFRS 7 Amendments	*Interest Rate Benchmark Reform*
IFRS 16 Amendment	*COVID-19-Related Rent Concessions*

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2020 (continued)

The amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the yaer of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The amendments must be applied retrospectively.

IFRS 16 Amendment provides for rent relief during COVID-19, which provides an exemption for lessees. For lease payments due before June 2021, lessees are not required to apply the guidance on accounting treatment of lease changes in IFRS 16 for rent relief granted due to the impact of COVID-19. The amendment is applicable for annual reporting periods beginning on or after 1 June 2020, and earlier adoption is permitted. The Group has adopted the amendments from 1 January 2020.

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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020

		Effective for annual periods beginning on or after
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments	*Interest Rate Benchmark Reform – Phase 2*	1 January 2021
IFRS 3 Amendments	*Reference to the Conceptual Framework*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	*Accounting policies disclosures*	1 January 2023
IAS 8 Amendments	*Definition of accounting estimates*	1 January 2023
IFRS 17 and Amendments	*Insurance Contracts*	1 January 2023
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 (issued in May 2020)	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*	1 January 2022

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address the accounting issues that arise when financial instruments that reference Interbank Offered Rates ("IBOR") transition to nearly RFRs. The amendments include a practical expedient for modifications, which permits contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate. The amendments also permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. In addition, while IFRS 9 and IAS 39 require that a risk component (or a designated portion) is "separately identifiable" to be eligible for hedge accounting, the amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Additional disclosures are required for adoption.

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (continued)

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments to IAS 1 *Presentation of Financial Statements* and IFRS *Practice Statement 2* provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 8 introduces a new definition of 'accounting estimates'. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

IFRS 17 *Insurance Contracts* and IFRS 17 amendments replaced IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020 (continued)

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

Annual Improvements to IFRSs 2018-2020 were issued in May 2020, including an amendment to IFRS 9 *Financial Instruments*, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the "10 per cent" test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 *Leases*, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

The adoption of the above standards, amendments and interpretations will have no material impact on the financial statements.

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2 Consolidation (continued)

2.1 Subsidiaries (continued)

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

2.2 Joint Ventures

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

4 Foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in "Other comprehensive income". Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in "Other comprehensive income". Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the statement of profit or loss.

Assets and liabilities of foreign operations are translated to Renminbi at the spot exchange rates at the end of the year. Equity items, excluding "Retained Earnings", are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders' equity with respect to a foreign operation are transferred to profit or loss in the year when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

5.1 Recognition and de-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

(1) the contractual rights to the cash flows from the financial asset expire; or

(2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flows collected to a third party in full and on time under the "pass-through agreement" and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in a conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished - that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

5.2 Classification and measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial asset (continued)

Business models

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to determine whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification:

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in "other comprehensive income", except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when an accounting mismatch can be eliminated or significantly reduced, financial assets can be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as a financial asset designated at fair value through profit or loss, it cannot be reclassified as other financial asset; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swaps to manage the associated interest rate risk.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss, other financial liabilities or designated as effective hedging instruments at initial recognition. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial liabilities, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

5.4 Impairment of financial instruments

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 50(a)).

5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

In terms of the hedge accounting method, the Group's hedge is classified as:

(1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk);

(2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognised definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Gains or losses arising from hedging instruments are recognised in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognised in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

For the fair value hedges related to the debt instrument measured at amortised cost, the adjustment of the book value of the hedged item should be amortised by the effective interest rate method during the remaining period of the hedge and recognised in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognised hedge gains or losses are amortised in the same way and recognised in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortised fair value is recognised in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedge

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognised in other comprehensive income, and the ineffective part shall be recognised in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognised in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognised in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.7 Convertible corporate bonds

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to share capital is recognised in capital surplus under "Capital reserve".

5.8 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined at the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

5.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the year of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are not reported as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

8 Property, plant and equipment

Property, plant and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's property, plant and equipment mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

8 Property, plant and equipment (continued)

8.1 Premises, electronic equipment and others

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property, plant and equipment are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value(%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

8.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

8.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

9 Leases

9.1 Lease classification

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.2 Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes the periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise the corresponding option.

9.3 As lessee

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. In calculating the present value of the lease payments after modification, the revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee’s incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For the impact on the adjustments of a lease liability, the Group accounts for the remeasurement by:

(1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease or shorten the lease term, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or

(2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.3 As lessee (continued)

The incremental borrowing rate of lessee

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

Short-term leases and leases of low-value assets

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

9.4 As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets. In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Leases (continued)

9.5 Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises:

(1) the amount of the initial measurement of the lease liability;

(2) any lease payments made at or before the commencement date of the lease less any lease incentives received;

(3) any initial direct cost incurred when the Group is a lessee; and

(4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

9.6 Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the amounts expected to be payable under a residual value guarantee; (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iii) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

11 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 13). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

12 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

13 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: property, plant and equipment, right-of-use assets, construction in progress, intangible assets, goodwill and investments in subsidiaries and joint ventures.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

13 Provision for impairment losses on non-financial assets (continued)

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognise the impairment loss in the statement of profit or loss. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

14 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

14.1 Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing funds, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

14.2 Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

14 Employee benefits (continued)

14.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

– When the Group can no longer withdraw an offer of those benefits; and

– When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

14.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

15 Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

16 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amounts. No provision for impairment loss is made for entrusted loans.

17 Other equity instruments

Preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payable are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

Perpetual bonds

The perpetual bonds issued by the Group do not include the contractual obligations to pay cash or other financial assets to other parties or exchange financial assets or financial liabilities with other parties under potential adverse conditions; and perpetual bonds issued includes no terms and arrangement that the bonds must or will alternatively be settled in the Group's own equity instruments. The perpetual bonds issued by the Group are divided into equity instruments. The handling fees and commissions incurred in issuing the perpetual bonds are divided into equity instruments, and the transaction costs are deducted from equity. The interest on perpetual bond is recognized as profit distribution at the time of declaration.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

18 Income recognition

The income should be recognised when the Group's performance obligation in the contract is fulfilled, which refers the revenue is recognised when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

18.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

18.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

18.3 Other income

Other income is recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

19 Expenses recognition

19.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

19.2 Other expenses

Other expenses are recognised on an accrual basis.

20 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

20 Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

21 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

22 Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

23 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- management overlay
- modification of contractual cash flows

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values of these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure that the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and the discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

5 Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax: value-added tax is charged at 6% and 13% on taxable added value.

(b) City construction tax: city construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge: education surcharge is calculated as 3% of business tax.

(d) Income tax: the income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A."), the Luxembourg subsidiary, is 19%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2020	2019
Interest income arising from			
Deposits with the central bank		5,073	5,020
Deposits with banks and other financial institutions		616	1,470
Placements with banks and other financial institutions		1,083	3,208
Loans and advances to customers	(a)		
– Corporate loans and advances		76,214	70,854
– Personal loans and advances		77,477	72,578
– Discounted bills		2,295	2,020
Finance lease receivables		5,524	4,444
Financial assets held under resale agreements		964	2,377
Investments		52,229	48,073
Subtotal		221,475	210,044
Interest expenses arising from			
Due to the central bank		6,414	8,012
Deposits from banks and other financial institutions		10,271	12,712
Placements from banks and other financial institutions		4,270	6,520
Deposits from customers			
– Corporate customers		58,045	47,074
– Individual customers		19,643	16,880
Financial assets sold under repurchase agreements		466	1,707
Debt securities issued		11,669	15,221
Subtotal		110,778	108,126
Net interest income		110,697	101,918

Note:

(a) *The interest income arising from impaired financial assets for the year ended 31 December 2020 amounted to RMB767 million (2019: RMB828 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2020	2019
Fee and commission income		
Bank card service fees	12,245	14,163
Agency services fees	3,288	2,744
Wealth management service fees	2,518	634
Settlement and clearing fees	1,701	1,538
Underwriting and advisory fees	1,626	1,909
Custody and other fiduciary business fees	1,614	1,446
Acceptance and guarantee fees	1,529	1,360
Others	2,484	2,183
Subtotal	27,005	25,977
Fee and commission expense		
Bank card transaction fees	1,842	1,908
Settlement and clearing fees	150	144
Others	690	756
Subtotal	2,682	2,808
Net fee and commission income	24,323	23,169

3 Net trading gains

	2020	2019
Trading financial instruments		
– Derivatives	(369)	(355)
– Debt securities	836	920
Subtotal	467	565
Financial instruments designated at fair value through profit or loss	(2)	(1)
Precious metal contracts	19	21
Total	484	585

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	2020	2019
Net gains arising from financial investments at fair value through profit or loss	5,016	4,622
Net losses arising from debt instruments at fair value through other comprehensive income	(785)	(1,915)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	198	189
Net revaluation gains reclassified from other comprehensive income on disposal	774	1,982
Total	5,203	4,878

5 Operating expenses

	Note	2020	2019
Staff costs			
– Salaries and bonuses		13,003	12,759
– Pension and annuity		1,611	2,167
– Housing allowances		991	881
– Staff welfares		574	443
– Supplementary retirement benefits		154	110
– Others		2,910	2,041
Subtotal		19,243	18,401
Premises and equipment expenses			
– Depreciation of right-of-use assets		2,677	2,429
– Depreciation of Property, plant and equipment		1,651	1,485
– Amortisation of intangible assets		524	400
– Rental and property management expenses		492	565
– Interest expense on lease liabilities		487	489
– Amortisation of other long-term assets		312	350
Subtotal		6,143	5,718
Tax and surcharges		1,483	1,400
Other general and administrative expenses	(a)	13,402	12,910
Total		40,271	38,429

Note:

(a) Auditors' remuneration for the year ended 31 December 2020 was RMB9.90 million (2019: RMB9.50 million).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows:

		2020							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors									
Lu Hong		–	1,520	740	–	2,260	46	111	2,417
Liu Jin	(i)	–	298	223	–	521	12	111	644
Non-executive directors									
Li Xiaopeng		–	–	–	–	–	–	–	–
Wu Lijun	(ii)	–	–	–	–	–	–	–	–
Liu Chong		–	–	–	–	–	–	–	–
Yu Chunling		–	–	–	–	–	–	–	–
Independent non-executive directors									
Li Yinquan	(ii)	–	215	–	–	215	–	–	215
Xu Hongcai		–	430	–	–	430	–	–	430
Wang Liguo		–	420	–	–	420	–	–	420
Shao Ruiqing		–	426	–	–	426	–	–	426
Hong Yongsen		–	430	–	–	430	–	–	430
Supervisors									
Li Xin		–	1,600	660	–	2,260	46	111	2,417
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Wang Zhe		330	–	–	–	330	–	–	330
Qiao Zhimin		340	–	–	–	340	–	–	340
Xu Keshun		–	734	1,572	–	2,306	46	111	2,463
Sun Jianwei		–	736	1,095	–	1,831	46	111	1,988
Shang Wencheng		–	704	1,280	–	1,984	44	111	2,139

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

		2020							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former non-executive directors									
Cai Yunge	(ii)	–	–	–	–	–	–	–	–
Wang Xiaolin	(ii)	–	–	–	–	–	–	–	–
Shi Yongyan	(ii)	–	–	–	–	–	–	–	–
Dou Hongquan	(ii)	–	–	–	–	–	–	–	–
He Haibin	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive directors									
Fok Oi Ling	(ii)	215	–	–	–	215	–	–	215
Feng Lun	(ii)	360	–	–	–	360	–	–	360

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2019							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive director								
Lu Hong	–	952	1,228	–	2,180	44	126	2,350
Non-executive directors								
Li Xiaopeng	–	–	–	–	–	–	–	–
Cai Yunge	–	–	–	–	–	–	–	–
Wang Xiaolin	–	–	–	–	–	–	–	–
Shi Yongyan	–	–	–	–	–	–	–	–
Dou Hongquan	–	–	–	–	–	–	–	–
He Haibin	–	–	–	–	–	–	–	–
Liu Chong	–	–	–	–	–	–	–	–
Yu Chunling	–	–	–	–	–	–	–	–
Independent non-executive directors								
Fok Oi Ling	370	–	–	–	370	–	–	370
Xu Hongcai	271	–	–	–	271	–	–	271
Wang Liguo	360	–	–	–	360	–	–	360
Shao Ruiqing	150	–	–	–	150	–	–	150
Hong Yongmiao	93	–	–	–	93	–	–	93
Supervisors								
Li Xin	–	984	1,195	–	2,179	44	126	2,349
Yin Lianchen	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Wu Gaolian	–	–	–	–	–	–	–	–
Wang Zhe	290	–	–	–	290	–	–	290
Qiao Zhimin	75	–	–	–	75	–	–	75
Xu Keshun	–	363	570	–	933	21	64	1,018
Sun Jianwei	–	364	456	–	820	18	64	902
Shang Wencheng	–	348	519	–	867	21	64	952

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2019							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former executive director								
Ge Haijiao	–	200	150	–	350	16	105	471
Former non-executive directors								
Fu Dong	–	–	–	–	–	–	–	–
Zhao Wei	–	–	–	–	–	–	–	–
Former independent non-executive director								
Qiao Zhimin	284	–	–	–	284	–	–	284
Xie Rong	216	–	–	–	216	–	–	216
Feng Lun	343	–	–	–	343	–	–	343
Former Supervisors								
Sun Xinhong	–	348	570	–	918	–	–	918
Jiang Ou	–	349	456	–	805	–	–	805
Huang Dan	–	264	519	–	783	–	–	783
Yu Erniu	–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

Notes:

(i) *On 25 March 2020, the CIRC approved Mr. Liu Jin's qualification as an executive director of the Bank.*

(ii) *On 25 March 2020, the CIRC approved Mr. Wu Lijun's qualifications as a director and the vice chairman of the Bank.*

On 26 March 2020, Mr. Li Yinquan was elected as an independent director of the Bank at the First Extraordinary Shareholders' General Meeting in 2020, and on 11 June 2020, the CIRC approved his qualification as an independent director.

On 23 September 2020, due to work adjustment, Mr. Cai Yunge resigned as a non-executive director, a member of the risk Management Committee of the board of directors and a member of the Audit Committee of the board of directors.

On 28 July 2020, Mr. Wang Xiaolin resigned as a non-executive director of the Bank, the chairman and a member of the risk Management Committee of the board of directors, a member of the Strategy Committee of the board of directors and a member of the Compensation Committee of the board of directors due to the change of equity and personal work adjustment of the Bank.

On July 28 2020, Mr. Shi Yongyan resigned as a non-executive director, a member of the Nomination Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to the change of equity and personal work adjustment of the Bank.

On 28 July 2020, Mr. Dou Hongquan resigned as a non-executive director, a member of the Strategy Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to the change of equity and personal work adjustment of the Bank.

On 27 July 2020, Mr. He Haibin resigned as a non-executive director, a member of the Audit Committee of the board of directors and a member of the Committee on inclusive financial development and consumer protection of the board of directors due to work adjustment.

On 11 June 2020, Ms. Fok Oi Ling ceased to be an independent director, the chairman and a member of the Connected Transaction Control Committee of the board of directors, a member of the Audit Committee of the board of directors, a member of the Nomination Committee of the board of directors and a member of the Remuneration Committee of the board of directors due to the expiration of her term of office.

On 30 July 2019, after the election of the Second Interim Shareholders' General Meeting of the bank in 2019, Mr. Feng Lun was no longer an independent director of the bank. Mr. Feng Lun continued to perform his duties until his qualification for replacing his independent director was approved by the CBRC.

(iii) *The total compensation package for these directors and supervisors for the year ended 31 December 2020 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2020.*

The above directors' and supervisors' emoluments for the year ended 31 December 2020 were calculated in accordance with their actual tenure.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Individuals with highest emoluments

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	2,492	1,899
Discretionary bonuses	23,092	27,512
Contributions to pension schemes	205	248
Others	499	488
Total	26,288	30,147

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2020	2019
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	1	–
RMB4,500,001-5,000,000	2	2
RMB5,000,001 and above	2	3

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

8 Credit impairment losses

	2020	2019
Loans and advances to customers		
– measured at amortised cost	53,197	47,821
– measured at fair value through other comprehensive income	156	(35)
Debt instruments at fair value through other comprehensive income	(334)	439
Financial investments measured at amortised cost	772	(314)
Finance lease receivables	973	752
Others	1,969	302
Total	56,733	48,965

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Income tax

(a) Income tax:

	Note V	2020	2019
Current tax		10,917	13,727
Deferred tax	23(b)	(2,876)	(5,887)
Adjustments for prior year	9(b)	(449)	(118)
Total		7,592	7,722

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2020	2019
Profit before tax		45,497	45,163
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		11,374	11,291
Effect of different tax rates applied by certain subsidiaries		(10)	(5)
Non-deductible expenses			
– Staff costs		136	88
– Impairment losses on assets		982	527
– Others		321	309
Subtotal		1,439	924
Non-taxable income	(i)	(4,762)	(4,370)
Subtotal		8,041	7,840
Adjustments for prior year		(449)	(118)
Income tax		7,592	7,722

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Net profit attributable to equity holders of the Bank	37,824	37,354
Less: Dividends on preference shares declared	2,219	1,450
Net profit attributable to ordinary shareholders of the Bank	35,605	35,904
Weighted average number of ordinary shares in issue (in million shares)	52,746	52,489
Basic earnings per share (in RMB/share)	0.68	0.68

Weighted average number of ordinary shares in issue (in million shares)

	2020	2019
Issued ordinary shares as at 1 January	52,489	52,489
Add: Weighted average number of new issued ordinary shares in current year	257	–
Weighted average number of ordinary shares in issue	52,746	52,489

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2020	2019
Net profit attributable to ordinary shareholders of the Bank	35,605	35,904
Add: Interest expense on convertible bonds, net of tax	850	899
Net profit used to determine diluted earnings per share	36,455	36,803
Weighted average number of ordinary shares in issue (in million shares)	52,746	52,489
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,313	7,264
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,059	59,753
Diluted earnings per share (in RMB/share)	0.61	0.62

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Cash and deposits with the central bank

	Notes	31 December 2020	31 December 2019
Cash on hand		4,471	4,355
Deposits with the central bank			
– Statutory deposit reserves	(a)	293,540	297,528
– Surplus deposit reserves	(b)	56,132	57,546
– Foreign currency risk reserves	(c)	2,305	3,732
– Fiscal deposits		3,693	1,050
Subtotal		360,141	364,211
Accrued interest		146	129
Total		360,287	364,340

Notes:

(a) *The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:*

	31 December 2020	*31 December 2019*
Reserve ratio for RMB deposits	*9.00%*	*10.50%*
Reserve ratio for foreign currency deposits	*5.00%*	*5.00%*

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2020, the foreign currency risk reserve ratio was 0% (31 December 2019: 20%).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Deposits in Mainland China		
– Banks	29,185	12,868
– Other financial institutions	314	528
Deposits outside Mainland China		
– Banks	16,980	18,399
Subtotal	46,479	31,795
Accrued interest	59	6
Total	46,538	31,801
Less: Provision for impairment losses	(479)	(443)
Net balances	46,059	31,358

13 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Placements in Mainland China		
– Banks	14,502	4,160
– Other financial institutions	17,702	29,777
Placements outside Mainland China		
– Banks	37,216	26,291
Subtotal	69,420	60,228
Accrued interest	179	213
Total	69,599	60,441
Less: Provision for impairment losses	(309)	(171)
Net balances	69,290	60,270

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting

Derivative financial instruments included forward, swap, and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure that the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting year, while they do not represent exposure at risk.

(a) Analysed by nature of contract

	31 December 2020		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	1,110,897	5,821	(6,340)
Currency derivatives			
– Foreign exchange forwards	21,022	523	(610)
– Foreign exchange swap and cross-currency interest rate swaps	1,055,992	18,144	(18,499)
– Foreign exchange options	20,981	774	(246)
Credit derivatives	1,405	2	(83)
Total	2,210,297	25,264	(25,778)

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivative			
– Interest rate swaps	1,298,443	3,655	(3,680)
Currency derivatives			
– Foreign exchange forwards	29,168	229	(197)
– Foreign exchange swap and cross-currency interest rate swaps	1,365,001	9,483	(9,557)
– Foreign exchange options	78,260	392	(386)
Credit derivatives	4,254	46	(73)
Total	2,775,126	13,805	(13,893)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amount

	31 December 2020	31 December 2019
Counterparty default risk-weighted assets		
– Interest rate derivatives	2,504	492
– Currency derivatives	4,808	3,449
– Credit derivatives	21	317
Credit value adjustment risk-weighted assets	2,277	1,710
Total	9,610	5,968

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment ("CVA"). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged item is fixed interest bonds. As at 31 December 2020, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB3,286 million (31 December 2019: RMB14 million), in the above hedging instrument, derivative financial assets was RMB2 million (31 December 2019: Nil), derivative financial liabilities was RMB118 million (31 December 2019: RMB95 thousands).

In 2020, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting (continued)

(d) IBOR Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the year 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 Group has fair value hedge accounting relationships that are exposed to the US dollar LIBOR. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group’s hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships may be entered into, while others may survive the market-wide benchmarks reform. The hedge items that are affected by the adoption of the temporary exceptions in hedge accounting relationships are presented in the statement of financial position as“Financial investments”.

As at 31 December 2020, the notional amount of interest rate derivatives designated in fair value hedge accounting relationships represent the extent of the fair value hedge accounting’s risk exposure managed by the Group that is directly affected by market-wide benchmark reform and impacted by the temporary exceptions is RMB3.286 billion.

In August 2020, IASB issued Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2. The Group will adopt the amendments from 1 January 2021.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2020	31 December 2019
In Mainland China		
– Banks	13,262	2,000
– Other financial institutions	30,331	4,702
Outside Mainland China		
– Other financial institutions	5	126
Subtotal	43,598	6,828
Accrued interest	3	8
Total	43,601	6,836
Less: Provision for impairment losses	(9)	(1)
Net balances	43,592	6,835

(b) Analysed by type of security held

	31 December 2020	31 December 2019
Bonds		
– Government bonds	20,074	2,062
– Other debt securities	23,524	4,766
Subtotal	43,598	6,828
Accrued interest	3	8
Total	43,601	6,836
Less: Provision for impairment losses	(9)	(1)
Net balances	43,592	6,835

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers

(a) Analysed by nature

	31 December 2020	31 December 2019
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,627,339	1,463,630
Discounted bills	652	488
Personal loans and advances		
– Personal housing mortgage loans	492,444	414,211
– Personal business loans	171,336	158,871
– Personal consumption loans	173,565	140,545
– Credit cards	445,935	443,881
Subtotal	1,283,280	1,157,508
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	29,938	26,403
Discounted bills	68,273	64,175
Subtotal	98,211	90,578
Total	3,009,482	2,712,204
Accrued interest	8,486	8,160
Gross loans and advances to customers	3,017,968	2,720,364
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)	(76,228)
Net loans and advances to customers	2,942,435	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)	(438)

As at the end of the year, part of the above loans and advances to customers was pledged for repurchase agreements. See Note V 25(a).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2020		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	313,427	10.41%	106,816
Water, environment and public utility management	294,595	9.79%	121,503
Real estate	224,450	7.46%	154,223
Leasing and commercial services	189,785	6.31%	66,502
Wholesale and retail trade	127,522	4.24%	49,657
Construction	107,987	3.59%	32,520
Finance	97,132	3.23%	4,765
Transportation, storage and postal services	88,535	2.94%	37,660
Agriculture, forestry, husbandry and fishery	54,100	1.80%	17,062
Production and supply of electricity, gas and water	45,532	1.51%	12,163
Others	114,212	3.79%	36,048
Subtotal of corporate loans and advances	1,657,277	55.07%	638,919
Personal loans and advances	1,283,280	42.64%	653,526
Discounted bills	68,925	2.29%	65,161
Total	3,009,482	100.00%	1,357,606
Accrued interest	8,486		
Gross loans and advances to customers	3,017,968		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)		
Net loans and advances to customers	2,942,435		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)		

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	270,177	9.96%	102,716
Water, environment and public utility management	261,465	9.64%	111,707
Real estate	211,918	7.81%	130,785
Leasing and commercial services	170,068	6.27%	65,501
Wholesale and retail trade	113,140	4.17%	42,016
Construction	94,793	3.50%	35,149
Transportation, storage and postal services	87,226	3.22%	36,653
Finance	76,907	2.84%	12,380
Production and supply of power, gas and water	45,948	1.69%	13,517
Agriculture, forestry, husbandry and fishery	41,459	1.53%	12,962
Others	116,932	4.31%	45,051
Subtotal of corporate loans and advances	1,490,033	54.94%	608,437
Personal loans and advances	1,157,508	42.68%	550,653
Discounted bills	64,663	2.38%	62,914
Total	2,712,204	100.00%	1,222,004
Accrued interest	8,160		
Gross loans and advances to customers	2,720,364		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)		
Net loans and advances to customers	2,644,136		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)		

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at 31 December 2020 and for the year ended 31 December 2020, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2020					
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Impairment charged during the year	Written-off during the year
Manufacturing	13,608	(3,378)	(5,591)	(6,106)	2,689	1,816

(c) Analysed by type of collateral

	31 December 2020	31 December 2019
Unsecured loans	941,130	852,885
Guaranteed loans	710,746	637,315
Secured loans		
– By tangible assets other than monetary assets	1,017,960	862,021
– By monetary assets	339,646	359,983
Total	3,009,482	2,712,204
Accrued interest	8,486	8,160
Gross loans and advances to customers	3,017,968	2,720,364
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)	(76,228)
Net loans and advances to customers	2,942,435	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)	(438)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	31 December 2020		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	652,565	21.69%	266,093
Central	532,348	17.69%	296,164
Pearl River Delta	396,086	13.16%	263,189
Bohai Rim	387,332	12.87%	223,419
Western	373,595	12.41%	212,662
Northeastern	117,580	3.91%	80,952
Overseas	98,819	3.28%	9,916
Head Office	451,157	14.99%	5,211
Total	3,009,482	100.00%	1,357,606

	31 December 2019		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	556,102	20.49%	219,717
Central	447,249	16.49%	256,676
Bohai Rim	349,559	12.89%	199,916
Western	348,706	12.86%	200,481
Pearl River Delta	341,541	12.59%	220,143
Northeastern	121,928	4.50%	80,011
Overseas	96,174	3.55%	38,005
Head Office	450,945	16.63%	7,055
Total	2,712,204	100.00%	1,222,004

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2020			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	5,383	(9,100)	(2,930)	(3,140)
Central	5,225	(5,561)	(3,418)	(3,006)
Bohai Rim	6,160	(2,592)	(2,499)	(3,355)
Western	3,365	(3,400)	(3,326)	(1,786)
Pearl River Delta	4,699	(4,955)	(3,685)	(2,843)
Total	24,832	(25,608)	(15,858)	(14,130)

	31 December 2019			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	6,831	(6,439)	(4,847)	(3,625)
Central	5,031	(4,094)	(2,461)	(3,218)
Bohai Rim	5,797	(2,159)	(2,435)	(3,032)
Western	4,951	(2,849)	(4,212)	(2,707)
Pearl River Delta	4,155	(4,219)	(1,829)	(1,811)
Total	26,765	(19,760)	(15,784)	(14,393)

For the definition of regional divisions, see Note V 49(b).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue years

	31 December 2020				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,474	12,760	1,200	30	28,464
Guaranteed loans	5,221	2,964	3,535	582	12,302
Secured loans					
– By tangible assets other than monetary assets	10,367	5,765	4,176	1,386	21,694
– By monetary assets	1,287	284	564	1	2,136
Subtotal	31,349	21,773	9,475	1,999	64,596
Accrued interest	276	–	–	–	276
Total	31,625	21,773	9,475	1,999	64,872
As a percentage of gross loans and advances to customers	1.05%	0.72%	0.31%	0.07%	2.15%

	31 December 2019				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	15,557	11,118	323	33	27,031
Guaranteed loans	4,954	4,953	3,726	609	14,242
Secured loans					
– By tangible assets other than monetary assets	5,692	4,973	4,421	1,429	16,515
–By monetary assets	1,434	1,449	837	36	3,756
Subtotal	27,637	22,493	9,307	2,107	61,544
Accrued interest	69	–	–	–	69
Total	27,706	22,493	9,307	2,107	61,613
As a percentage of gross loans and advances to customers	1.01%	0.83%	0.34%	0.08%	2.26%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	31 December 2020				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,837,009	124,772	47,701	3,009,482	1.59%
Accrued interest	6,649	1,374	463	8,486	
Gross loans and advances to customers	2,843,658	126,146	48,164	3,017,968	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(31,192)	(21,037)	(23,304)	(75,533)	
Net loans and advances to customers	2,812,466	105,109	24,860	2,942,435	

	31 December 2019				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,546,902	123,090	42,212	2,712,204	1.56%
Accrued interest	6,701	1,158	301	8,160	
Gross loans and advances to customers	2,553,603	124,248	42,513	2,720,364	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,060)	(27,574)	(24,594)	(76,228)	
Net loans and advances to customers	2,529,543	96,674	17,919	2,644,136	

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(24,060)	(27,574)	(24,594)	(76,228)
Transfer to Stage 1	(2,112)	2,049	63	–
Transfer to Stage 2	988	(1,072)	84	–
Transfer to Stage 3	216	10,315	(10,531)	–
Charge for the year	(9,488)	(7,133)	(42,506)	(59,127)
Release for the year	3,260	2,378	292	5,930
Disposal	–	–	20,310	20,310
Write-off and transfer out	–	–	36,013	36,013
Recovery of loans and advances written off	–	–	(3,202)	(3,202)
Unwinding of discount on allowance	–	–	767	767
Exchange fluctuation and others	4	–	–	4
As at 31 December 2020	(31,192)	(21,037)	(23,304)	(75,533)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1	(2,089)	2,038	51	–
Transfer to Stage 2	742	(787)	45	–
Transfer to Stage 3	156	2,233	(2,389)	–
Charge for the year	(3,899)	(10,693)	(38,804)	(53,396)
Release for the year	4,365	899	311	5,575
Disposal	–	–	13,826	13,826
Write-off and transfer out	–	–	26,576	26,576
Recovery of loans and advances written off	–	–	(2,428)	(2,428)
Unwinding of discount on allowance	–	–	828	828
As at 31 December 2019	(24,060)	(27,574)	(24,594)	(76,228)

Note:

(i) *The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2020, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB594 million (31 December 2019: RMB438 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	31 December 2020	31 December 2019
Rescheduled loans and advances to customers	7,659	11,888
Of which: Rescheduled loans and advances to customers overdue more than 90 days	245	898

17 Finance lease receivables

	31 December 2020	31 December 2019
Minimum finance lease receivables	118,247	99,825
Less: Unearned finance lease income	(15,442)	(14,662)
Present value of minimum lease receivable	102,805	85,163
Accrued interest	1,128	936
Less: Impairment losses	(3,145)	(2,376)
Net balance	100,788	83,723

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2020	31 December 2019
Less than 1 year (inclusive)	32,149	23,619
1 year to 2 years (inclusive)	25,745	20,418
2 years to 3 years (inclusive)	20,825	17,123
3 years to 4 years (inclusive)	15,752	12,628
4 years to 5 years (inclusive)	11,420	9,745
More than 5 years	12,356	16,292
Total	118,247	99,825

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments

	Notes	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss	(a)	304,908	211,406
Debt instruments at fair value through other comprehensive income	(b)	222,807	180,005
Equity instruments at fair value through other comprehensive income	(c)	875	623
Financial investments measured at amortised cost	(d)	1,141,825	1,041,512
Total		1,670,415	1,433,546

(a) Financial assets at fair value through profit or loss

	Notes	31 December 2020	31 December 2019
Debt instruments held for trading	(i)	33,040	18,602
Financial assets designated at fair value through profit or loss	(ii)	1	4
Other financial assets at fair value through profit or loss	(iii)	271,867	192,800
Total		304,908	211,406

(i) Debt instruments held for trading

	Notes	31 December 2020	31 December 2019
Issued by the following governments or institutions:			
In Mainland China			
– Government		80	132
– Banks and other financial institutions		9,291	4,975
– Other institutions	(1)	19,985	9,436
Outside Mainland China			
– Banks and other financial institutions		1,770	2,624
– Other institutions		1,914	1,435
Total	(2)	33,040	18,602
Listed	(3)	4,391	4,716
Of which: listed in Hong Kong		2,194	1,703
Unlisted		28,649	13,886
Total		33,040	18,602

Notes:

(1) At the end of the year, debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(2) At the end of the year, some of the debt instruments held for trading were pledged for repurchase agreements. See Note V 25(a).

(3) Listed investments include debt instruments traded on a stock exchange.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(ii) Financial assets designated at fair value through profit or loss

	31 December 2020	31 December 2019
Fixed interest rate personal mortgage loans	1	4

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the reporting year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Fund investments	212,937	159,760
Equity instruments	2,620	2,019
Others	56,310	31,021
Total	271,867	192,800

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	31 December 2020	31 December 2019
In Mainland China			
– Government		59,441	40,880
– Banks and other financial institutions	(1)	75,493	51,640
– Other institutions	(2)	51,310	56,371
Outside Mainland China			
– Government		349	98
– Banks and other financial institutions		12,535	7,574
– Other institutions		19,786	19,777
Subtotal		218,914	176,340
Accrued interest		3,893	3,665
Total	(3)(4)	222,807	180,005
Listed	(5)	50,534	43,019
Of which listed in Hong Kong		33,872	29,884
Unlisted		168,380	133,321
Subtotal		218,914	176,340
Accrued interest		3,893	3,665
Total		222,807	180,005

Notes:

(1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.

(2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at 31 December 2020, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximated to RMB456 million (31 December 2019: RMB826 million).

(4) At the end of the year, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note V 25(a).

(5) Listed investments include debt instruments traded on a stock exchange.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(708)	–	(118)	(826)
Transfer to Stage 3	1	–	(1)	–
Net charge for the year	(292)	–	(15)	(307)
Reversal for the year	543	–	98	641
Exchange fluctuation and others	36	–	–	36
As at 31 December 2020	(420)	–	(36)	(456)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(384)	–	–	(384)
Transfer to Stage 3	2	–	(2)	–
Net charge for the year	(343)	–	(116)	(459)
Reversal for the year	20	–	–	20
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(708)	–	(118)	(826)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2020	31 December 2019
Equity instruments at fair value through other comprehensive income	(i)	875	623
Listed	(ii)	23	21
Of which: listed in Hong Kong		–	–
Unlisted		852	602
Total		875	623

Notes:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2020, the fair value was RMB875 million (31 December 2019: RMB623 million). For the year ended 31 December 2020, the Group has received dividends of RMB14 million from the above equity instruments (2019: RMB11 million).

(ii) Listed investments include equity instruments traded on a stock exchange.

(d) Financial investments measured at amortised cost

	Notes	31 December 2020	31 December 2019
Debt securities and asset-backed instruments	(i)	921,967	773,460
Others	(ii)	207,486	256,649
Subtotal		1,129,453	1,030,109
Accrued interest		17,510	15,786
Total		1,146,963	1,045,895
Less: Provision for impairment losses		(5,138)	(4,383)
Net balance		1,141,825	1,041,512
Listed	(iii)	159,519	139,562
Of which: listed in Hong Kong		21,710	20,905
Unlisted		964,796	886,164
Subtotal		1,124,315	1,025,726
Accrued interest		17,510	15,786
Net balance		1,141,825	1,041,512

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	31 December 2020	31 December 2019
In Mainland China			
– Government		386,220	340,733
– Banks and other financial institutions	(1)	333,697	228,028
– Other institutions	(2)	168,370	183,628
Outside Mainland China			
– Government		4,777	1,891
– Banks and other financial institutions		23,141	5,486
– Other institutions		5,762	13,694
Subtotal		921,967	773,460
Accrued interest		15,621	13,140
Total	(3)	937,588	786,600
Less: Provision for impairment losses		(1,937)	(1,657)
Net balance		935,651	784,943
Fair value		944,985	796,461

Notes:

(1) *Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.*

(2) *Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.*

(3) *As at the end of the year, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note V 25(a).*

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments include debt instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial Investments (continued)

(d) Financial investments measured at amortised cost (continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(2,513)	(101)	(1,769)	(4,383)
Transfer to Stage 1	(30)	30	–	–
Transfer to Stage 2	179	(179)	–	–
Transfer to Stage 3	6	47	(53)	–
Charge for the year	(1,003)	(323)	(1,017)	(2,343)
Release for the year	1,412	54	105	1,571
Exchange fluctuation and others	17	–	–	17
As at 31 December 2020	(1,932)	(472)	(2,734)	(5,138)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Transfer to Stage 2	3	(3)	–	–
Transfer to Stage 3	8	–	(8)	–
Charge for the year	–	(98)	(723)	(821)
Release for the year	1,010	–	125	1,135
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(2,513)	(101)	(1,769)	(4,383)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investment in subsidiaries and joint ventures

(a) Investments in subsidiaries

	31 December 2020	31 December 2019
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co., Ltd.	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd.	600	–
Total	12,983	12,383

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd.	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd.	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd.	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd (Note i)	Beijing	1,000	60%	60%	Banking business	Incorporated company

(i) In August 2020, the bank established its subsidiary, Beijing Sunshine Consumer Finance Co., Ltd. ("Sunshine Consumer Finance"), with a registered capital of RMB1 billion. The bank contributed RMB600 million, accounting for 60% of all the equity.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investment in subsidiaries and joint ventures (continued)

(b) Investments in joint ventures

	2020
As at 1 January 2020	–
Increased investment	262
Investment losses under the equity method	(5)
As at 31 December 2020	257

20 Property, plant and equipment

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2020	12,949	5,657	2,210	6,667	4,498	31,981
Additions	276	3,117	405	1,959	488	6,245
Transfers in/(out)	301	(170)	(301)	–	–	(170)
Disposals	–	–	–	(378)	(196)	(574)
Foreign currency conversion difference	–	(477)	–	(1)	(1)	(479)
As at 31 December 2020	13,526	8,127	2,314	8,247	4,789	37,003
Accumulated depreciation						
As at 1 January 2020	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Charge for the year	(402)	(223)	–	(578)	(448)	(1,651)
Transfer out	–	12	–	–	–	12
Disposals	–	–	–	372	169	541
Foreign currency conversion difference	–	37	–	1	1	39
As at 31 December 2020	(4,506)	(582)	–	(5,100)	(3,351)	(13,539)
Provision for impairment						
As at 1 January 2020	(159)	–	–	–	–	(159)
Charge for the year	(4)	–	–	–	–	(4)
As at 31 December 2020	(163)	–	–	–	–	(163)
Net book value						
As at 31 December 2020	8,857	7,545	2,314	3,147	1,438	23,301

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Property, plant and equipment (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	69	170	1,256	871	459	2,825
Transfers in/(out)	1,146	–	(1,146)	–	–	–
Disposals	(3)	(332)	–	(399)	(133)	(867)
Foreign currency conversion difference	–	94	–	–	–	94
As at 31 December 2019	12,949	5,657	2,210	6,667	4,498	31,981
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the year	(404)	(200)	–	(480)	(401)	(1,485)
Disposals	3	38	–	374	125	540
Foreign currency conversion difference	–	(6)	–	–	–	(6)
As at 31 December 2019	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 31 December 2019	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2019	8,686	5,249	2,210	1,772	1,425	19,342

Notes:

(i) *As at 31 December 2020, title deeds were not yet finalised for the premises with a carrying amount of RMB42 million (31 December 2019: RMB45 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 31 December 2020, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB7,545 million (31 December 2019: RMB5,249 million). As at the end of the year, part of the finance lease receivables was pledged for borrowings from banks. See Note V 25(a).*

The net book values of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	31 December 2020	31 December 2019
Held in Mainland China		
– Medium term leases (10 to 50 years)	8,547	8,454
– Short term leases (less than 10 years)	310	232
Total	8,857	8,686

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Right-of-use Assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2020	14,023	66	14,089
Additions	2,524	12	2,536
Charge for the year	(937)	(14)	(951)
Foreign currency conversion difference	(13)	–	(13)
As at 31 December 2020	15,597	64	15,661
Accumulated depreciation			
As at 1 January 2020	(2,388)	(17)	(2,405)
Charge for the year	(2,662)	(15)	(2,677)
Reduction for the year	548	9	557
Foreign currency conversion difference	1	–	1
As at 31 December 2020	(4,501)	(23)	(4,524)
Net book value			
As at 31 December 2020	11,096	41	11,137

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	2,557	8	2,565
Charge for the year	(303)	(3)	(306)
Foreign currency conversion difference	1	–	1
As at 31 December 2019	14,023	66	14,089
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(2,412)	(17)	(2,429)
Reduction for the year	24	–	24
As at 31 December 2019	(2,388)	(17)	(2,405)
Net book value			
As at 31 December 2019	11,635	49	11,684

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Goodwill

	31 December 2020	31 December 2019
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed the "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank's cash flow forecast is 12% (2019: 13%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

23 Deferred tax assets and liabilities

(a) Analysed by nature

	31 December 2020		31 December 2019	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	78,350	19,587	65,221	16,306
Deferred income tax liabilities	–	–	(6)	(1)
Total	78,350	19,587	65,215	16,305

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2020	14,664	(243)	1,884	16,305
Recognised in profit or loss	2,594	40	242	2,876
Recognised in other comprehensive income	66	340	–	406
31 December 2020	17,324	137	2,126	19,587

	Provision for impairment losses (Note (i))	Fair value changes of financial instruments (Note (ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Recognised in profit or loss	5,042	705	140	5,887
Recognised in other comprehensive income	(102)	(274)	–	(376)
31 December 2019	14,664	(243)	1,884	16,305

Notes:

(i) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*

(ii) *Fair value changes of financial instruments are subject to tax when realised.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Other assets

	Notes	31 December 2020	31 December 2019
Other receivables	(a)	30,903	24,288
Accrued interest		4,661	2,988
Intangible assets		2,160	1,646
Refundable Deposits		1,698	1,326
Long-term deferred expense		896	871
Property, plant and equipment purchase prepayment		703	795
Repossessed assets		390	478
Land use rights		89	88
Others		3,564	3,499
Total		45,064	35,979

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

25 Pledged assets

(a) Assets pledged as collateral

The Group's financial assets as collateral for liabilities include discounted bills, debt securities and property, plant and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks.The carrying amount of the financial assets pledged as securities as at 31 December 2020 is RMB79.936 billion (31 December 2019: RMB86.158 billion)

(b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2020. As at 31 December 2020, the Group's collateral received from banks and other financial institutions has expired (31 December 2019: Nil). As at 31 December 2020, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2019: Nil). These transactions are conducted under standard terms in the normal course of business.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Due to the central bank

	31 December 2020	31 December 2019
Due to the central bank	238,751	221,480
Accrued interest	2,359	3,358
Total	241,110	224,838

27 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Deposits in Mainland China		
– Banks	149,996	170,505
– Other financial institutions	317,300	269,224
Deposits outside Mainland China		
– Banks	226	1,836
Subtotal	467,522	441,565
Accrued interest	1,823	2,755
Total	469,345	444,320

28 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2020	31 December 2019
Placements in Mainland China		
– Banks	115,334	89,480
– Other financial institutions	1,004	1,004
Placements outside Mainland China		
– Banks	45,072	74,625
Subtotal	161,410	165,109
Accrued interest	469	1,116
Total	161,879	166,225

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Financial liabilities at fair value through profit or loss

	31 December 2020	31 December 2019
Short position in debt securities	4	100
Total	4	100

30 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2020	31 December 2019
In Mainland China		
– Banks	7,047	23,064
– Other financial institutions	930	–
Outside Mainland China		
– Banks	5,895	2,390
– Other financial institutions	298	131
Subtotal	14,170	25,585
Accrued interest	12	18
Total	14,182	25,603

(b) Analysed by collateral

	31 December 2020	31 December 2019
Debt securities	9,958	14,771
Bank acceptances	4,212	10,814
Subtotal	14,170	25,585
Accrued interest	12	18
Total	14,182	25,603

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Deposits from customers

	31 December 2020	31 December 2019
Demand deposits		
– Corporate customers	850,381	783,859
– Individual customers	274,087	217,892
Subtotal	1,124,468	1,001,751
Time deposits		
– Corporate customers	1,530,885	1,262,657
– Individual customers	526,723	466,413
Subtotal	2,057,608	1,729,070
Pledged deposits	251,964	232,522
Other deposits	3,182	21,682
Subtotal deposits from customers	3,437,222	2,985,025
Accrued interest	43,445	32,863
Total	3,480,667	3,017,888

32 Accrued staff costs

	Notes	31 December 2020	31 December 2019
Salary and welfare payable	(a)	12,626	11,929
Pension payable	(b)	1,310	620
Supplementary retirement benefits payable	(c)	1,233	1,118
Total		15,169	13,667

Notes:

(a) List of salary and welfare payable

As at 31 December 2020, the group reclassified salary and welfare payable and restated the comparative figures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32 Accrued staff costs (continued)

Notes: (continued)

(b) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(c) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Wills Towers Watson Management Consulting (Shenzhen) Co.,Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2020	31 December 2019
Present value of supplementary retirement benefits liability	1,233	1,118

(ii) Movements of SRB of the Group are as follows:

	2020	2019
As at 1 January 2020	1,118	843
Current service costs	110	77
Interest costs	44	33
Recalculation part of the defined benefit plan	(22)	180
Payments made	(17)	(15)
As at 31 December 2020	1,233	1,118

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 40.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32 Accrued staff costs (continued)

Notes: (continued)

(c) Supplementary retirement benefits ("SRB") (continued)

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December 2020	31 December 2019
Discount rate	4.00%	4.00%
Medical cost trend rate	6.00%	5.88%
Average expected future lifetime	22.80	22.80

As at 31 December 2020 and 31 December 2019, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

(iv) Sensitivity analysis:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2020	
	Increases	Decreases
Discount rate (1% movement)	(575)	631
Medical cost trend rate (1% movement)	653	(461)

	31 December 2019	
	Increases	Decreases
Discount rate (1% movement)	(301)	330
Medical cost trend rate (1% movement)	356	(251)

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (b) and (c) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Taxes payable

	31 December 2020	31 December 2019
Income tax payable	5,617	6,446
Value added tax payable	2,705	2,446
Others	450	430
Total	8,772	9,322

34 Lease liabilities

	31 December 2020	31 December 2019
Within 1 year (inclusive)	2,636	2,611
1 year to 2 years (inclusive)	2,305	2,283
2 years to 3 years (inclusive)	1,893	1,937
3 years to 5 years (inclusive)	2,601	2,711
More than 5 years	2,916	3,292
Total undiscounted lease liabilities	12,351	12,834
Lease liabilities	10,762	11,069

35 Debt securities issued

	Notes	31 December 2020	31 December 2019
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	5,795	55,782
Tier-two capital bonds issued	(c)	41,430	39,983
Convertible bonds issued	(d)	22,884	27,547
Interbank deposits issued	(e)	313,045	199,057
Certificates of deposit issued	(f)	31,762	19,249
Medium term notes	(g)	17,412	20,428
Subtotal		439,028	368,746
Accrued interest		1,842	3,158
Total		440,870	371,904

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(a) Subordinated debts issued

	Notes	31 December 2020	31 December 2019
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) *Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.*

(ii) *As at 31 December 2020, the fair value of the total subordinated debts issued approximated to RMB6,871 million (31 December 2019: RMB6,998 million).*

(b) Financial bonds issued

	Notes	31 December 2020	31 December 2019
Financial fixed rate bonds maturing in February 2020	(i)	–	27,999
Financial fixed rate bonds maturing in July 2020	(ii)	–	21,995
Financial fixed rate bonds maturing in November 2021	(iii)	4,996	4,990
Financial fixed rate bonds maturing in January 2022	(iv)	799	798
Total		5,795	55,782

Notes:

(i) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(ii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iii) *Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.*

(iv) *Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.*

(v) *As at 31 December 2020, the fair value of the total financial bonds issued approximated to RMB5,840 million (31 December 2019: RMB56,058 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(c) Tier-two capital bonds issued

	Notes	31 December 2020	31 December 2019
Tier-two capital fixed rate bonds maturing in March 2027	(i)	27,990	27,988
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	11,995	11,995
Tier-two capital fixed rate bonds maturing in September 2030	(iii)	1,445	–
Total		41,430	39,983

Notes:

(i) *Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.*

(ii) *Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.*

(iii) *Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 15 September 2025 at the nominal amount.*

(iv) *As at 31 December 2020, the fair value of the total tier-two capital bonds issued approximated to RMB41,935 million (31 December 2019: RMB40,935 million).*

(d) Convertible bonds issued

	31 December 2020	31 December 2019
Fixed rate six years convertible bonds issued in March 2017	22,884	27,547

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V 38	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2020		2,786	–	2,786
Accumulated conversion amount as at 1 January 2020		(1)	–	(1)
Balance as at 1 January 2020		27,547	5,161	32,708
Amortisation during the year		783	–	783
Conversion amount during the year	(iv)	(5,446)	(998)	(6,444)
Balance as at 31 December 2020		22,884	4,163	27,047

Notes:

(i) *Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the year ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including interest for the sixth year.*

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2020, the conversion price is RMB3.76 per share.*

(iv) *As at 31 December 2020, a total of RMB5,801million (31 December 2019: RMB965,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 1,542,813,979 shares (31 December 2019: 228,101 shares).*

(v) *In 2020, a total of RMB300 million interests on the convertible bonds has been paid by the Bank (2019: RMB150 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(e) Interbank deposits issued

In 2020, 329 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB508,600 million (2019: RMB216,490 million). The carrying amount of interbank deposits due in 2020 was RMB392,400 million (2019: RMB285,690 million). As at 31 December 2020, the fair value of its outstanding interbank deposits issued was RMB310,619 million (31 December 2019: RMB196,493 million).

(f) Certificates of deposit issued

As at 31 December 2020, the certificates of deposit were issued by the Bank's Hong Kong branch, Seoul branchm, Sydney branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

(g) Medium term notes

	Notes	31 December 2020	31 December 2019
Medium term notes with fixed rate maturing in 8 March 2020	(i)	–	3,472
Medium term notes with floating rate maturing in 13 June 2020	(ii)	–	3,484
Medium term notes with floating rate maturing in 13 June 2021	(iii)	2,407	2,342
Medium term notes with floating rate maturing in 13 June 2021	(iv)	1,958	2,091
Medium term notes with floating rate maturing in 19 September 2021	(v)	1,958	2,083
Medium term notes with floating rate maturing in 24 June 2022	(vi)	3,262	3,484
Medium term notes with floating rate maturing in 11 December 2022	(vii)	3,262	3,472
Medium term notes with floating rate maturing in 3 August 2023	(viii)	4,565	–
Total		17,412	20,428

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(g) Medium term notes (continued)

Notes:

(i) *Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.*

(ii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.*

(iii) *Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.*

(iv) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.*

(v) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.*

(vi) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.*

(vii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.*

(viii) *Floating rate medium term notes of USD700 million with a term of three years were issued by the Bank's Hong Kong branch on 27 July 2020. The initial coupon rate is 1.10% per annum.*

(ix) *As at 31 December 2020, the fair value of the medium term notes approximated to RMB17,432 million(31 December 2019:RMB20,478 million)*

36 Other liabilities

	Notes	31 December 2020	31 December 2019
Deferred income	(a)	5,222	6,710
Bank loans	(b)	14,302	17,597
Finance leases payable		6,034	4,876
Provisions	(c)	4,280	2,751
Payment and collection clearance accounts		3,364	1,761
Dormant accounts		421	354
Dividend payables		21	21
Others		10,930	14,478
Total		44,574	48,548

Notes:

(a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*

(b) *As at 31 December 2020, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loans is RMB14,302 million (31 December 2019: RMB17,597 million).*

(c) *As at 31 December 2020, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB126 million (31 December 2019: RMB255 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Share capital

The Bank's shareholding structure as at the end of the reporting year is as follows:

	31 December 2020	31 December 2019
Ordinary shares listed in Mainland China (A share)	41,353	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	54,032	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

38 Other equity instruments

	Note V	31 December 2020	31 December 2019
Preference shares (Notes (a), (b), (c), (e))		64,906	64,906
Equity of convertible bonds	35 (d)	4,163	5,161
Perpetual bonds (Notes (d), (e))		39,993	–
Total		109,062	70,067

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion triggering events
Everbright P3					
2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
Subtotal				65,000	
Less:					
Issuing costs				(94)	
Book value				64,906	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(b) Main clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than to the ordinary shareholders.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Triggering Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

Upon the occurrence of a non-viability triggering event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(b) Main clauses (continued)

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant year.

(c) Changes in preference shares outstanding

	1 January 2020		Additions for the year		31 December 2020	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

	1 January 2019		Additions for the year		31 December 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	350	34,959	650	64,906

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instrument (continued)

(d) Main clauses of perpetual bonds

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the "Bonds") which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the above bonds.

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier one capital and to increase its capital adequacy ratio.

(e) Interests attributable to equity instruments' holders

Items	31 December 2020	31 December 2019
Total equity attributable to equity shareholders of the Bank	453,449	384,982
– Equity attributable to ordinary shareholders of the Bank	348,550	320,076
– Equity attributable to preference shareholders of the Bank	64,906	64,906
– Equity attributable to Perpetual bonds of the Bank	39,993	–
Total equity attributable to non- controlling interests	1,549	1,072
– Equity attributable to non-controlling interests of ordinary shares	1,549	1,072
– Equity attributable to non-controlling interests of preference shares	–	–
– Equity attributable to non-controlling interests Perpetual bonds	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Capital reserve

	31 December 2020	31 December 2019
Share premium	58,434	53,533

40 Other comprehensive income

	31 December 2020	31 December 2019
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	16	14
Remeasurement of a defined benefit plan	(281)	(303)
Subtotal	(265)	(289)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	1,739	2,959
– Net change in fair value	928	1,998
– Net change in expected credit loss	811	961
Exchange differences on translation of financial statements	(81)	67
Subtotal	1,658	3,026
Total	1,393	2,737

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the previous year	904	307	4	47	(180)	1,082
As at 1 January 2020	1,998	961	14	67	(303)	2,737
Changes in amount for the year	(1,070)	(150)	2	(148)	22	(1,344)
As at 31 December 2020	928	811	16	(81)	(281)	1,393

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

42 Appropriation of profits

(a) At the Board Meeting held on 26 March 2021, the Board of Directors approved the following profit appropriations for the year ended 31 December 2020:

- The accumulated amount of withdrawal has reached 50% of the Bank registered capital; According to the relevant terms of the company law, the surplus reserve can no longer be withdrawn in this profit distribution;
- Appropriated RMB7,492 million to general reserve;
- The 2021 annual dividend of RMB1,680 million should be paid to the Third preference shareholders in cash dividend RMB4.80 per share before tax base on the copon dividend yield of 4.8%; and
- Declared cash dividends of RMB11,347 million to all ordinary shareholders of 54,032 million shares as at 31 December 2020, representing RMB2.10 per 10 shares before tax.

(b) At the Annual General Meeting of shareholders held on 5 June 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019:

- Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated amount of withdrawal has reached 50% of the Bank's registered capital;
- Appropriated RMB5,380 million to general reserve; and
- Declared cash dividends of RMB11,233 million to all ordinary shareholders' shares, representing RMB2.14 per 10 shares before tax.

(c) At the Board Meeting held on 27 March 2020, the dividend distribution of the Everbright P3 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB769 million before tax, representing RMB2.20 per share before tax, accruing from 18 July 2019, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Appropriation of profits (continued)

(d) At the Board Meeting held on 5 June 2020, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB1,060 million before tax, representing RMB5.30 per share before tax, accruing from 25 June 2019, and are calculated using 5.30% of dividend yield ratio for the Everbright P1.

(e) At the Board Meeting held on 30 July 2020, the dividend distribution of the Everbright P2 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB390 million before tax, representing RMB3.90 per share before tax, accruing from 13 August 2019, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

43 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2020		31 December 2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	211,085	211,085	159,760	159,760
– Asset management plans	30,282	30,282	18,686	18,686
Financial investments measured at amortised cost				
– Asset management plans	205,206	205,206	256,569	256,569
– Asset-backed securities	149,205	149,205	119,439	119,439
Total	595,778	595,778	554,454	554,454

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2020, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

As at 31 December 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB836,273 million (31 December 2019: RMB778,837 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2020 but matured before 31 December 2020 was PMB200 million (2019: RMB771 million).

In 2020, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB2,518 million (2019: RMB634 million).

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. As at 31 December 2020, the balance of above transactions was Nil (31 December 2019: RMB9,106 million, included in "placements with banks and other financial institutions"). In 2020, the amount of interest receivables from the above financing transactions was not material for the Group in the statement of profit or loss.

In addition, please refer to Note V 44 for the interests in the unconsolidated structured entities of asset securitization transactions held by the Group as at 31 December 2020. In 2020, the Group's income from these structured entities was immaterial.

In July 2020, the regulatory authorities made a decision on extending the transition period for the Guiding Opinions on Regulating Asset Management Business of Financial Institutions to the end of 2021 and encouraged orderly disposal of legacy assets in a variety of ways such as undertaking by new wealth management products, market-based transfer, and transferring assets back to the statement of financial position. According to the regulatory requirements, the Group has promoted the disposal of the legacy wealth management business in a pragmatic, efficient, actively and orderly way in order to achieve a smooth transition and stable development of the wealth management business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Involvement with structured entities (continued)

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

44 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases, these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was Nil as at 31 December 2020 (31 December 2019: RMB13 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2020, the Group has no continuing involvement in credit asset-backed securities (31 December 2019: Nil).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Transferred financial assets(continued)

Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2020, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2020, loans with an original carrying amount of RMB1,998 million (31 December 2019: RMB2,590 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2020, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2019: RMB614 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the reporting year, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements are as follows:

	31 December 2020	31 December 2019
Total common equity tier-one capital	349,479	320,793
Share capital	54,032	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	63,990	61,431
Surplus reserve	26,245	26,245
General reserve	67,702	59,417
Retained earnings	136,581	120,494
Qualifying portions of non-controlling interests	929	717
Common equity tier-one capital deductions	(3,457)	(2,930)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(2,160)	(1,646)
Net deferred tax assets arising from operating losses that depend on future profits	(16)	(3)
Net common equity tier-one capital	346,022	317,863
Additional tier-one capital	105,023	65,002
Additional tier-one capital instruments	104,899	64,906
Qualifying portions of non-controlling interests	124	96
Tier-one capital net	451,045	382,865
Tier-two capital	82,485	82,640
Qualifying portions of tier-two capital instruments issued and share premium	44,525	46,683
Excess loan loss provisions	36,566	35,766
Qualifying portions of non-controlling interests	1,394	191
Net capital base	533,530	465,505
Total risk-weighted assets	3,837,489	3,456,054
Common equity tier-one capital adequacy ratio	9.02%	9.20%
Tier-one capital adequacy ratio	11.75%	11.08%
Capital adequacy ratio	13.90%	13.47%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	31 December 2020	31 December 2019
Cash and cash equivalents as at 31 December	145,076	117,499
Less: Cash and cash equivalents as at 1 January	117,499	187,680
Net increase/(decrease) in cash and cash equivalents	27,577	(70,181)

(b) Cash and cash equivalents

	31 December 2020	31 December 2019
Cash on hand	4,471	4,355
Deposits with the central bank	56,132	57,546
Deposits with banks and other financial institutions	40,483	26,581
Placements with banks and other financial institutions	43,990	29,017
Total	145,076	117,499

47 Related party relationships and transactions

(a) Related parity relationships

(i) The ultimate parent company and its subsidiaries

The ultimate parent of the Group is China Investment Corporation set up in China.

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through the China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year. The amount and balance of related parties and transactions between the group and the ultimate parent company and its subsidiaries are listed in Note V 47(b).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(ii) Affiliated companies

The immediate parent of the Group is China Everbright Group Ltd. ("China Everbright Group"). The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note V 47(b).

The affiliated companies that have related party transactions with the Group are as follows:

Related party

– China Everbright Limited (Everbright Limited)
– Everbright Securities Co., Ltd. (Everbright Secrities)
– China Everbright Group Limited
– China Everbright industry (Group) Co., Ltd
– Everbright Financial Holdings Asset Management Co., Ltd
– Everbright Life Insurance Co., Ltd
– Everbright Xinglong Trust Co., Ltd
– Everbright Prudential Fund Management Co., Ltd
– Everbright Futures Co., Ltd
– Everbright Fortune Investment Co., Ltd
– Everbright Capital Investment Co., Ltd
– Everbright happiness International Leasing Co., Ltd
– Everbright Yongming Asset Management Co., Ltd
– China Everbright international Trust and Investment Corporation
– Everbright Jinou Asset Management Co., Ltd
– Everbright Securities Financial Holding Co., Ltd
– China CYTS Group Corporation
– Cachet Pharmaceutical Co., Ltd
– Everbright Technology Co., Ltd
– Everbright happiness international commercial factoring Co., Ltd
– Everbright sunshine Asset Management Co., Ltd
– Hangzhou Jinou Asset Management Co., Ltd
– Guokaitai Industrial Development Co., Ltd
– Zhongqing Chuangyi Investment Management Co., Ltd
– Shenzhen Qianhai Everbright Investment Management Co., Ltd
– Everbright Securities Asset Management Co., Ltd
– Guanghang No. 2 (Tianjin) Leasing Co., Ltd
– Beijing Everbright Jinhui 360 Investment Management Center
– Everbright tesilian (Beijing) Culture Technology Co., Ltd
– Everbright photonics Investment Management Co., Ltd
– Guanghang No. 1 (Tianjin) Leasing Co., Ltd
– Shanghai Guiyun Asset Management Co., Ltd
– China Everbright pension Health Industry Co., Ltd
– Everbright Cultural Investment Co., Ltd
– Everbright Development Investment Co., Ltd
– Everbright Cloud Payment Technology Co., Ltd
– Beijing Everbright Huichen Pension Service Co., Ltd

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(a) Related parity relationships (continued)

(iii) Other related parties

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, and shareholders holding more than 5% shares of the Group.

The other related parties that have related party transactions with the Group are as follows:

Other related parties
– Overseas Chinese Town Holding Company
– China Shipping (Group) Company
– Orient Securities Co., Ltd. Henan Zhongyuan Chemical Co., Ltd
– Jilin TuoCheng Construction Engineering Co., Ltd
– China UnionPay Co., Ltd
– Orient Securities Co., Ltd
– Konka Group Co., Ltd
– China Pacific Property Insurance Co., Ltd
– China Pacific Life Insurance Co., Ltd
– Shenergy Group Co., Ltd.
– COSCO Shipping Development Co., Ltd
– China Ocean Shipping Group Co., Ltd
– Shenneng (Group) Co., Ltd
– Bohai Securities Co., Ltd
– Shanghai gas (Group) Co., Ltd
– China Marine Fuel Co., Ltd
– Shenzhen weipin Zhiyuan Information Technology Co., Ltd
– Shanghai Zhongbo Enterprise Management Development Co., Ltd
– Shanghai Insurance Exchange Co., Ltd
– Beijing Jingneng clean energy power Co., Ltd
– Shijiazhuang Hualin Food Co., Ltd
– Zhengzhou Chemical Light Industry Co.,Ltd
– China Eastern Airlines Group Co., Ltd
– Huadian Fuxin Energy Co., Ltd
– Fujian Bofang Technology Co., Ltd
– China Cinda Asset Management Co., Ltd
– Zhongke Zhiyuan Technology Co., Ltd
– Shanghai international port (Group) Co., Ltd
– CYTS Holding Co., Ltd

The amount and balance of transactions between the Group and other related parties are shown in Notes V 47(b).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions

(i) The ultimate parent company and its subsidiaries

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	2020	2019
Interest income	1,521	1,051
Interest expense	(3,411)	(3,548)

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	31 December 2020	31 December 2019
Deposits with banks and other financial institutions	13,098	9,552
Precious metals	–	51
Placements with banks and other financial institutions	22,233	13,909
Derivative financial assets	7,047	3,764
Financial assets held under resale agreements	15,505	997
Loans and advances to customers	2,599	694
Financial investments	221,493	170,418
Financial assets at fair value through profit or loss	56,471	36,270
Debt instruments at fair value through other comprehensive income	39,852	27,611
Financial investments measured at amortised cost	125,170	106,537
Other assets	3,548	419
Deposits from banks and other financial institutions	98,208	81,621
Placements from banks and other financial institutions	56,025	70,629
Derivative financial liabilities	9,072	3,678
Financial assets sold under repurchase agreements	6,523	2,970
Deposits from customers	51,476	14,586
Other liabilities	249	30

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(ii) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows:

	China Everbright Group (Note V 47(a))	Affiliated companies	Others	Total
Transactions with related parties for year ended 31 December 2020:				
Interest income	–	422	1,242	1,664
Interest expense	(127)	(339)	(444)	(910)
Balances with related parties as at 31 December 2020:				
Placements with banks and other financial institutions	–	3,200	1,000	4,200
Derivative financial assets	–	–	21	21
Financial assets held under resale agreements	–	385	1,900	2,285
Loans and advances to customers	–	5,523	15,356	20,879
Financial investments	105	40,613	2,948	43,666
Financial assets at fair value through profit or loss	–	8,527	1,982	10,509
Debt instruments at fair value through other comprehensive income	105	40	213	358
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	32,046	655	32,701
Other assets	–	5	2,633	2,638
Total	105	49,726	23,858	73,689
Deposits from banks and other financial institutions	–	17,173	9,769	26,942
Derivative financial liabilities	–	–	23	23
Deposits from customers	4,284	9,815	39,412	53,511
Total	4,284	26,988	49,204	80,476
Significant other sheet items with related parties as at 31 December 2020:				
Guarantee granted (Note)	180	–	–	180

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows: (continued)

	China Everbright Group (Note V 47(a))	Affiliated companies	Others	Total
Transactions with related parties for the year ended 31 December 2019:				
Interest income	–	533	501	1,034
Interest expense	(159)	(371)	(331)	(861)
Balances with related parties as at 31 December 2019:				
Placements with banks and other financial institutions	–	508	2,002	2,510
Derivative financial assets	–	–	12	12
Loans and advances to customers	–	7,251	9,064	16,315
Financial investment	178	8,112	98	8,388
Financial assets at fair value through profit or loss	–	7,727	–	7,727
Debt instruments at fair value through other comprehensive income	178	385	–	563
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	113,480	256	113,736
Other assets	–	3,261	–	3,261
Total	178	132,612	11,432	144,222
Deposits from banks and other financial institutions	–	3,147	1,528	4,675
Derivative financial liabilities	–	–	11	11
Deposits from customers	4,652	15,696	35,638	55,986
Other liabilities	–	693	167	860
Total	4,652	19,536	37,344	61,532
Significant other sheet items with related parties as at 31 December 2019:				
Guarantee granted (Note)	180	–	–	180

Note: As at 31 December 2020, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2019: RMB180 million) due to one of the state-owned commercial banks.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iv) Remuneration of directors, supervisors and senior management

	2020 RMB'000	2019 RMB'000
Remuneration	30,687	30,970
Retirement benefits	1,015	1,037
– Basic social pension insurance	486	567

The total compensation packages for senior management of the Group for the year ended 31 December 2020 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2020 financial statements.

(v) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	8,708	8,867
Maximum aggregate amount of relevant loans outstanding during the year	8,738	8,994

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Statement of financial position of the Bank

	Note V	31 December 2020	31 December 2019
Assets			
Cash and deposits with the central bank		360,131	364,184
Deposits with banks and other financial institutions		40,231	28,648
Precious metals		9,353	10,826
Placements with banks and other financial institutions		74,769	60,466
Derivative financial assets		25,262	13,754
Financial assets held under resale agreements		43,587	6,709
Loans and advances to customers		2,939,071	2,642,764
Financial investments		1,658,026	1,425,223
– Financial assets at fair value through profit or loss		299,768	207,634
– Debt instruments at fair value through other comprehensive income		216,324	175,565
– Equity instruments at fair value through other comprehensive income		870	618
– Financial investments measured at amortised cost		1,141,064	1,041,406
Investment in subsidiaries	19	12,983	12,383
Property, plant and equipment		15,698	14,041
Right-of-use assets		11,096	11,599
Goodwill		1,281	1,281
Deferred tax assets		18,444	15,446
Other assets		43,593	34,243
Total assets		5,253,525	4,641,567

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Statement of financial position of the Bank (continued)

	31 December 2020	31 December 2019
Liabilities and equity		
Liabilities		
Due to the central bank	241,059	224,758
Deposits from banks and other financial institutions	473,926	450,716
Placements from banks and other financial institutions	89,948	108,045
Derivative financial liabilities	25,694	13,821
Financial assets sold under repurchase agreements	10,115	24,542
Deposits from customers	3,478,730	3,016,555
Accrued staff costs	14,874	13,494
Taxes payable	7,708	8,729
Lease liabilities	10,723	10,986
Debts securities issued	433,749	366,061
Other liabilities	18,698	22,558
Total liabilities	4,805,224	4,260,265
Equity		
Share capital	54,032	52,489
Other equity instrument	109,062	70,067
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	–
Capital reserve	58,434	53,533
Other comprehensive income	1,509	2,617
Surplus reserve	26,245	26,245
General reserve	66,015	58,523
Retained earnings	133,004	117,828
Total equity	448,301	381,302
Total liabilities and equity	5,253,525	4,641,567

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities

	2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	22,059	57,769	30,869	–	110,697
Internal net interest income/ (expense)	29,615	(15,583)	(14,032)	–	–
Net interest income	51,674	42,186	16,837	–	110,697
Net fee and commission income	6,929	16,331	1,063	–	24,323
Net trading gains	–	–	484	–	484
Dividend income	–	–	1	14	15
Net (losses)/gains arising from investment securities	(56)	7	5,225	27	5,203
Net gains on derecognition of financial assets measured at amortised cost	–	–	591	–	591
Foreign exchange gains/(losses)	268	69	(27)	–	310
Other net operating income	818	85	51	128	1,082
Operating income	59,633	58,678	24,225	169	142,705
Operating expenses	(16,312)	(22,115)	(1,676)	(168)	(40,271)
Credit impairment losses	(22,497)	(33,617)	(619)	–	(56,733)
Other impairment losses	(205)	11	(5)	–	(199)
Losses on investments of joint ventures	–	–	–	(5)	(5)
Profit before tax	20,619	2,957	21,925	(4)	45,497
Other segment information					
– Depreciation and amortisation	2,377	2,583	204	–	5,164
– Capital expenditure	2,675	3,921	264	–	6,860

	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,135,482	1,409,348	1,801,709	703	5,347,242
Segment liabilities	2,755,106	859,093	1,295,799	3,093	4,913,091

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	25,445	55,890	20,583	–	101,918
Internal net interest income/ (expense)	21,510	(17,459)	(4,051)	–	–
Net interest income	46,955	38,431	16,532	–	101,918
Net fee and commission income	6,100	16,115	954	–	23,169
Net trading gains	–	–	585	–	585
Dividend income	–	–	–	42	42
Net (losses)/gains arising from Investment securities	(862)	6	5,638	96	4,878
Net gains on derecognition of financial assets measured at amortised cost	–	–	22	–	22
Foreign exchange gains	297	75	967	–	1,339
Other net operating income	785	56	67	78	986
Operating income	53,275	54,683	24,765	216	132,939
Operating expenses	(15,703)	(20,465)	(2,136)	(125)	(38,429)
Credit impairment losses	(20,562)	(28,306)	(97)	–	(48,965)
Other impairment losses	(340)	(15)	–	(27)	(382)
Profit before tax	16,670	5,897	22,532	64	45,163
Other segment information					
– Depreciation and amortisation	2,072	2,360	232	–	4,664
– Capital expenditure	2,284	1,976	188	–	4,448

	31 December 2019				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,938,565	1,276,983	1,499,765	531	4,715,844
Segment liabilities	2,405,750	779,244	1,157,929	4,432	4,347,355

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2020	31 December 2019
Segment assets		5,347,242	4,715,844
Goodwill	22	1,281	1,281
Deferred tax assets	23	19,587	16,306
Total assets		5,368,110	4,733,431
Segment liabilities		4,913,091	4,347,355
Dividend payables	36	21	21
Deferred tax liabilities		–	1
Total liabilities		4,913,112	4,347,377

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include Property, plant and equipment, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

– "Central" refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(b) Geographical information (continued)

– "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

– "Overseas" refers to the areas serviced by the following subsidiaries and branches of the Bank: Hong Kong, Seoul, Luxembourg, Sydney; and

– "Head Office" refers to the head office of the Bank.

	Operating Income								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Head Office	Overseas	Total
2020	27,558	19,917	23,186	24,855	17,214	6,042	21,384	2,549	142,705
2019	23,837	18,419	20,936	22,031	15,912	6,638	22,908	2,258	132,939

	Non-current Asset (Note(i))								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Head Office	Overseas	Total
31 December 2020	3,813	2,968	3,410	11,137	3,077	1,393	10,395	494	36,687
31 December 2019	3,729	3,244	3,782	8,568	2,843	1,539	8,489	566	32,760

Note:

(i) Including property, plant and equipment, right-of-use assets, intangible assets and land use rights.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Investment Banking Department, Inclusive Finance Department, Credit Card Centre and Retail and Wealth Management Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution".

– The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardized review and approval policies and process in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loans.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

Treasury business

The Group implemented differentiated risk access standards of investments, and ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group has set credit risk limits for different counterparties, taking into consideration factors including industries, single borrowers and ratings. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement

Measurement of ECL
The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of the each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money;

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk

- Definition of credit-impaired financial asset

- Parameters for measuring ECL

- Forward-looking information

- Management overlay

- Modification of contract cash flows

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk
The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtors' operation or financial status

- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes to the impact of COVID-19 on these borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition. For borrowers who applied for temporary deferral of principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group did not consider these support measures as triggers of a significant increase in credit risk.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk
The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement
According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments.) and forward-looking information in order to establish the model of PD, LGD and EAD.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Parameters of ECL measurement (continued)
Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information
The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI, investment in property, plant and equipment.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Forward-looking information (continued)
In 2020, the key assumptions the Group has taken include the GDP growth rate, the CPI growth rate, the investment in property, plant and equipment growth rate.

- The GDP growth rate: the predicted value under the base economic scenario during the year of 2021 is 7.20%, the optimistic and pessimistic scenarios will fluctuate up and down 2.29 pct. on the basis of the predicted value in baseline scenario;

- The CPI growth rate: the predicted value under the base economic scenario during the year of 2021 is 3.25%, the optimistic and pessimistic scenarios will fluctuate up and down 1.94 pct. on the basis of the predicted value in baseline scenario;

- The investment in property, plant and equipment growth rate: the predicted value under the base economic scenario during the year of 2021 is 4.00%, the optimistic and pessimistic scenarios will fluctuate up and down 8.58 pct. on the basis of the predicted value in baseline scenario;

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario. The Group adjusted the weight of the pessimistic scenarios, with comprehensive consideration of the impact of the COVID-19 epidemic and other factors on the economic development trend.

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Management overlay
The business failure or default has not appeared given the deferral of loan payments offered to borrowers, and therefore, the potential risks arising from the COVID-19 epidemic may not yet be fully captured by the ECL model. The ECL allowance would reflect the ECL through management overlays by adjusting parameters on a disrupted portfolio basis.

Modification of contractual cash flows
A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1 and the impairment allowance is measured at an amount equal to the 12-months ECL instead of the lifetime ECL.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note V 53(a).

	31 December 2020				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	360,287	–	–	–	360,287
Deposits with banks and other financial institutions	46,059	–	–	–	46,059
Placements with banks and other financial institutions	69,140	–	150	–	69,290
Financial assets held under resale agreements	43,592	–	–	–	43,592
Loans and advances to customers	2,812,466	105,109	24,860	–	2,942,435
Finance lease receivables	96,564	3,970	254	–	100,788
Financial investments	1,352,507	4,876	7,249	305,783	1,670,415
Others (Note)	33,530	–	–	25,264	58,794
Total	4,814,145	113,955	32,513	331,047	5,291,660

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	364,340	–	–	–	364,340
Deposits with banks and other financial institutions	31,358	–	–	–	31,358
Placements with banks and other financial institutions	60,000	270	–	–	60,270
Financial assets held under resale agreements	6,835	–	–	–	6,835
Loans and advances to customers	2,529,543	96,674	17,919	–	2,644,136
Finance lease receivables	80,839	2,869	15	–	83,723
Financial investments	1,215,372	1,375	4,770	212,029	1,433,546
Others (Note)	29,249	–	–	13,848	43,097
Total	4,317,536	101,188	22,704	225,877	4,667,305

Note: Others comprise precious metals (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2020	31 December 2019
Impaired		
Carrying amount	666	366
Provision for impairment losses	(516)	(366)
Subtotal	150	–
Overdue but not impaired		
– grade B to BBB	–	270
Subtotal	–	270
Neither overdue nor impaired		
– grade A to AAA	151,764	73,880
– grade B to BBB	1,123	5,879
– unrated (Note)	5,904	18,434
Subtotal	158,791	98,193
Total	158,941	98,463

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2020	31 December 2019
Impaired		
Carrying amount	1,904	1,662
Provision for impairment losses	(1,179)	(1,038)
Subtotal	725	624
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	24,208	1,033
– grade AA- to AA+	8,296	810
– grade A- to A+	31,773	25,497
– grade lower than A-	23,035	30,001
Subtotal	87,312	57,341
Other agency ratings		
– grade AAA	955,020	740,453
– grade AA- to AA+	105,717	63,240
– grade A- to A+	4,075	548
– grade lower than A-	2,508	2,119
– unrated	55,666	120,451
Subtotal	1,122,986	926,811
Total	1,211,023	984,776

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc.The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from gap risk, basis risk and trading interest rate risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value.The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

Gap risk
Gap risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of the repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

Basis risk
Basis risk, is caused by interest rates on different pricing basis on the on-and off- balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

Trading interest rate risk
Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year:

	31 December 2020						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.44%	360,287	16,919	343,368	–	–	–
Deposits with banks and other financial institutions	1.03%	46,059	59	45,301	699	–	–
Placements with banks and other financial institutions	1.81%	69,290	179	55,669	11,305	2,137	–
Financial assets held under resale agreements	1.90%	43,592	3	43,589	–	–	–
Loans and advances to customers	5.37%	2,942,435	29,462	2,277,700	564,325	67,246	3,702
Finance lease receivables	5.89%	100,788	1,381	21,375	51,532	19,700	6,800
Financial investments	4.00%	1,670,415	67,190	315,202	209,932	681,052	397,039
Others	–	135,244	131,989	–	–	–	3,255
Total assets	4.59%	5,368,110	247,182	3,102,204	837,793	770,135	410,796
Liabilities							
Due to the central bank	3.23%	241,110	2,359	20,303	218,448	–	–
Deposits from banks and other financial institutions	2.27%	469,345	1,824	296,698	170,823	–	–
Placements from banks and other financial institutions	2.29%	161,879	475	91,453	69,951	–	–
Financial assets sold under repurchase agreements	1.90%	14,182	12	10,216	3,505	449	–
Deposits from customers	2.30%	3,480,667	50,225	2,008,963	561,854	859,601	24
Debt securities issued	3.04%	440,870	1,842	125,872	265,672	799	46,685
Others	–	105,059	90,129	10,214	3,625	1,091	–
Total liabilities	2.39%	4,913,112	146,866	2,563,719	1,293,878	861,940	46,709
Asset-liability gap	2.20%	454,998	100,316	538,485	(456,085)	(91,805)	364,087

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year (continued):

	31 December 2019						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.46%	364,340	15,487	348,853	–	–	–
Deposits with banks and other financial institutions	1.73%	31,358	6	29,359	1,993	–	–
Placements with banks and other financial institutions	2.97%	60,270	213	42,793	16,775	489	–
Financial assets held under resale agreements	2.51%	6,835	8	6,827	–	–	–
Loans and advances to customers	5.64%	2,644,136	29,609	1,992,591	531,959	86,871	3,106
Finance lease receivables	5.78%	83,723	951	69,524	289	9,195	3,764
Financial investments	4.26%	1,433,546	67,851	234,363	201,092	599,514	330,726
Others	–	109,223	106,094	–	–	–	3,129
Total assets	4.76%	4,733,431	220,219	2,724,310	752,108	696,069	340,725
Liabilities							
Due to the central bank	3.34%	224,838	3,358	7,000	214,480	–	–
Deposits from banks and other financial institutions	2.89%	444,320	2,913	339,180	102,227	–	–
Placements from banks and other financial institutions	3.10%	166,225	1,122	98,731	66,372	–	–
Financial assets sold under repurchase agreements	2.22%	25,603	18	20,422	5,163	–	–
Deposits from customers	2.28%	3,017,888	34,570	1,867,333	645,265	470,708	12
Debt securities issued	3.69%	371,904	3,158	142,222	174,052	5,789	46,683
Others	–	96,599	76,614	12,735	4,195	3,048	7
Total liabilities	2.58%	4,347,377	121,753	2,487,623	1,211,754	479,545	46,702
Asset-liability gap	2.18%	386,054	98,466	236,687	(459,646)	216,524	294,023

* *The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2020, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB96 million (31 December 2019: decrease by RMB969 million), and equity to decrease by RMB5,603 million (31 December 2019: decrease by RMB5,039 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB125 million (31 December 2019: increase by RMB1,017 million), and equity to increase by RMB6,189 million (31 December 2019: increase by RMB5,316 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;

– An interest rate movement of one hundred basis points is based on the assumption of interest rate movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the portfolio of asset and liability;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2020			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	350,913	7,130	2,244	360,287
Deposits with banks and other financial institutions	24,342	15,547	6,170	46,059
Placements with banks and other financial institutions	24,169	37,239	7,882	69,290
Financial assets held under resale agreements	43,587	1	4	43,592
Loans and advances to customers	2,783,150	101,459	57,826	2,942,435
Financial lease receivables	99,987	801	–	100,788
Financial investments	1,571,828	76,004	22,583	1,670,415
Others	128,376	5,527	1,341	135,244
Total assets	5,026,352	243,708	98,050	5,368,110
Liabilities				
Due to the central bank	241,110	–	–	241,110
Deposits from banks and other financial institutions	467,908	1,162	275	469,345
Placements from banks and other financial institutions	73,335	69,320	19,224	161,879
Financial assets sold under repurchase agreements	7,977	2,603	3,602	14,182
Deposits from customers	3,299,893	144,010	36,764	3,480,667
Debt securities issued	391,668	43,604	5,598	440,870
Others	99,325	2,009	3,725	105,059
Total liabilities	4,581,216	262,708	69,188	4,913,112
Net position	445,136	(19,000)	28,862	454,998
Off-balance sheet credit commitments	1,420,403	42,432	13,711	1,476,546
Derivative financial instruments (Note)	7,129	19,193	(25,909)	413

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	353,625	10,258	457	364,340
Deposits with banks and other financial institutions	8,822	15,096	7,440	31,358
Placements with banks and other financial institutions	33,091	23,340	3,839	60,270
Financial assets held under resale agreements	6,708	127	–	6,835
Loans and advances to customers	2,488,590	100,219	55,327	2,644,136
Finance lease receivables	82,800	923	–	83,723
Financial investments	1,345,906	79,341	8,299	1,433,546
Others	98,151	10,053	1,019	109,223
Total assets	4,417,693	239,357	76,381	4,733,431
Liabilities				
Due to the central bank	224,838	–	–	224,838
Deposits from banks and other financial institutions	442,306	1,488	526	444,320
Placements from banks and other financial institutions	55,186	92,685	18,354	166,225
Financial assets sold under repurchase agreements	23,074	2,529	–	25,603
Deposits from customers	2,839,940	146,468	31,480	3,017,888
Debt securities issued	332,159	35,802	3,943	371,904
Others	86,763	7,987	1,849	96,599
Total liabilities	4,004,266	286,959	56,152	4,347,377
Net position	413,427	(47,602)	20,229	386,054
Off-balance sheet credit commitments	1,220,466	53,513	13,517	1,287,496
Derivative financial instruments (Note)	(28,453)	51,603	(17,294)	5,856

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2020	31 December 2019
Exchange rates against RMB for the HK dollar	0.8428	0.8949
Exchange rates against RMB for the US dollar	6.5337	6.9687

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2020, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB4 million (31 December 2019: increase by RMB7 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB4 million (31 December 2019: decrease by RMB7 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;

– At the end of the reporting year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;

– Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2020							
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	299,538	60,749	–	–	–	–	–	360,287
Deposits with banks and other financial institutions	–	40,161	1,100	4,098	700	–	–	46,059
Placements with banks and other financial institutions	150	–	45,942	9,673	11,351	2,174	–	69,290
Financial asset held under resale agreements	–	–	43,592	–	–	–	–	43,592
Loans and advances to customers	42,303	422,190	137,773	174,521	672,559	749,441	743,648	2,942,435
Finance lease receivables	197	67	3,382	4,918	18,663	62,723	10,838	100,788
Financial investments	21,283	214,456	45,807	49,441	210,493	717,712	411,223	1,670,415
Others	69,121	37,604	2,748	4,458	10,652	6,080	4,581	135,244
Total assets	432,592	775,227	280,344	247,109	924,418	1,538,130	1,170,290	5,368,110
Liabilities								
Due to the central bank	–	–	13,195	7,712	220,203	–	–	241,110
Deposits from banks and other financial institutions	–	154,114	70,330	72,828	172,073	–	–	469,345
Placements from banks and other financial institutions	–	6	44,194	47,445	70,234	–	–	161,879
Financial assets sold under repurchase agreements	–	–	7,132	3,093	3,508	449	–	14,182
Deposits from customers	–	1,303,947	289,829	447,446	568,955	870,466	24	3,480,667
Debt securities issued	–	–	5,450	81,580	270,937	34,772	48,131	440,870
Others	–	47,537	4,091	5,735	20,338	19,252	8,106	105,059
Total liabilities	–	1,505,604	434,221	665,839	1,326,248	924,939	56,261	4,913,112
Net position	432,592	(730,377)	(153,877)	(418,730)	(401,830)	613,191	1,114,029	454,998
Notional amount of derivative financial instruments	–	–	326,206	252,135	820,303	767,683	43,970	2,210,297

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2019							
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	301,750	62,590	–	–	–	–	–	364,340
Deposits with banks and other financial institutions	–	28,209	439	717	1,993	–	–	31,358
Placements with banks and other financial institutions	270	–	34,032	8,630	16,841	497	–	60,270
Financial asset held under resale agreements	–	–	6,835	–	–	–	–	6,835
Loans and advances to customers	33,760	409,336	162,556	132,922	635,142	612,104	658,316	2,644,136
Finance lease receivables	4	4	2,277	3,446	13,853	49,946	14,193	83,723
Financial investments	9,100	159,827	37,613	36,928	235,099	614,108	340,871	1,433,546
Others	63,610	28,678	2,015	2,765	5,698	3,325	3,132	109,223
Total assets	408,494	688,644	245,767	185,408	908,626	1,279,980	1,016,512	4,733,431
Liabilities								
Due to the central bank	–	–	7,210	–	217,628	–	–	224,838
Deposits from banks and other financial institutions	–	179,958	73,454	87,280	103,628	–	–	444,320
Placements from banks and other financial institutions	–	6	50,449	48,909	66,861	–	–	166,225
Financial assets sold under repurchase agreements	–	–	15,720	4,715	5,168	–	–	25,603
Deposits from customers	–	1,150,257	366,487	385,159	645,265	470,708	12	3,017,888
Debt securities issued	–	–	17,233	85,324	175,856	46,808	46,683	371,904
Others	–	41,076	8,245	3,294	18,649	20,388	4,947	96,599
Total liabilities	–	1,371,297	538,798	614,681	1,233,055	537,904	51,642	4,347,377
Net position	408,494	(682,653)	(293,031)	(429,273)	(324,429)	742,076	964,870	386,054
Notional amount of derivative financial instruments	–	–	404,966	378,775	1,314,045	673,700	3,640	2,775,126

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the year:

	31 December 2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	241,110	245,941	–	13,216	7,743	224,982	–	–
Deposits from banks and other financial institutions	469,345	473,815	154,386	70,407	73,938	175,084	–	–
Placements from banks and other financial institutions	161,879	164,280	6	44,239	47,871	72,164	–	–
Financial assets sold under repurchase agreements	14,182	14,205	–	7,132	3,099	3,523	451	–
Deposits from customers	3,480,667	3,527,109	1,303,948	294,044	454,407	578,814	895,866	30
Debt securities issued	440,870	469,431	–	6,838	85,830	272,371	51,483	52,909
Other financial liabilities	51,060	53,973	19,315	568	1,774	10,227	14,134	7,955
Total non-derivative financial liabilities	4,859,113	4,948,754	1,477,655	436,444	674,662	1,337,165	961,934	60,894
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(513)	–	2	(3)	(123)	(323)	(66)
Derivative financial instruments settled on gross basis								
– Cash inflow		1,076,507	–	301,281	213,938	514,515	5,694	41,079
– Cash outflow		(1,076,200)	–	(300,960)	(213,583)	(514,822)	(5,759)	(41,076)
Total derivative financial liabilities		307	–	321	355	(307)	(65)	3

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the year (continued):

	31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	224,838	228,879	–	7,224	–	221,655	–	–
Deposits from banks and other financial institutions	444,320	448,811	179,959	75,916	87,926	105,010	–	–
Placements from banks and other financial institutions	166,225	167,904	6	50,558	49,207	68,133	–	–
Financial assets sold under repurchase agreements	25,603	25,667	–	15,723	4,734	5,210	–	–
Deposits from customers	3,017,888	3,049,947	1,150,257	372,046	390,510	655,277	481,840	17
Debt securities issued	371,904	405,350	–	17,555	93,250	182,147	59,086	53,312
Other financial liabilities	76,519	79,880	21,059	8,237	3,298	19,361	21,857	6,068
Total non-derivative financial liabilities	4,327,297	4,406,438	1,351,281	547,259	628,925	1,256,793	562,783	59,397
Derivative financial liabilities								
Derivative financial instruments settled on net basis		327	–	17	108	158	44	–
Derivative financial instruments settled on gross basis								
– Cash inflow		1,388,726	–	363,750	307,177	704,146	13,653	–
– Cash outflow		(1,387,827)	–	(362,637)	(307,299)	(704,213)	(13,678)	–
Total derivative financial liabilities		899	–	1,113	(122)	(67)	(25)	–

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2020			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	348,503	1,159	2,334	351,996
Guarantees, acceptances and other credit commitments	1,074,877	48,265	1,408	1,124,550
Total	1,423,380	49,424	3,742	1,476,546

	31 December 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	312,090	5,474	6,179	323,743
Guarantees, acceptances and other credit commitments	912,051	51,355	347	963,753
Total	1,224,141	56,829	6,526	1,287,496

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the year.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Thomson Reuters' quoted price.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortised cost, except for debt securities investments, are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note V 18.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss, derivative financial liabilities and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of year:

	Carrying value		Fair value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Financial assets				
Debt securities investments measured at amortised cost	935,651	784,943	944,985	796,461
Financial liabilities				
Debt securities issued	440,870	371,904	440,017	371,869

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg, Thomsom Reuters and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated unlisted equity and derivative contracts with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	19,441	–	19,441
– Interest rate derivatives	–	5,819	2	5,821
– Credit derivatives	–	2	–	2
Loan and advances to customers	–	98,211	–	98,211
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,391	28,649	–	33,040
– Financial assets designated at fair value through profit or loss	–	–	1	1
– Other financial assets at fair value through profit or loss	213,781	47,723	10,363	271,867
Debt instruments at fair value through other comprehensive income	51,111	171,696	–	222,807
Equity instruments at fair value through other comprehensive income	23	–	852	875
Precious metals	35	–	–	35
Total	269,341	371,541	11,218	652,100
Liabilities				
Financial liabilities at fair value through profit or loss	4	–	–	4
Derivative financial liabilities				
– Currency derivatives	–	19,355	–	19,355
– Interest rate derivatives	–	6,338	2	6,340
– Credit derivatives	–	83	–	83
Total	4	25,776	2	25,782

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,104	–	10,104
– Interest rate derivatives	–	3,653	2	3,655
– Credit derivatives	–	46	–	46
Loans and advances to customers	–	90,578	–	90,578
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,716	13,886	–	18,602
– Financial assets designated at fair value through profit or loss	–	–	4	4
– Other financial assets at fair value through profit or loss	164,806	23,964	4,030	192,800
Debt instruments at fair value through other comprehensive income	43,527	136,478	–	180,005
Equity instruments at fair value through other comprehensive income	21	–	602	623
Precious metals	43	–	–	43
Total	213,113	278,709	4,638	496,460
Liabilities				
Financial liabilities at fair value through profit or loss	100	–	–	100
Derivative financial liabilities				
– Currency derivatives	–	10,140	–	10,140
– Interest rate derivatives	–	3,678	2	3,680
– Credit derivatives	–	72	1	73
Total	100	13,890	3	13,993

During the year, there were no significant transfers within the fair value hierarchy of the Group.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2020 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2020	2	4,034	602	4,638	(3)	(3)
Total gains or losses:						
– In profit or loss	1	65	–	66	(1)	(1)
Purchases	–	6,396	250	6,646	–	–
Settlements	(1)	(131)	–	(132)	2	2
31 December 2020	2	10,364	852	11,218	(2)	(2)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	1	65	–	66	(1)	(1)

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(5)	(725)	–	(730)	4	4
Purchases	–	1,906	250	2,156	–	–
Settlements	–	(288)	–	(288)	1	1
31 December 2019	2	4,034	602	4,638	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(5)	(725)	–	(730)	4	4

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	161,862	783,123	–	944,985
Financial liabilities				
Debt securities issued	25,558	414,459	–	440,017

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	142,394	654,067	–	796,461
Financial liabilities				
Debt securities issued	31,658	340,211	–	371,869

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity and derivative contracts. These financial instruments are valued using cash flow discount model and market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2020, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December 2020	31 December 2019
Entrusted loans	125,827	139,790
Entrusted funds	125,827	139,790

53 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2020	31 December 2019
Loan commitments		
– Original contractual maturity within one year	16,758	19,855
– Original contractual maturity more than one year (inclusive)	7,939	13,732
Credit card commitments	327,299	290,156
Subtotal	351,996	323,743
Acceptances	769,458	609,169
Letters of guarantee	130,425	128,746
Letters of credit	224,482	225,653
Guarantees	185	185
Total	1,476,546	1,287,496

The Group may be exposed to credit risk in all the credit businesses above. Group management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	31 December 2020	31 December 2019
Credit risk-weighted amount of credit commitments	382,659	380,959

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2020	31 December 2019
Contracted but not paid		
– Purchase of property and equipment	1,962	1,100
Approved but not contracted for		
– Purchase of property and equipment	4,445	2,817
Total	6,407	3,917

(d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2020.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2020	31 December 2019
Redemption commitments	5,918	6,626

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Commitments and contingent liabilities (continued)

(e) Outstanding litigations and disputes

As at 31 December 2020, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,262 million (31 December 2019: RMB1,384 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note V 36). The Group considers that the provisions made are reasonable and adequate.

54 Subsequent Events

The Group has no significant subsequent event.

55 Comparative figures

In accordance with the presenting pattern of the financial statements, the Group has reclassified some comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the Rules on *Liquidity Risk Management of Commercial Banks*, commercial banks' liquidity coverage ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December 2020
Liquidity coverage ratio	150.47%
High Quality Liquid Assets	704,706
Net cash outflows in 30 days from the end of the reporting period	468,333

Liquidity Ratio*

	As at 31 December 2020	Average for The year ended 31 December 2020	As at 31 December 2019	Average for The year ended 31 December 2019
RMB current assets to RMB current liabilities	66.07%	67.65%	72.63%	69.29%
Foreign current assets to foreign current liabilities	127.90%	107.74%	93.29%	79.43%

* *Liquidity ratio is calculated in accordance with the banking level.*

(Expressed in millions of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Leverage Ratio

	31 December 2020
Leverage Ratio	7.03%

Pursuant to the Leverage Ratio Management of Commercial Banks which has been effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

Net Stable Funding Ratio

The net stable fund ratio is designed to ensure that commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 31 December 2020, the Group met the supervision requirement with the net stable funding ratio standing at 107.29%.

Indicators	31 December 2020
Available and stable funds	3,111,968
Required stable funds	2,900,616
Net stable funding ratio	107.29%

2 CURRENCY CONCENTRATIONS

	31 December 2020			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	243,708	50,901	47,149	341,758
Spot liabilities	(262,708)	(47,896)	(21,292)	(331,896)
Forward purchases	545,777	11,904	4,789	562,470
Forward sales	(526,584)	(11,424)	(31,178)	(569,186)
Net long/(short) position	193	3,485	(532)	3,146
Net structural position	3	55	32	90

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	239,357	39,857	36,524	315,738
Spot liabilities	(286,959)	(33,950)	(22,202)	(343,111)
Forward purchases	759,868	20,366	7,268	787,502
Forward sales	(708,265)	(25,171)	(19,757)	(753,193)
Net long position	4,001	1,102	1,833	6,936
Net structural position	–	34	15	49

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include property, plant and equipment.

(Expressed in millions of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central banks, deposits and placements with banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	As at 31 December 2020			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	99,166	7,470	41,939	148,575
– of which attributed to Hong Kong	28,097	2,107	15,229	45,433
Europe	17,617	40	27,957	45,614
North and South America	10,989	312	18,768	30,069
Total	127,772	7,822	88,664	224,258

	As at 31 December 2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	69,367	2,868	32,485	104,720
– of which attributed to Hong Kong	19,907	537	15,350	35,794
Europe	9,874	39	32,268	42,181
North and South America	12,736	–	23,352	36,088
Total	91,977	2,907	88,105	182,989

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segment

	31 December 2020	31 December 2019
Northeastern	5,171	2,470
Bohai Rim	4,784	5,201
Yangtze River Delta	4,608	5,899
Central	3,598	3,687
Pearl River Delta	3,353	3,129
Western	2,586	4,550
Overseas	8	8
Head Office	9,139	8,963
Total	33,247	33,907

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue day

	31 December 2020	31 December 2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	8,048	8,851
– between 6 months and 1 year (inclusive)	13,725	13,642
– over 1 year	11,474	11,414
Total	33,247	33,907
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.27%	0.33%
– between 6 months and 1 year (inclusive)	0.45%	0.50%
– over 1 year	0.38%	0.42%
Total	1.10%	1.25%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(c) Collateral of loans and advances past due but not impaired

	31 December 2020	31 December 2019
Covered portion of loans and advances past due but not impaired	9,218	6,357
Uncovered portion of loans and advances past due but not impaired	18,705	18,947
Total loans and advances past due but not impaired	27,923	25,304
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	24,019	16,258

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in Mainland China. As at 31 December 2020, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.

China Everbright Bank Company Limited
Consolidated Statement of Profit and Loss
For the three months ended 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Interest income	55,977	54,772
Interest expense	(28,101)	(27,626)
Net interest income	27,876	27,146
Fee and commission income	8,465	7,916
Fee and commission expense	(641)	(580)
Net fee and commission income	7,824	7,336
Net trading gains	450	234
Net gains arising from investment securities	2,140	2,383
Net gains on derecognition of financial assets measured at amortised cost	214	12
Net foreign exchange gains/(losses)	11	(15)
Other net operating income	252	228
Operating income	38,767	37,324
Operating expenses	(10,252)	(9,694)
Credit impairment losses	(13,957)	(14,514)
Other impairment losses	31	(19)
Operating profit	14,589	13,097
Losses on investment of joint ventures	(28)	-
Profit before tax	14,561	13,097
Income tax	(3,001)	(2,224)
Net profit	11,560	10,873
Net profit attributable to:		
Equity shareholders of the Bank	11,515	10,831
Non-controlling interests	45	42
	11,560	10,873
Earnings per share		
Basic earnings per share (in RMB/share)	0.18	0.19
Diluted earnings per share (in RMB/share)	0.17	0.17

China Everbright Bank Company Limited
Consolidated Statement of Comprehensive Income
For the three months ended 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Net profit	11,560	10,873
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
- Equity instruments at fair value through other comprehensive income		
- Net change in fair value	-	(2)
Subtotal	-	(2)
Items that will be reclassified to profit or loss:		
- Debt instruments at fair value through other comprehensive income		
- Net change in fair value	(628)	2,520
- Changes in allowance for expected credit losses	164	314
- Reclassified to the profit or loss upon disposal	(13)	(146)
- Related income tax effect	99	(684)
- Exchange differences on translation of financial statements	(1)	56
Subtotal	(379)	2,060
Other comprehensive income, net of tax	(379)	2,058
Total comprehensive income	11,181	12,931
Total comprehensive income attributable to:		
Equity shareholders of the Bank	11,136	12,887
Non-controlling interests	45	44
	11,181	12,931

China Everbright Bank Company Limited
Consolidated Statement of Financial Position
As at 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2021	31 December 2020
Assets		
Cash and deposits with the central bank	365,519	360,287
Deposits with banks and other financial institutions	31,999	46,059
Precious metals	9,506	9,353
Placements with banks and other financial institutions	67,037	69,290
Derivative financial assets	19,063	25,264
Financial assets held under resale agreements	28,332	43,592
Loans and advances to customers	3,089,231	2,942,435
Finance lease receivables	106,530	100,788
Financial investments	1,757,059	1,670,415
- Financial assets at fair value through profit or loss	352,121	304,908
- Debt instruments at fair value through other comprehensive income	281,313	222,807
- Equity instruments at fair value through other comprehensive income	875	875
- Financial investments measured at amortised cost	1,122,750	1,141,825
Investment in joint ventures	327	257
Property, plant and equipment	23,162	23,301
Right-of-use assets	10,974	11,137
Goodwill	1,281	1,281
Deferred tax assets	19,735	19,587
Other assets	51,936	45,064
Total assets	5,581,691	5,368,110

China Everbright Bank Company Limited
Consolidated Statement of Financial Position (continued)
As at 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2021	31 December 2020
Liabilities and equity		
Liabilities		
Due to the central bank	229,486	241,110
Deposits from banks and other financial institutions	444,286	469,345
Placements from banks and other financial institutions	183,152	161,879
Financial liabilities at fair value through profit or loss	1,273	4
Derivative financial liabilities	18,841	25,778
Financial assets sold under repurchase agreements	38,473	14,182
Deposits from customers	3,585,545	3,480,667
Accrued staff costs	14,266	15,169
Taxes payable	10,651	8,772
Lease liabilities	10,502	10,762
Debts securities issued	532,364	440,870
Other liabilities	48,373	44,574
Total liabilities	5,117,212	4,913,112

China Everbright Bank Company Limited
Consolidated Statement of Financial Position (continued)
As at 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2021	31 December 2020
Liabilities and equity (Continued)		
Equity		
Share capital	54,032	54,032
Other equity instrument	109,062	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	58,434	58,434
Other comprehensive income	1,014	1,393
Surplus reserve	26,245	26,245
General reserve	67,742	67,702
Retained earnings	146,376	136,581
Total equity attributable to equity shareholders of the Bank	462,905	453,449
Non-controlling interests	1,574	1,549
Total equity	464,479	454,998
Total liabilities and equity	5,581,691	5,368,110

Approved and authorized for issue by the board of directors on 28 April 2021.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Yao Zhongyou
Vice President in Charge of Finance
Executive Director

Sun Xinhong
General Manager of
Financial Accounting Department

China Everbright Bank Company Limited
Consolidated Cash Flow Statement
For the three months ended 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Cash flows from operating activities		
Net profit	11,560	10,873
Adjustments for:		
Credit impairment losses	13,957	14,514
Other impairment losses	(31)	19
Depreciation and amortization	1,403	1,243
Unwinding of discount	(172)	(176)
Unrealised foreign exchange gains	(32)	(138)
Net gains on investment securities	(14,201)	(14,124)
Net gains on derecognition of financial assets measured at amortised cost	(214)	(12)
Losses on investments of joint ventures	28	-
Net gains on disposal of trading securities	(243)	(386)
Revaluation gains on financial instruments at fair value through profit or loss	(1,098)	(877)
Interest expense on debt securities issued	3,376	3,154
Interest expense on lease liabilities	114	121
Net losses on disposal of property, plant and equipment	4	2
Income tax	3,001	2,224
	17,452	16,437
Changes in operating assets:		
Net (increase)/decrease in deposits with the central bank, banks and other financial institutions	(1,888)	8,521
Net (increase)/decrease in placements with banks and other financial institutions	(1,926)	5,485
Net increase in financial assets held for trading	(41,304)	(18,643)
Net increase in loans and advances to customers	(161,601)	(192,630)
Net decrease/(increase) in financial assets held under resale agreements	15,266	(36,992)
Net increase in other operating assets	(10,224)	(25,528)
	(201,677)	(259,787)

China Everbright Bank Company Limited
Consolidated Cash Flow Statement (continued)
For the three months ended 31 March 2021
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Cash flows from operating activities (continued)		
Changes in operating liabilities:		
Net decrease in deposits from banks and other financial institutions	(25,533)	(79,126)
Net increase in placements from banks and other financial institutions	21,118	20,369
Net increase/(decrease) in financial assets sold under repurchase agreements	24,269	(8,215)
Net (decrease)/increase in amount due to the central bank	(12,657)	13,303
Net increase in deposits from customers	106,419	512,423
Income tax paid	(1,070)	(1,586)
Net (decrease)/increase in other operating liabilities	(530)	12,644
	112,016	469,812
Net cash flows from operating activities	(72,209)	226,462
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	212,584	121,906
Investment income received	15,564	13,756
Proceeds from disposal of property, plant and equipment and other long-term assets	142	163
Payments on acquisition of investments	(257,394)	(248,302)
Payments on acquisition of property, plant and equipment, intangible assets and other long-term assets	(637)	(470)
Net cash flows from investing activities	(29,741)	(112,947)

(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2021	2020
Cash flows from financing activities		
Net proceeds from issue of debt securities	155,194	58,891
Repayments of debts issued	(62,767)	(55,325)
Interest paid on debt securities issued	(4,309)	(4,834)
Other net cash flows from financing activities	(870)	(872)
Net cash flows from financing activities	87,248	(2,140)
Effect of foreign exchange rate changes on cash and cash equivalents	(116)	597
Net (decrease)/increase in cash and cash equivalents	(14,818)	111,972
Cash and cash equivalents as at 1 January	145,076	117,499
Cash and cash equivalents as at 31 March	130,258	229,471
Interest received	43,135	41,834
Interest paid (excluding interest expense on debts securities issued)	(24,567)	(22,395)

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