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This announcement and the listing documents attached hereto are for information purposes only and do not constitute an invitation or an offer to acquire, purchase or subscribe for securities.

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

*This announcement is solely for the purpose of reference and does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The Notes (as defined below) 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 other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, such securities will only be offered and sold outside the United States in compliance with Regulation S under the Securities Act. This announcement and the information contained herein 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.*

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

PUBLICATION OF THE OFFERING CIRCULAR AND THE PRICING SUPPLEMENT ON THE STOCK EXCHANGE OF HONG KONG LIMITED

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

(the "Issuer")

Issue of
U.S.$300,000,000 1.50 per cent. Notes due 2024 (the "Notes")
(Stock Code: 40909)
under the
U.S.$2,000,000,000 Medium Term Note Programme (the "Programme")
established by

渤海银行
CHINA BOHAI BANK

CHINA BOHAI BANK CO., LTD.
渤 海 銀 行 股 份 有 限 公 司

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

(Stock Code: 9668)

AND

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

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

Please refer to the offering circular dated October 28, 2021 (the "**Offering Circular**") in relation to the Programme and the pricing supplement dated November 3, 2021 (the "**Pricing Supplement**") in relation to the Notes each appended hereto (together, the "**Listing Documents**"). The Issuer announces that the listing of the Notes on the Hong Kong Stock Exchange and permission to deal in the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Listing Rules) only has become effective on November 11, 2021.

None of the Listing Documents constitutes a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is any Listing Document an invitation to the public to make offers to subscribe for or purchase any securities, nor is any Listing Document circulated to invite offers by the public to subscribe for or purchase any securities.

None of the Listing Documents should be regarded as an inducement to subscribe for or purchase any Notes of the Issuer and no such inducement is intended. No investment decision should be made based on the information contained in the Listing Documents.

By order of the Board
CHINA BOHAI BANK CO., LTD.
LI Fuan
Chairman

Tianjin, China
November 11, 2021

As at the date of this announcement, the board of directors of China Bohai Bank Co., Ltd. comprises Mr. LI Fuan, Mr. QU Hongzhi, Mr. LI Yi and Mr. DU Gang as executive directors; Mr. FUNG Joi Lun Alan, Mr. WANG Zhiyong, Mr. CUI Xuesong, Ms. YUAN Wei, Mr. YE Baishou, Mr. HU Aimin, Mr. ZHANG Xifang and Mr. ZHANG Yunji as non-executive directors; and Mr. MAO Zhenhua, Mr. CHI Guotai, Mr. MU Binrui, Mr. TSE Yat Hong, Mr. WANG Ren and Mr. ZHU Ning as independent non-executive directors.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND (IN THE CASE OF CATEGORY 2 REGULATION S NOTES) ARE NOT U.S. PERSONS.

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

Confirmation of Your Representation: This Offering Circular is being sent to you at your request, and by accepting the e-mail and accessing the attached document, you shall be deemed to represent to China Bohai Bank Co., Ltd. 渤海銀行股份有限公司 (the "**Bank**"), China Bohai Bank Co., Ltd., Hong Kong Branch (the "**Hong Kong Branch**", and together with the Bank, each an "**Issuer**") and CLSA Limited (the "**Arranger**") that (1) you and any customers you represent are not U.S. persons (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) that you consent to delivery of the attached and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Bank, the Hong Kong Branch, the Arranger, the dealers named herein (the "**Dealers**"), the agents named herein (the "**Agents**") nor their respective affiliates and their respective directors, officers, employees, representatives, agents and each person who controls the Bank, the Hong Kong Branch, the Arranger, a Dealer, an Agent or their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you on request from the Arranger or the Dealers.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD OR (IN THE CASE OF SECURITIES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES OR (IN THE CASE OF CATEGORY 2 REGULATION S NOTES) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT, AND IN CERTAIN CASES, ONLY TO NON-U.S. PERSONS.

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

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. **If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.**

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

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED 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.

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CHINA BOHAI BANK CO., LTD.
渤海銀行股份有限公司

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

(Hong Kong Stock Exchange Stock Code: 9668)

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

U.S.$2,000,000,000
Medium Term Note Programme

Under the U.S.$2,000,000,000 Medium Term Note Programme (the "**Programme**") described in this Offering Circular, China Bohai Bank Co., Ltd. 渤海銀行股份有限公司 (the "**Bank**") or China Bohai Bank Co., Ltd., Hong Kong Branch (the "**Hong Kong Branch**", and together with the Bank, each an "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

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

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

Notice to Hong Kong investors: The Bank and the Hong Kong Branch confirm that the Notes are intended for purchase by Professional Investors only, and where they are listed on the Hong Kong Stock Exchange will be so listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Bank and the Hong Kong Branch confirm 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 Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. 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 Bank, the Hong Kong Branch, 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 Offering Circular, 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 Offering Circular.

Where applicable for a relevant Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes, the Notes will be issued within the relevant annual or otherwise general foreign debt issuance quota granted to the Bank by the National Development and Reform Commission of the PRC (the "**NDRC**") or registration will be completed by the Bank with the NDRC pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) issued by the NDRC which came into effect on 14 September 2015 and the applicable implementation rules or policies thereof as issued by the NDRC from time to time (the "**NDRC Circular**"). After the issuance of such relevant Tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the time period as required by the NDRC.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in a pricing supplement (the "**Pricing Supplement**").

The language of this Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (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. Subject to certain exceptions, the Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or, in the case of Notes being offered or sold in reliance on Category 2 of Regulation S of the Securities Act, to, or for the account or the benefit of U.S. persons unless an exemption from the registration requirement of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Notes are being offered only in offshore transactions in reliance on Regulation S, and in certain cases, only to non-U.S. persons. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*" in this Offering Circular.

Each Tranche of Notes of each Series (as defined in "*Form of the Notes*") in bearer form will be represented on issue by a temporary global note in bearer form (each a "**Temporary Bearer Global Note**" or "**Temporary Global Note**") or a permanent global note in bearer form (each a "**Permanent Bearer Global Note**" or "**Permanent Global Note**"). Notes in registered form will initially be represented by a global note in registered form (each a "**Registered Global Note**" or "**Global Certificate**" and together with any Temporary Bearer Global Notes and Permanent Bearer Global Notes, the "**Global Notes**" and each a "**Global Note**"). Registered Global Notes will be registered in the name of, or in the name of a nominee for, one or more clearing systems. Global Notes may be deposited on the issue date with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Global Notes may also be deposited with a sub-custodian for the Hong Kong Monetary Authority (the "**HKMA**"), as operator of the Central Moneymarkets Unit Service, operated by the HKMA (the "**CMU Service**" or "**CMU**"). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Form of the Notes*".

The Issuer may agree with any Dealer that the Notes may be issued in a form not contemplated by the terms and conditions of the Notes set out herein under "Terms and Conditions of the Notes" (the "**Terms and Conditions of the Notes**"), in which event (in the case of Notes intended to be listed on the Hong Kong Stock Exchange) a supplemental offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Bank has been rated Baa3 by Moody's Investors Service, Inc. ("**Moody's**") and BBB- by S&P Global Ratings, a division of S&P Global Inc. ("**S&P**"). The Programme has been rated Baa3 by Moody's and BBB- by S&P. Notes issued under the Programme may be rated or unrated. Where an issue of a certain series of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme and (where applicable) such rating will be specified in the relevant Pricing Supplement. 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. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. **See "*Risk Factors*" beginning on page 67 for a discussion of certain factors to be considered in connection with an investment in the Notes.**

Arranger and Dealer

CLSA

The date of this Offering Circular is 28 October 2021.

IMPORTANT NOTICE

Each of the Bank and the Hong Kong Branch having made all reasonable enquiries confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Bank, the Hong Kong Branch, and the Bank and its consolidated subsidiaries taken as a whole (the "**Group**") and to the Notes which is material in the context of the issue, offering, sale or distribution of the Notes (including all information which is required by applicable laws or according to the particular nature of the Issuer, 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 and the Group and of the rights attaching to the Notes); (ii) the statements contained herein relating to the Bank, the Hong Kong Branch and the Group are in every material respect true, accurate and not misleading; (iii) there are no other material facts in relation to the Issuer, the Group or the Notes, the omission of which would, in the context of the issue, offering, sale, marketing and distribution of the Notes, make any statement in this Offering Circular misleading; (iv) the statements of intention, opinion, belief or expectation with regard to the Issuer and the Group contained in this Offering Circular are honestly made or held and have been reached after considering all relevant circumstances and based on reasonable assumptions; (v) all statistical, industry and market related data included in this Offering Circular are derived from sources which the Bank believes in good faith to be accurate and reliable; and (vi) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

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

No person is or has been authorised by the Bank or the Hong Kong Branch to give any information or to make any representations other than those contained in this Offering Circular in connection with the Programme or the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Bank, the Hong Kong Branch, the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates.

The Arranger and the Dealers have not separately verified the information contained in this Offering Circular to the fullest extent permitted by law. None of the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates accepts any responsibility for the contents of this Offering Circular. Each of the Arranger and the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates 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 Offering Circular or any such statement. Neither this Offering Circular nor any financial statements included or incorporated herein are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Bank, the Hong Kong Branch, the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates that any recipient of this Offering Circular or any such financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank, the Hong Kong Branch and the risks involved. The purchase of Notes by investors should be based upon their investigation, as they deem necessary. None of the Arranger nor the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates undertakes to review the financial condition or affairs of the Bank, the Hong Kong Branch and 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 Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates.

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 Bank, the Hong Kong Branch, any of the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Bank or the Hong Kong Branch is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger and the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates expressly do not undertake to review the financial condition or affairs of the Bank or the Hong Kong Branch during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) (OR PERSON(S) 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 OF THE SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF 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.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or (in the case of Category 2 Regulation S Notes) to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see "*Subscription and Sale*" and the applicable Pricing Supplement.

MiFID II product governance / Professional investors and ECPs only 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 assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**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 / Professional investors and ECPs only 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 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 Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**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 PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", 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 ("**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 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (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 the PRIIPs Regulation 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.

Singapore SFA Product Classification: *In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Bank or the Hong Kong Branch (as the case may be) 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 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. The distribution of this Offering Circular or any Pricing Supplement and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Bank, the Hong Kong Branch, the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Hong Kong Branch, the Arranger or the Dealers or any of their respective directors, officers, employees, agents, representatives or affiliates which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. 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 the Notes in the United States, the European Economic Area, the United Kingdom, Singapore, Japan, Hong Kong and the People's Republic of China. See "*Subscription and Sale*" and the relevant Pricing Supplement.

Industry and Market Data

Market data and certain information and statistics included in this Offering Circular may have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Bank and the Hong Kong Branch believe the information to be reliable, it has not been independently verified by the Bank, the Hong Kong Branch, the Arranger, the Dealers or the Agents or their respective affiliates, directors, officers, employees, agents, advisers or representatives and none of the Bank, the Hong Kong Branch, the Arranger, the Dealers or the Agents or their respective affiliates, directors, officers, employees, agents, advisers or representatives makes any representation as to the accuracy or completeness of such information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. In making an investment decision, each investor must rely on its own examination of the Bank, the Hong Kong Branch, the Group and the terms of the offering and the Notes, including the merits and risks involved.

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the financial information of the Bank as at and for the years ended 31 December 2019 and 2020, which was extracted from the audited financial statements of the Bank as at and for the year ended 31 December 2020 (the "**2020 Audited Financial Statements**"). The Audited Financial Statements were prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and have been audited by KPMG, Certified Public Accountants, Hong Kong ("**KPMG**") in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

This Offering Circular also contains the financial information of the Bank as at and for the six months ended 30 June 2020 and 2021, which was extracted from the unaudited but reviewed financial statements of the Bank as at and for the six months ended 30 June 2021 (the "**2021 Interim Financial Statements**"), which were prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" ("**IAS 34**") issued by the IASB and has been reviewed by KPMG.

The Bank's 2021 Interim Financial Statements (which include the comparative financial information as at and for the six months ended 30 June 2020) have been reviewed by KPMG in accordance with International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the International Auditing and Assurance Standard Board ("**IAASB**") and are included elsewhere in this Offering Circular. However, the 2021 Interim Financial Statements may not provide the same quality of information associated with information that has been subject to an audit. Investors must exercise caution when using such data to evaluate the Bank's and the Group's financial condition and results of operations. Such unaudited but reviewed 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 or the Group for the full financial year ending 31 December 2021.

The Bank adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in the Bank's audited financial statements as at and for the year ended 31 December 2019. According to the requirements of IFRS 16, the Bank would not reassess the contracts that had already existed prior to the date of initial application. The Bank recognised the cumulative effect of initially applying the standard as an adjustment to the opening balances of relevant line items in the financial statements in 2019. IFRS 16 primarily affected the Bank's accounting as a lessee of the lease for certain office premises which were previously classified as operating leases. As permitted by the transitional provisions of IFRS 16, the Bank elected not to restate comparative figures.

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires, references herein to the "**Bank**" refer to China Bohai Bank Co., Ltd. 渤海銀行股份有限公司 (9668.HK); references to the "**Hong Kong Branch**" refer to China Bohai Bank Co., Ltd., Hong Kong Branch; references to the "**Issuer**" refer to the Bank or the Hong Kong Branch as specified in the relevant Pricing Supplement as being the issuer of a Series of Notes; references to the "**Group**" refer to the Bank and all its consolidated subsidiaries; references herein to "**U.S. dollar**", "**USD**" and "**U.S.$**" are to the lawful currency of the United States of America (the "**United States**" or the "**U.S.**"); references to "**Hong Kong dollars**", "**HK dollars**" and "**HK$**" are to the lawful currency of Hong Kong; references to "**Renminbi**", "**RMB**" and "**CNY**" are to the lawful currency of the PRC (as defined below); references to "**Sterling**" and "**£**" are to the lawful currency of the United Kingdom and references to "**EUR**", "**euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

In addition, references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the PRC, references to "**Macau**" are to the Macau Special Administrative Region of the PRC, and references to "**China**", "**Mainland China**" or the "**PRC**" are to the People's Republic of China excluding Hong Kong and Macau.

Unless otherwise specified or the context requires, references to:

- "**Board**" or "**Board of Directors**" refers to the board of Directors of the Bank;
- "**Board of Supervisors**" refers to the board of Supervisors of the Bank;
- "**CBIRC**" refers to the China Banking and Insurance Regulatory Commission (and the former China Banking Regulatory Commission ("**CBRC**") and China Insurance Regulatory Commission ("**CIRC**"));
- "**CSRC**" refers to the China Securities Regulatory Commission;
- "**Director(s)**" refers to the director(s) of the Bank;
- "**GDP**" refer to gross domestic product;
- "**MOF**" refers to the Ministry of Finance of the PRC;
- "**MOFCOM**" refers to the Ministry of Commerce of the PRC;
- "**NAO**" refers to the National Audit Office of the PRC;
- "**Nationwide Joint-stock Commercial Banks**" refers to China CITIC Bank Corporation Limited, China Everbright Bank Co., Ltd., Huaxia Bank Co., Limited, China Guangfa Bank Co., Ltd., Ping An Bank Co., Ltd. (formerly named as Shenzhen Development Bank Co., Ltd.), China Merchants Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd., Industrial Bank Co., Ltd., China Minsheng Bank Corp., Ltd., HengFeng Bank Co., Limited, China Zheshang Bank Co., Ltd. and the Bank, collectively;
- "**NAV**" refers to net asset value, calculated as the total value of an entity's assets minus the total value of its liabilities;

- "**NPL**" refers to non-performing loans;
- "**PBOC**" refers to the People's Bank of China, the central bank of the PRC;
- "**PRC Government**" refers to the PRC central government and local governments;
- "**SAFE**" refers to the State Administration of Foreign Exchange of the PRC;
- "**SAMR**" refers to the State Administration for Market Regulation of the PRC;
- "**SAT**" refers to the State Administration of Taxation of the PRC; and
- "**Supervisor(s)**" refers to the supervisor(s) of the Bank.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes "forward-looking statements". All statements other than statements of historical facts contained in this Offering Circular constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "endeavour", "anticipate", "target", "believe", "can", "would", "could", "estimate", "expect", "forecast", "aim", "intend", "may", "plan", "schedule", "project", "seek to", "future", "goal", "potential", "will", "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition, results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include, but are not limited to, statements as to the business strategy, revenue, profitability, planned projects and other matters as they relate to the Bank, the Hong Kong Branch and/or the Group discussed in this Offering Circular regarding matters that are not historical facts.

The factors that could cause the actual results, performances and achievements of the Bank, the Hong Kong Branch or the Group or any member of the Group to be materially different include, among others:

- general economic, political and business conditions and competitive environment, including those related to the PRC, Hong Kong and globally;
- business plans, strategies and objectives of the Group, and the Group's ability of successfully implementing these business plans, strategies and objectives;
- expansion plan and capital expenditure plans, and ability to carry out those plans;
- ability of the Group to control and reduce its costs;
- fluctuation of handling fees and commission income of the Group;
- the continued availability of capital and financing;
- interest rates and foreign exchange rates, taxes and duties;

- the actions and developments of the Group's competitors;
- financial condition, business results and performance;
- any changes in the laws, rules and regulations of the central and local governments in the PRC, Hong Kong and other relevant jurisdictions in which the Group operates and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of the Group's business;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC, Hong Kong and the industry and markets in which the Group operates;
- various business opportunities that the Group may pursue;
- macroeconomic measures taken by the PRC Government to manage economic growth;
- natural disasters, industrial action, terrorist attacks and other events beyond the Group's control;
- future development, trend and environment of the industries and markets as well as other risks associated with industries and markets in which the Group operates; and
- other factors, including those discussed in "*Risk Factors*" below.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed in "*Risk Factors*" below and elsewhere in this Offering Circular. Each of the Bank and the Hong Kong Branch cautions investors not to place undue reliance on these forward-looking statements which reflect their managements' view only as at the date of this Offering Circular. Neither the Bank nor the Hong Kong Branch undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur. All forward-looking statements contained in this Offering Circular are subject to the disclaimer statements listed in this section.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the most recently published audited financial statements of the Bank and the most recently published unaudited but reviewed interim financial statements of the Bank, together with any audit or review reports prepared in connection therewith; and

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available (upon written request) for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the specified office of the Bank and Citicorp International Limited (the "**Fiscal Agent**") at 20th Floor Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong. Pricing Supplements relating to unlisted Notes will only be available for inspection by a holder of such Notes and such holder must produce evidence satisfactory to the Issuer or the relevant Paying Agent as to its holding of Notes and its identity.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new or supplemental offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject to those matters set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement hereto will only be valid for Notes issued under the Programme in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$2,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time, the U.S. dollar equivalent of the nominal amount of Notes denominated in a currency other than U.S. dollars (which, in the case of dual currency Notes, shall be the currency in which the subscription moneys are received by the relevant Issuer) shall be determined on the basis of the spot rate for the sale of the U.S. dollar against the purchase of the relevant currency in the London foreign exchange market quoted by any leading bank selected by the relevant Issuer at any time during the five day period ending on the Trade Date relating to such Notes.

SELECTED FINANCIAL INFORMATION OF THE BANK

The following tables set forth the summary financial information of the Bank as at and for the periods indicated.

The summary financial information of the Bank as at and for the years ended 31 December 2019 and 2020 and for the six months ended 30 June 2020 and 2021 set forth below is derived from and should be read in conjunction with the 2020 Audited Financial Statements, and as the case may be, the 2021 Interim Financial Statements, including the notes thereto and the auditor's reports in respect of the year ended 31 December 2020 and for the six months ended 30 June 2021, each of which is included elsewhere in this Offering Circular.

The 2020 Audited Financial Statements were prepared in accordance with the IFRS issued by the IASB and have been audited by KPMG in accordance with the HKSAs issued by the HKICPA. The 2021 Interim Financial Statements were prepared in accordance with IAS 34 issued by the IASB and have been reviewed but not audited by KPMG, which may not provide the same quality of information associated with information that has been subject to an audit and 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. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Years ended 31 December		**Six months ended 30 June**	
	2019	**2020**	**2020**	**2021**
	(Expressed in thousands of RMB, unless otherwise stated)			
	(Audited)		*(Unaudited but reviewed)*	
Interest income	51,598,169	59,907,209	29,255,767	31,587,589
Interest expense	(28,576,886)	(31,430,173)	(15,223,522)	(18,043,723)
Net interest income	23,021,283	28,477,036	14,032,245	13,543,866
Fee and commission income	5,323,397	5,196,988	2,417,742	2,204,688
Fee and commission expense	(1,208,526)	(2,294,532)	(992,342)	(1,087,297)
Net fee and commission income	4,114,871	2,902,456	1,425,400	1,117,391
Net trading gains/(losses)	196,392	44,600	(9,655)	(106,233)
Net gains arising from investment securities	961,857	997,253	578,423	1,186,055
Other operating income	83,991	70,825	18,786	61,790
Operating income	28,378,394	32,492,170	16,045,199	15,802,869
Operating expenses	(8,856,860)	(9,182,900)	(4,417,196)	(4,711,555)
Impairment losses on assets	(9,566,913)	(13,224,178)	(5,342,664)	(4,370,532)
Share of losses of associate	(52,771)	—	—	—
Profit before taxation	9,901,850	10,085,092	6,285,339	6,720,782
Income tax	(1,709,094)	(1,640,521)	(1,238,628)	(1,376,217)
Net profit	8,192,756	8,444,571	5,046,711	5,344,565

	Years ended 31 December		Six months ended 30 June	
	2019	2020	2020	2021
	(Expressed in thousands of RMB, unless otherwise stated)			
	(Audited)		*(Unaudited but reviewed)*	
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
— Change in fair value of financial assets measured at fair value through other comprehensive income	73,247	(435,997)	27,858	118,992
— Credit losses of financial assets measured at fair value through other comprehensive income	612,834	(495,258)	(190,845)	3,819
Exchange difference on translating foreign operations	—	—	—	84
(Reserve)/Charge from cash flow hedging instruments	—	(160)	194	(217)
Other comprehensive income, net of tax	686,081	(931,415)	(162,793)	122,678
Total comprehensive income	8,878,837	7,513,156	4,883,918	5,467,243
Basic and diluted earnings per share (in RMB)	0.57	0.47	0.35	0.30

STATEMENTS OF FINANCIAL POSITION

	At 31 December		At 30 June
	2019	2020	2021
	(Expressed in thousands of RMB, unless otherwise stated)		
	(Audited)		*(Unaudited but reviewed)*
Assets			
Cash and deposits with the central bank	93,013,699	96,548,417	96,693,442
Deposits with banks and other financial institutions	14,051,627	27,805,363	69,870,163
Placements with banks and other financial institutions	4,410,809	6,063,668	5,070,429
Derivative financial assets	158,709	232,498	490,517
Financial assets held under resale agreements	1,850,258	—	2,293,341
Loans and advances to customers	687,279,098	867,120,217	953,838,630
Financial investments:			
Financial investments measured at fair value through profit or loss	36,238,313	72,597,497	88,803,652
Financial investments measured at fair value through other comprehensive income	64,967,327	61,813,595	77,892,511
Financial investments measured at amortised cost	199,101,251	241,515,654	243,218,224
Property and equipment	3,804,211	3,630,154	3,521,097
Deferred tax assets	6,365,091	8,664,618	9,724,046
Other assets	5,689,632	7,531,444	8,911,478
Total assets	1,116,930,025	1,393,523,125	1,560,327,530
Liabilities and equity			
Liabilities			
Borrowing from the central bank	46,905,557	71,592,485	72,455,956
Deposits from banks and other financial institutions	78,547,430	130,273,359	151,807,022
Placements from banks and other financial institutions	21,500,177	31,920,614	61,723,545
Derivative financial liabilities	171,758	533,164	847,518
Financial assets sold under repurchase agreements	23,069,093	52,406,083	15,661,750
Deposits from customers	647,764,551	758,235,794	857,649,637
Income tax payable	1,887,990	2,485,405	1,032,463
Debt securities issued	196,603,843	225,154,090	274,813,013
Other liabilities	17,841,029	17,676,301	17,133,323
Total liabilities	1,034,291,428	1,290,277,295	1,453,124,227
Equity			
Share capital	14,450,000	17,762,000	17,762,000
Other equity instruments	19,961,604	19,961,604	19,961,604
Other comprehensive income	969,493	38,078	160,756
Capital reserve	—	10,732,077	10,732,077
Surplus reserve	5,009,612	5,868,637	5,868,637
General reserve	14,081,733	17,664,811	17,664,811
Retained earnings	28,166,155	31,218,623	35,053,418
Total Equity	82,638,597	103,245,830	107,203,303
Total liabilities and equity	1,116,930,025	1,393,523,125	1,560,327,530

CASH FLOW STATEMENTS

	Years ended 31 December		Six month ended 30 June
	2019	**2020**	**2021**
	(Expressed in thousands of RMB, unless otherwise stated)		
	(Audited)		*(Unaudited but reviewed)*
Cash flows from operating activities			
Profit before taxation	9,901,850	10,085,092	6,720,782
Adjustments for:			
Impairment losses on assets	9,566,913	13,224,178	4,370,532
Depreciation and amortisation	1,398,794	1,428,134	711,267
Net gains arising from investment securities	(961,857)	(997,253)	(1,186,055)
Interest expense on debts securities issued	7,207,783	6,551,656	4,006,618
Net trading gains	(196,392)	(44,600)	106,233
Interest income arising from financial investments	(12,286,730)	(11,461,869)	(5,827,615)
Interest expense on lease liabilities	174,000	165,020	80,100
Net losses/(gains) on disposal of property and equipment	548	(178)	(212)
Share of losses of associate	52,771	—	—
	14,857,680	18,950,180	8,981,650
Changes in operating assets			
Net decrease/(increase) in deposits with banks and other financial institutions with maturity over 3 months	16,971,253	1,110,000	(450,000)
Net decrease/(increase) in deposits with the central bank	7,828,687	1,514,616	(8,067,651)
Net (increase)/decrease in placement with banks and other institutions	(2,750,725)	2,250,725	(2,860,000)
Net decrease/(increase) in financial assets held for trading	319,211	(7,075,939)	(3,880,229)
Net increase in loans and advances to customers	(148,709,951)	(185,577,707)	(94,806,828)
Net (increase)/decrease in other operating assets	(2,112,268)	(287,685)	1,347,024
	(128,453,793)	(188,065,990)	(108,717,684)
Changes in operating liabilities			
Net increase in borrowings from the central bank	18,300,000	24,300,000	400,000
Net increase in deposits from banks and other financial institutions	8,981,866	51,723,701	20,948,309
Net increase in placements from banks and other financial institutions	1,905,478	10,511,690	29,757,934
Net decrease in financial assets sold under repurchase agreements	705,156	29,291,107	(36,689,181)
Net increase in deposits from customers	39,768,209	108,790,884	100,004,044
Net increase/(decrease) in other operating liabilities	4,002,529	(384,003)	(661,595)
	73,663,238	224,233,379	113,759,511
Net cash flows (used in)/generated from operating activities before taxation	(39,932,875)	55,117,569	14,023,477
Income tax paid	(1,746,643)	(3,032,162)	(3,961,862)
Net cash flows (used in)/generated from operating activities	(41,679,518)	52,085,407	10,061,615

	Years ended 31 December		Six month ended 30 June
	2019	2020	2021
	(Expressed in thousands of RMB, unless otherwise stated)		
	(Audited)		*(Unaudited but reviewed)*
Cash flows from investing activities			
Proceeds from disposal sale and redemption of investments	248,534,220	314,521,017	221,212,781
Proceeds received from investment activities	12,319,374	10,876,973	5,799,991
Proceeds from disposal of property and equipment and other assets	195	751	218
Payments on acquisition of investments	(233,337,060)	(388,583,782)	(247,087,330)
Payments on acquisition of property and equipment, intangible assets and other assets	(309,240)	(395,394)	(659,384)
Net cash flows generated from/(used in) investing activities	27,207,489	(63,580,435)	(20,733,724)
Cash flows from financing activities			
Proceeds from issuance of H shares	—	14,044,077	—
Proceeds from capital contribution by other equity instruments holders	19,961,604	—	—
Proceeds from debt securities issued	370,681,993	368,425,934	221,040,769
Repayment of debt securities issued	(392,380,779)	(341,414,057)	(172,349,805)
Interest paid on debt securities issued	(7,584,147)	(5,013,286)	(3,038,659)
Dividends paid	(2,060,965)	(950,000)	(1,509,770)
Interest paid on lease liabilities	(174,000)	(165,020)	(80,100)
Repayment of capital element of lease liabilities	(516,717)	(581,005)	(645,738)
Net cash flows generated from/(used in) financing activities	(12,073,011)	34,346,643	43,416,697
Effect of foreign exchange rate changes on cash and cash equivalents	387,554	(791,350)	(572,695)
Net (decrease)/increase in cash and cash equivalents	(26,157,486)	22,060,265	32,171,893
Cash and cash equivalents as at 1 January	68,852,350	42,694,864	64,755,129
Cash and cash equivalents as at the end of the period	42,694,864	64,755,129	96,927,022
Interest received	50,008,073	60,357,929	30,468,158
Interest paid (excluding interest expense on debt securities issued)	(22,737,276)	(27,165,019)	(15,875,188)

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Bank	China Bohai Bank Co., Ltd. 渤海銀行股份有限公司
Hong Kong Branch	China Bohai Bank Co., Ltd., Hong Kong Branch
Issuer	In relation to the Programme, the Bank and the Hong Kong Branch or, in relation to any issue of Notes under the Programme, the Bank or the Hong Kong Branch, in each case as specified as the Issuer in the relevant Pricing Supplement.
Description	Medium Term Note Programme.
Arranger	CLSA Limited.
Dealers	CLSA Limited and any other Dealers appointed in accordance with the Dealer Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*" and the relevant Pricing Supplement) including the following restrictions applicable at the date of this Offering Circular. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are received in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".
Fiscal Agent, CMU Lodging and Paying Agent and Registrar	Citicorp International Limited.
Issuing and Paying Agent and Transfer Agent	Citibank, N.A., London Branch.

Programme Size	Up to U.S.$2,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Bank or the Hong Kong Branch may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions as amended and supplemented and published by the International Swaps and Derivatives Association, Inc., unless otherwise as amended, supplemented or replaced; or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer.

	The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.
Benchmark Discontinuation	Benchmark discontinuation provisions apply if a Benchmark Event occurs in relation to an Original Reference Rate to the extent such Original Reference Rate is required to determine the relevant Rate of Interest.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount or offered and sold at their nominal amount and be redeemed at a premium and will not bear interest.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons, or pursuant to an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

	Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions — Notes having a maturity of less than one year*" above.
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. See "*Certain Restrictions*" above.
Taxation	All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, Receipts and Coupons will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within a Tax Jurisdiction (as defined in the Terms and Conditions of the Notes) or any political subdivision or any authority therein or thereof having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Notes, Receipts and the Coupons, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Events of Default	Events of Default for the Notes are set out in Condition 10.
Cross Acceleration	The terms of the Notes will contain a cross-acceleration provision as further described in Condition 10(c).
Status of the Notes	The Notes and the Receipts and the Coupons relating to them will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.
Listing	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme under which Notes may be issued during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only.

	Separate application will be made for the listing of the Notes on the Hong Kong Stock Exchange. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies). The Notes may also be listed on the Hong Kong Stock Exchange and on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Ratings	Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision, reduction or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.
Jurisdiction	The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons may be brought in such courts.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, the European Economic Area, Singapore, Japan, Hong Kong, the PRC and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*" and the relevant Pricing Supplement.

United States Selling Restrictions	Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. Whether TEFRA C or D rules apply or whether TEFRA is not applicable will be specified in the applicable Pricing Supplement.
Clearing Systems	The CMU, Euroclear, Clearstream and/or any other clearing system as specified in the applicable Pricing Supplement. See "*Form of the Notes*".

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached.

Bearer Notes

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a Temporary Bearer Global Note or, if so specified in the applicable Pricing Supplement, a Permanent Bearer Global Note which, in either case, will be delivered on or prior to the original issue date of the Tranche to either (i) a common depositary (the "**Common Depositary**") for, Euroclear and Clearstream or (ii) a sub-custodian for the CMU.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and/or the CMU Lodging and Paying Agent and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent (as defined in "*Terms and Conditions of the Notes*"). On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that the purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU may require that any such exchange for a Permanent Bearer Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Issue Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

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

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice (i), in the case of Notes held by a Common Depositary for Euroclear and Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii), in the case of Notes held through a sub-custodian for the CMU, from the relevant account holders therein to the CMU Lodging and Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have, or in the case of Notes cleared through the CMU, the CMU has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Fiscal Agent. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, (b) in the case of Notes held through a sub-custodian for the CMU, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"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."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream or the CMU, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to outside the United States, will initially be represented by a Registered Global Note. Prior to expiry of the distribution compliance period (as defined in Regulation S), if any, applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear, Clearstream or the CMU and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Registered Global Notes will be deposited with a Common Depositary for and registered in the name of a common nominee of, Euroclear, Clearstream and/or deposited with a sub-custodian for the CMU (if applicable), as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1) as the registered holder of the Registered Global Notes. None of the Issuer, the Bank, the Hong Kong Branch, the Fiscal Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7(b)(ii)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered where the Notes represented by the Registered Global Notes in definitive form or (iii) the Issuer has been notified that both Euroclear and Clearstream and, in the case of Notes cleared through the CMU, the CMU have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes registered in the name of a nominee for a Common Depositary for Euroclear and Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) and/or, (b) in the case of Notes held through a sub-custodian for the CMU, the relevant account holders therein may give notice to the Registrar or the CMU Lodging and Paying Agent, as the case may be, requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear, Clearstream and the CMU, in each case to the extent applicable.

General

Pursuant to the Fiscal Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number which are different from the common code, CMU instrument number and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act), if any, applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream or the CMU, each person (other than Euroclear and/or Clearstream or the CMU) who is for the time being shown in the records of Euroclear or of Clearstream or the CMU as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear and/or Clearstream or the CMU as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Bank, the Fiscal Agent and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purposes the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Bank, the Fiscal Agent and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU in accordance with the CMU Rules (as defined in the Fiscal Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU in a relevant CMU Issue Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU as to the identity of any accountholder and the nominal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer and the Bank in respect of that payment under such Note.

Any reference herein to Euroclear and/or Clearstream and/or the CMU shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (Hong Kong time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear, Clearstream and/or the CMU, as the case may be, will become entitled to proceed directly against the Issuer and the Bank on the basis of statements of account provided by Euroclear, Clearstream and/or the CMU and subject to the terms of the Deed of Covenant (as defined in the Terms and Conditions of the Notes) and executed by the Bank on its behalf and on behalf of the Hong Kong Branch.

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 6 (except Condition 6(c)), 7, 12 or 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange), they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

FORM OF PRICING SUPPLEMENT

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

[**PRIIPs REGULATION — 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 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 (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.]

[UK 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 ("**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 Financial Services and Markets Act 2000 ("**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 Regulation (EU) 2017/1129 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.]

[**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. 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.]

[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. 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.]

[**Singapore SFA Product Classification**: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).][(1)]

Pricing Supplement dated [●]
[CHINA BOHAI BANK CO., LTD. 渤海銀行股份有限公司/ CHINA BOHAI BANK CO., LTD., HONG KONG BRANCH]*

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*] due [●]
under the U.S.$.2,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement for the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]] ([together,] the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. [This Pricing Supplement, together with the information set out in Schedule [●] to this Pricing Supplement, supplements the Offering Circular and supersedes the information in the Offering Circular to the extent inconsistent with the information included therein.] Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date:*

* China Bohai Bank Co., Ltd. 渤海银行股份有限公司 is a joint stock company incorporated in the People's Republic of China with limited liability.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Offering Circular dated on or about [●]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated on or about [●] [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated on or about [●] and are attached hereto.]

[*The following language applies where the relevant Series of Notes will 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 "**Professional Investors**") only.

The Stock Exchange of Hong Kong Limited ("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 the 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 Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and 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.

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 HKSE 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.

This document (read together with the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]]) 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 and the Group. 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.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]

1	Issuer:	[China Bohai Bank Co., Ltd. 渤海銀行股份有限公司]/[China Bohai Bank Co., Ltd., Hong Kong Branch]*

* China Bohai Bank Co., Ltd. 渤海银行股份有限公司 is a joint stock company incorporated in the People's Republic of China with limited liability.

2	[(i)]	Series Number:	[●]
	[(ii)	Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)	[●]]
3		Specified Currency or Currencies:	[●]
4		Aggregate Nominal Amount[(2)]:	
	[(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)*]
	[(iii)	Use of proceeds:	[●] (*Give details if different from the "Use of Proceeds" section in the Offering Circular.*)]
6	(i)	Specified Denominations:	[●][(3)]
	(ii)	Calculation Amount:	[●]
7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[*Specify*/Issue date/Not Applicable]
8		Maturity Date:	[specify date *(for Fixed Rate Notes)* or *(for Floating Rate Notes) Interest Payment Date falling on or nearest to the relevant month and year*][(4)]
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 Notes into another interest or redemption/payment basis]*
12	Put/Call Options:	[Put] [Call] [(further particulars specified below)]
13	Listing:	[The Stock Exchange of Hong Kong Limited ("**HKSE**")/Other (*specify*)/None] (For Notes to be listed on the HKSE, insert the expected effective listing date of the Notes)
14	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15	Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Rate [(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year(5) [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]
	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount(6)
	(iv) Broken Amount:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph.)* [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate]*

	(v) Day Count Fraction (Condition 5(j)):	[30E/360/Actual/Actual (ICMA/ISDA)/Actual/365(Fixed)/Other] *(Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in U.S. dollars, Renminbi or Hong Kong dollars)*
	(vi) Determination Date(s) (Condition 5(j)):	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph.)* [●] 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]*
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
16	Floating Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Interest Period(s):	[●]
	(ii) Specified Interest Payment Dates:	[●]
	(iii) Interest Period Date(s):	[Not Applicable/specify dates] *(Not applicable unless different from Interest Payment Date)*
	(iv) Business Day Convention:	[Floating Rate Note Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
	(v) Business Centre(s) (Condition 5(j)):	[Not Applicable/*give details*]
	(vi) Manner in which the Rate(s) of Interest is / are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
	(vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s)):	[Citicorp International Limited/*give details*]
	(viii) Screen Rate Determination (Condition 5(b)(iii)):	
	— Reference Rate:	[●]

	— Interest Determination Date:	*[[●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]*
	— Relevant Screen Page:	[●]
	(ix) ISDA Determination (Condition 5(b)(iii)):	
	— Floating Rate Option:	[●]
	— Designated Maturity:	[●]
	— Reset Date:	[●]
	— ISDA Definitions (if different from those set out in the Conditions):	[●]
	(x) Margin(s):	[+/-] [●] per cent. per annum
	(xi) Minimum Rate of Interest:	[●] per cent. per annum
	(xii) Maximum Rate of Interest:	[●] per cent. per annum
	(xiii) Day Count Fraction (Condition 5(j)):	[●]
	(xiv) Fallback 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:	[*Specify details of fallback provisions*]
17	Zero Coupon Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Amortisation Yield (Condition 6(b)):	[●] per cent. per annum
	(ii) Day Count Fraction (Condition 5(j)):	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]
18	Index Linked Interest Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i) Index/Formula:	*[Give or annex details]*

	(ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) :	[Citicorp International Limited/*give details*]
	(iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]
	(iv) Interest Period(s):	[●]
	(v) Specified Interest Payment Dates:	[●]
	(vi) Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
	(vii) Business Centre(s) (Condition 5(j)):	[●]
	(viii) Minimum Rate of Interest:	[●] per cent. per annum
	(ix) Maximum Rate of Interest:	[●] per cent. per annum
	(x) Day Count Fraction (Condition 5(j)):	[●]
19	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) Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) :	[Citicorp International Limited/*give details*]
	(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:	[●]
	(v) Day Count Fraction (Condition 5(j)):	[●]

PROVISIONS RELATING TO REDEMPTION

20	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:	[●]
21	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:	[●]
22	Final Redemption Amount of each Note	[●] per Calculation Amount
23	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10 and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24	Form of Notes:	**Bearer Notes**: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time] [Permanent Global Certificate exchangeable for Definitive Certificates in the limited circumstances specified in the Permanent Global Certificate] [Permanent Global Certificate exchangeable for Definitive Certificates on [●] days' notice/at any time](7) (8) **Registered Notes:** [Regulation S Global Note ([U.S.$][●] nominal amount) registered in the name of a nominee for [a common depositary for Euroclear and Clearstream]]
25	Financial Centre(s) (Condition 7)) or other special provisions relating to payment dates:	[Not Applicable/*Give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which item 16(ii), 17(iv) and 19(vii) relate*]
26	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*]

27	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*]
28	Details relating to Instalment Notes:	[Not Applicable/*give details*]
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]
	(iii) Minimum Instalment Amount:	[●]
	(iv) Maximum Instalment Amount:	[●]
29	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
30	Consolidation provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
31	Other terms or special conditions:	[Not Applicable/*give details*](9)

DISTRIBUTION

32	(i) If syndicated, names of Managers:	[Not Applicable/*give names*] [The Issuer or any of its broker-dealers or other affiliates may engage in market-making transactions involving the Notes after their initial sale as permitted by applicable law, but none of the Issuer, any of its broker-dealer or its affiliates is obligated to do so or to make a market for the Notes]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give name*]
33	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]

34	U.S. Selling Restrictions	[TEFRA D/TEFRA C/TEFRA not applicable] Regulation S (Category [1/2]) [(TEFRA not applicable for Bearer Notes with a maturity of one year or less or Registered Notes) (Where TEFRA D is applicable, a Bearer Note must be issued in the form of a Temporary Note exchangeable upon a U.S. tax certification for a Permanent Global Note or a Definitive Note)]
35	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] *(If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared in the EEA, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)*
36	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable] *(If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared in the UK, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)*
37	Additional selling restrictions:	[Not Applicable/*give details*]
38	Private bank rebate/commission:	[Not Applicable/In addition, the Issuer has agreed with the [Dealers/Managers] to pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement]

OPERATIONAL INFORMATION

39	ISIN Code:	[●]
40	Common Code:	[●]
41	CMU Instrument Number:	[●]
42	Legal Entity Identifier of the Bank:	549300YB2ARX5DQT4F62
43	Any clearing system(s) other than Euroclear, Clearstream, the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
44	Delivery:	Delivery [against/free of] payment
45	Additional Paying Agents (if any):	[●]

GENERAL

46	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars):	[Not Applicable/U.S.$[●]]
47	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	[Not Applicable/Luxembourg]
48	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	[Not Applicable/Hong Kong]
49	Date of corporate approval(s) for the issuance of the Notes:	[●]
50	Date of any regulatory approval for the issuance of the Notes:	[●]
51	Governing Law:	English law
52	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.]

[PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue [if listed and admitted to trading on the Hong Kong Stock Exchange] of the Notes described herein pursuant to the U.S.$2,000,000,000 Medium Term Note Programme of China Bohai Bank Co., Ltd. 渤海銀行股份有限公司 and China Bohai Bank Co., Ltd., Hong Kong Branch.]

[STABILISATION

In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may over-allot 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, there is no obligation on the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) to do this. Such stabilisation if commenced may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended 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.]

[MATERIAL ADVERSE CHANGE STATEMENT

[Except as disclosed in this document, there/There](10) has been no significant change in the financial or trading position of the Issuer or of the Group since *[insert date of last audited accounts or interim accounts (if later)]* and no material adverse change in the financial position or prospects of the Issuer or of the Group since *[insert date of last published annual accounts]*.]

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ______________________
Duly authorised

Notes:

(1) For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

(2) Except in the case of a tap issue, Notes listed on The Stock Exchange of Hong Kong Limited must be of a principal amount of at least HK$100 million (or equivalent in other currencies).

(3) Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000".

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 its equivalent in other currencies).

(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.

Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to have the Maturity Date fall on the Interest Payment Date falling on or nearest to the specified date.

(5) Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day."

(6) For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 in the case of Renminbi denominated Fixed Rate Notes, being rounded upwards or to the nearest HK$0.01, HK$0.005 in the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

(7) If the Global Note/Certificate is exchangeable for Definitive Notes/Certificates at the option of the holder, the Notes shall be tradeable only in amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.

(8) Only applicable if permitted by the rules of the relevant clearing system. The limited circumstances in which exchange is permitted are set out under the section "*Form of the Notes*" in the Offering Circular.

(9) If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary".

The first set of bracketed words is to be deleted where there is a Permanent Global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

(10) If any change is disclosed in the Pricing Supplement, it may require approval by the Stock Exchange(s). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplements. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are part of a Series (as defined below) of Notes issued by China Bohai Bank Co., Ltd. (the "**Bank**") or China Bohai Bank Co., Ltd., Hong Kong Branch (the "**Hong Kong Branch**") as specified hereon (the "**Issuer**") and are issued pursuant to a fiscal agency agreement (as amended, restated and/or supplemented as at the Issue Date, the "**Fiscal Agency Agreement**") dated 28 October 2021 which has been entered into in relation to the Notes between the Bank, the Hong Kong Branch, Citicorp International Limited as fiscal agent, CMU lodging and paying agent and the other agents named in it and with the benefit of a deed of covenant (as amended, restated and/or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 28 October 2021 executed by the Bank and the Hong Kong Branch in relation to the Notes. The fiscal agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agent(s) and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**" (such Fiscal Agent, CMU Lodging and Paying Agent, Paying Agents, Registrar and Transfer Agent(s) being together referred to as the "**Agents**"). For the purposes of these terms and conditions (the "**Conditions**"), all references 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. Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during usual business hours at the specified offices of the Paying Agents.

The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects. The Notes are issued in series ("**Series**") and each Series may comprise one or more Tranches.

If specified hereon that the Issuer is the Hong Kong Branch, notwithstanding that the Hong Kong Branch is not a separate and independent legal person of the Bank, any obligations of the Hong Kong Branch under these Conditions shall be construed subject to, and in accordance with, applicable law.

1 FORM, DENOMINATION AND TITLE

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

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note (together with an Index Linked Interest Note, an "**Index Linked Note**"), an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest Basis and Redemption/Payment Basis shown hereon.

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

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

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

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

2 NO EXCHANGE OF NOTES AND TRANSFERS OF REGISTERED NOTES

(a) **No Exchange of Notes**: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes**: Subject to Condition 2(f), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one

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

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes**: In the case of an exercise of the Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any other Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within seven business days of receipt of a duly completed form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any other Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday, a Sunday or a public holiday, on which banks are open for business in the place of the specified office of the Registrar or the relevant other Transfer Agent (as the case may be).

(e) **Transfers Free of Charge**: Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Issuer, the Registrar or the relevant other Transfer Agent may require) in respect of taxes or charges.

(f) **Closed Periods**: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6, (ii) after any such Note has been put by the relevant Noteholder or (iii) during the period of seven days ending on (and including) any Record Date.

3 STATUS

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4 COVENANT

(a) **Reporting**: Where the NDRC Circular and/or the PBOC Circular applies to the Tranche of Notes to be issued, each of the Issuer and/or the Bank undertakes to provide or cause to be provided a notification of the requisite information and documents in connection with such Tranche of Notes to the NDRC, PBOC and/or SAFE within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Circular and/or the PBOC Circular.

In these Conditions:

"**NDRC**" means the National Development and Reform Commission of the People's Republic of China or its local counterparts;

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

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

"**PBOC Circular**" means the Macro-Prudential Management of Cross-Border Financing in Full Aperture (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) issued by the PBOC and which came into effect on 12 January 2017, and any implementation rules as issued by the PBOC from time to time;

"**PRC**" means People's Republic of China (for the avoidance of doubt not including the Hong Kong Special Administrative Region, Macau Special Administrative Region or Taiwan); and

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

5 INTEREST AND OTHER CALCULATIONS

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

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes**:

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

(ii) ***Business Day Convention***: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) ***Rate of Interest for Floating Rate Notes***: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin, if any. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(1) the Floating Rate Option is as specified hereon;

(2) the Designated Maturity is a period specified hereon; and

(3) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

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

(B) Screen Rate Determination for Floating Rate Notes

(1) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or, in the case of CNH HIBOR, 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 as of 2.30 p.m. (Hong Kong time), on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

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

(2) if the Relevant Screen Page is not available or if sub-paragraph (B)(1)(I) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (B)(1)(II) 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, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate and, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is

HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, in the case of CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(3) if paragraph (B)(2) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, in the case of CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, in the case of CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) ***Benchmark Discontinuation***

(A) Independent Adviser

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to determine or to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(b)(iv)(B)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(b)(iv)(D)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5(b)(iv) shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith or fraud, the Issuer and the Independent Adviser shall have no liability whatsoever to the Fiscal Agent, the Paying Agents, the Noteholders, the Receiptholders or the Couponholders for any determination made by it and for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 5(b)(iv).

If (1) the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser; or (2) the Issuer or the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(b)(iv)(A) prior to the date which is seven business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be determined using the Original Reference Rate last displayed on the Relevant Screen Page prior to the relevant Interest Determination Date. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the immediately preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that immediately preceding Interest Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(b)(iv)(A).

(B) Successor Rate or Alternative Rate

If the Issuer, following consultation with the Independent Adviser, determines that:

(1) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(iv)); or

(2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(iv)).

(C) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Issuer, following consultation with the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(D) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(b)(iv) and the Issuer, following consultation with the Independent Adviser determines (1) that amendments to these Conditions and/or Fiscal Agency Agreement are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "Benchmark Amendments") and (2) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(b)(iv)(E), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Fiscal Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

Notwithstanding any other provision of this Condition 5(b)(iv), the Calculation Agent or any Paying Agent is not obliged to concur with the Issuer or the Independent Adviser in respect of any changes or amendments as contemplated under this Condition 5(b)(iv) to which, in the sole opinion of the Calculation Agent or the relevant Paying Agent, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Calculation Agent or the relevant Paying Agent (as applicable) in the Fiscal Agency Agreement and/or these Conditions.

In connection with any such variation in accordance with this Condition 5(b)(iv)(D), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(E) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(b)(iv) will be notified at least five business days prior to the relevant Interest Determination Date by the Issuer to the Fiscal Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 14, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Fiscal Agent, the Calculation Agent and the Paying Agents a certificate signed by an authorised signatory of the Issuer:

(1) confirming (I) that a Benchmark Event has occurred, (II) the Successor Rate or, as the case may be, the Alternative Rate, (III) the applicable Adjustment Spread and (IV) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(b)(iv); and

(2) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Fiscal Agent shall display such certificate at its offices, for inspection by the Noteholders at all reasonable times during normal business hours.

Each of the Fiscal Agent, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Fiscal Agent's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the Paying Agents and the Noteholders.

Notwithstanding any other provision of this Condition 5(b)(iv), if in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5(b)(iv), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable (other than due to its own gross negligence, wilful default or fraud) to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and (in the absence of such gross negligence, wilful default or fraud) shall not incur any liability for not doing so.

(F) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(b)(iv)(A), (B), (C) and (D), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iv) will continue to apply unless and until a Benchmark Event has occurred.

(v) ***Rate of Interest for Index Linked Interest Notes***: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined by the Calculation Agent in the manner specified hereon and interest will accrue by reference to an index or formula as specified hereon.

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

(d) **Dual Currency Notes**: In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined by the Calculation Agent in the manner specified hereon.

(e) **Partly Paid Notes**: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest**: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding**:

(i) If any Margin is specified hereon (either (A) generally, or (B) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (A), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (B), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum Rate of Interest, Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (B) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant figure shall be rounded up) and (C) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(h) **Calculations**: The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

In the case of Notes 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.

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

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

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

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(ii) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if Independent Adviser determines that no such spread is customarily applied);

(iii) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(b)(iv)(B) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 5(b)(iv)(D).

"**Benchmark Event**" means:

(i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist;

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

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(v) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate; or

(vi) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that, the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market,

provided that the Benchmark Event shall be deemed to occur (a) in the case of sub-paragraphs (ii) and (iii) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be or (b) in the case of sub-paragraph (iv) above, on the date of the prohibition of use of the Original Reference Rate, or (c) in the case of paragraph (vi) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Fiscal Agent, the Calculation Agent and the Paying Agents. For the avoidance of doubt, neither the Fiscal Agent, the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination.

"**Business Day**" means:

(i) in the case of Notes denominated in a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Notes denominated in euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Notes denominated in Renminbi, a day (other than a Saturday, a Sunday or a public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of Notes denominated in a currency and/or one or more Business Centres is specified hereon, a day (other than a Saturday, a Sunday or a public holiday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Calculation Amount**" means the amount by reference to which the Interest Amount, Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount are calculated as specified hereon.

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

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

(ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;

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

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

where:

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

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

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

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

“$\mathbf{D_1}$” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case 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 such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30.

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

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

where:

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

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

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

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

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case 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 such number would be 31, in which case D_2 will be 30.

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

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

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.

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

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(1) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Periods normally ending in any year; and

(2) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Periods normally ending in any year,

where:

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

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

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

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

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

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

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling, Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified

Currency prior to the first day of such Interest Accrual Period if the Specified Currency is not Sterling, euro, Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR provided that in this definition, "**Business Day**" shall mean a day (other than a Saturday, a Sunday or a public holiday) on which commercial banks and foreign exchange markets settle payments in London or Hong Kong (as the case may be).

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon.

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

"**ISDA Definitions**" means the 2006 ISDA Definitions, as amended and supplemented and published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon and, if specified as such hereon, as supplemented by the ISDA Benchmarks Supplement.

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of the Notes and that is either specified or calculated in accordance with the provisions hereon.

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

"**Reference Rate**" means the rate specified as such hereon.

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

(i) 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

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the re-quest 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.

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

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

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

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

(k) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for it or them hereon and for so long as any Note is outstanding (as defined in the Fiscal Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or, if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 REDEMPTION, PURCHASE AND OPTIONS

(a) Redemption by Instalments and Final Redemption:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within Condition 6(a)(i), its final Instalment Amount.

(b) Early Redemption:

(i) Zero Coupon Notes:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) (as applicable) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

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

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

(c) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by an authorised signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

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

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

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

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

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any other Transfer Agent at its specified office, together with a duly completed option exercise notice (an "**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any other Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Fiscal Agency Agreement) without the prior consent of the Issuer.

(f) **Partly Paid Notes**: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.

(g) **Purchases**: The Issuer, the Bank and its Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Such Notes may, at the option of the Issuer, be held, reissued, resold or surrendered to the Fiscal Agent for cancellation.

(h) **Cancellation**: All Notes purchased by or on behalf of the Issuer, the Bank or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 PAYMENTS AND TALONS

(a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be:

(i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank; and

(ii) in the case of Notes denominated in Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

In this Condition 7, "bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System or, in the case of Renminbi, in Hong Kong.

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

(b) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(iii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Notes denominated in Renminbi) and fifteenth (in the case of Notes denominated in a currency other than Renminbi) day before the due date for payment thereof (the "**Record Date**") and in the manner provided in Condition 7(b)(iii) below.

(iii) Payments of principal or interest, as the case may be, on each Registered Note shall be made:

(A) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank; and

(B) in the case of Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(b)(iii), "**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

*So long as the Notes are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person shown as the holder of the Notes in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payment, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

Payment of interest or principal by the CMU Lodging and Paying Agent to the person for whose account a relevant interest in the Global Certificate is credited as being held in the CMU at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU in a relevant CMU Issue Position Report (as defined in the relevant CMU Rules) or any other relevant notification by the CMU shall discharge the obligations of the Issuer in respect of that payment.

(c) **Payments in the United States**: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Fiscal Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 and any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (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 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents**: The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar and the Transfer Agents appointed under the Fiscal Agency Agreement and any Calculation Agent(s) appointed in respect of any Notes act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, in each case in accordance with the Fiscal Agency Agreement, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes outside the United Kingdom, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

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

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

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

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relevant unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons**: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days**: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday, a Sunday or a public holiday) on which banks and foreign exchange markets are open for business in Hong Kong and the relevant place of presentation (if presentation and/or surrender of such Note, Receipt or Coupon is required) in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro or Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in Renminbi) on which commercial banks and foreign exchange markets in Hong Kong are open for business and settlement of Renminbi payments; or

(iii) (in the case of a payment in euro) which is a TARGET Business Day.

8 TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within a Tax Jurisdiction or any political subdivision or any authority therein or thereof having power to tax to which the Issuer becomes subject in respect of payments made by it in respect of the Notes, Receipts and the Coupons, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) **Other connection**: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the relevant Tax Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) **Lawful avoidance of withholding**: 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; or

(c) **Presentation more than 30 days after the Relevant Date**: presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions:

(i) "**Relevant Date**" in respect of any Note, Receipt or Coupon means whichever is the later of (a) the date on which payment in question first becomes due and (b) if the full amount payable has not been paid on or prior to such due date, the date on which the full amount has been paid and notice to that effect has been given to the Noteholders; and

(ii) "**Tax Jurisdiction**" means the PRC, Hong Kong or any other jurisdiction in which the Issuer is organised or tax resident or in each case any political subdivision or any authority therein or thereof having power to tax.

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition 8.

For the avoidance of doubt, the Issuer's obligation to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on the Notes, the Receipts or the Coupons; provided that the Issuer shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the Tax Jurisdiction or any political subdivision thereof or any taxing authority thereof or therein, with respect to the Fiscal Agency Agreement or as a consequence of the issuance of the Notes, the Receipts or the Coupons.

9 PRESCRIPTION

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

10 EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs and is continuing, any Noteholder may give notice to the Issuer at the specified office of the Fiscal Agent that any Note held by it is and shall immediately become, due and payable at the Early Redemption Amount of such Note together with accrued interest (if any) to the date of payment without further formality:

(a) **Non-Payment**: The Issuer fails to pay the principal of or any premium (if any) or interest on any of the Notes when due and, in the case of any premium (if any) or interest, where such failure continues for a period of 14 days; or

(b) **Breach of Other Obligations**: The Issuer does not perform or comply with any one or more of its other obligations in the Notes or the Deed of Covenant which default continues for a period of 45 days after written notice of such default shall have been given to the Issuer or the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Acceleration**: Any other present or future Public External Indebtedness of the Bank or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described) in respect of the terms thereof, or any such Public External Indebtedness is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.$30,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank of the day of which this paragraph operates); or

(d) **Insolvency**: The Bank or any of its Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Bank or any of its Material Subsidiaries; or

(e) **Winding-up**: An order is made or an effective resolution passed for the winding-up or dissolution or administration of the Bank or any of its Material Subsidiaries, or the Bank ceases or threatens to cease to carry on all or a material part of its business or operations, except:

  (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation,

    (A) on terms approved by an Extraordinary Resolution of the Noteholders, or

    (B) in the case of a Material Subsidiary of the Bank, whereby the undertaking and assets of any Material Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries (in any combination); or

  (ii) a solvent winding-up of any Material Subsidiary; or

  (iii) a disposal on an arm's length basis where the assets (whether in cash or otherwise) resulting from such disposal are transferred to or otherwise vested in the Bank or another of its Subsidiaries (in any combination);

(f) **Illegality**: It is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Covenant; or

(g) **Analogous Events**: any event occurs which that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 10.

In these Conditions:

"**Material Subsidiary**" means a Subsidiary of the Bank whose total assets, total revenue or net profit as at the date at which its latest audited financial statements were prepared or, as the case may be, for the financial period to which these audited financial statements relate, account for five per cent. or more of the consolidated total assets, consolidated total revenue or consolidated net profit of the Bank as at such date or for such period. If a Material Subsidiary transfers all of its assets and business to another Subsidiary of the Bank, the transferee shall become a Material Subsidiary and the transferor shall cease to be a Material Subsidiary on completion of such transfer.

"**Public External Indebtedness**" means any indebtedness of the Bank (or, for the purposes of Condition 10, any Subsidiary), or any guarantee or indemnity by the Bank of indebtedness, for money borrowed which, is in the form of or represented by bonds, notes, debentures, loan stock or other securities which are, or are issued with the intention on the part of the issuer thereof to be, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market outside the PRC (whether or not initially distributed or by way of private placement), except any securities with a maturity of less than one year.

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Bank.

None of the Agents shall be required to take any steps to ascertain whether any Event of Default has occurred and none of them shall be responsible or liable to the Noteholders, the Issuer or any other person for any loss arising from any failure to do so.

11 MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

(a) **Meetings of Noteholders**: The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum Rate of Interest, Instalment Amount or Redemption Amount, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary

Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the Noteholders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. 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.

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

(b) **Modification of Fiscal Agency Agreement**: The Bank and the Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if:

(i) to do so could not be expected to be materially prejudicial to the interests of the Noteholders; or

(ii) such modification is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

12 REPLACEMENT OF NOTES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

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

13 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes (except for the first payment of interest and if applicable, the timing for notification to the NDRC, PBOC and/or SAFE and save that for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

14 NOTICES

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Hong Kong or, so long as Notes are listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), and the rules of that Exchange so require, notices to holders of the Notes shall also be published in a daily newspaper with general circulation in Hong Kong. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or the Global Certificate 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 CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate, except that if the Notes are listed on the Hong Kong Stock Exchange, and the rules of the Hong Kong Stock Exchange so require, notice will in any event also be published on the website of the Hong Kong Stock Exchange.

15 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

16 CURRENCY INDEMNITY

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer, as the case may be, to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition 16, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

17 GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons and any non-contractual obligations arising out of or in connection with them ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of the courts of Hong Kong and waives any objection to the Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) **Waiver of Immunity**: The Issuer further irrevocably agrees that no immunity (to the extent that it may now or hereafter exist, whether on the grounds of sovereignty or otherwise) from any Proceedings or from execution of judgment shall be claimed by or on behalf of it or with respect to its assets, any such immunity being irrevocably waived by the Issuer, and the Issuer irrevocably consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

USE OF PROCEEDS

Unless otherwise specified in the Pricing Supplement, the net proceeds of each issue of the Notes will be used by the relevant Issuer for its working capital purposes.

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The Bank's and the Group's business, financial condition or results of operations could be materially and adversely affected by any of these risks. Factors which the Bank and the Hong Kong Branch believe may be material for the purpose of assessing the market risks associated with the Notes are described below. The Bank and the Hong Kong Branch believe that the following factors may affect their ability to fulfil their obligations under the Notes and they represent the principal risks inherent in investing in the Notes, but the Bank's or the Hong Kong Branch's inability 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 and the Hong Kong Branch do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Additional considerations and uncertainties not presently known to the Bank and the Hong Kong Branch or which the Bank and the Hong Kong Branch currently deem immaterial may also have an adverse effect on an investment in the Notes. All of these factors are contingencies which may or may not occur and the Bank and the Hong Kong Branch are not in a position to express a view on the likelihood of any such contingency occurring.

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 BUSINESS

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

The Bank's financial condition and results of operations will be affected by its ability to maintain and improve the quality of its loan portfolio. Its gross loans and advances to customers before taking into account the interest accrued amounted to RMB708,057.5 million, RMB887,537.5 million and RMB976,828.2 million as at 31 December 2019, 31 December 2020 and 30 June 2021, respectively. As at the same dates, the Bank's non-performing loans amounted to RMB12,591.4 million, RMB15,713.8 million and RMB17,185.9 million, respectively, and its non-performing loan ratio was 1.78%, 1.77% and 1.76%, respectively.

The Bank's financial condition and results of operations will be affected by its ability to maintain or improve the quality of its assets, including its loans to customers and investments in debt securities and special purpose vehicles. Deterioration in the overall quality of the Bank's assets may occur due to a variety of reasons that are beyond its control, including, but not limited to, a slowdown of China's national or regional economy, adverse macroeconomic developments, fluctuation in capital markets, outbreak of disasters or occurrence of major accidents. All of these may adversely affect the businesses, operations, or liquidity of the Bank's customers, counterparties or ultimate financing parties of its business and it may not be able to realise the value of its collateral or guarantees securing the assets. In particular, any significant deterioration in its asset quality may lead to significant increases in its non-performing loans, allowance for impairment losses, and/or loans written off due to impairment, which may materially and adversely affect the Bank's business, financial condition, and results of operations.

In addition, the Bank cannot assure investors that it can always successfully achieve the growth of its assets and business, offer new products to attract new customers, improve its marketing efforts, or expand its sales channels. Maintaining the growth of the Bank's business will require substantial managerial and operational resources and additional capital, and the Bank may not be able to obtain such capital on acceptable terms. Any changes in the above factors may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank's allowance for impairment losses on loans to customers and financial investments may not be sufficient to cover the actual losses on its loan portfolio and such investments it may incur in the future.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's allowance coverage ratio was 187.73%, 158.80% and 160.55%, respectively. The Bank's allowance to gross loan ratio was 3.34%, 2.81% and 2.82%, respectively, as at the same dates. For the years ended 31 December 2019 and 2020 and for the six months ended 30 June 2021, impairment losses which the Bank recognised on loans and advances to customers were RMB8,789.2 million, RMB6,784.2 million and RMB6,194.2 million, respectively.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's financial investments amounted to RMB300,306.9 million, RMB375,926.7 million and RMB409,914.4 million, representing 26.9%, 27.0% and 26.3% of its total assets, respectively. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's impairment allowance on financial investments amounted to RMB3,204.3 million, RMB9,919.2 million and RMB8,359.5 million, respectively.

The Bank determines the amount of impairment allowance on its loans and advances to customers and financial investments based on the applicable accounting policies and on its management's assessments of relevant factors, such as its borrowers or ultimate financing parties' operational and financial conditions, repayment ability and intention to repay, the realisable value of collateral, the ability of the guarantors to fulfil their obligations, as well as China's economic, legal, and regulatory environment. Many of these factors are beyond the Bank's control, and, as a result, its assessments and expectations on these factors may differ from the actual situations.

In addition, the Bank's impairment allowance may increase due to future regulatory and accounting policy changes, deviations in loan classification or adoption of a more conservative provisioning practice. In particular, following the adoption of IFRS 9 since January 1, 2018, the Bank is required to apply an expected credit loss model in determining impairment losses which, as compared to the incurred loss model under IAS 39, relies to a larger extent on forward-looking information instead of objective evidence of impairment as a precondition for recognising credit losses. See also "— *Risks Relating to the Bank's Business — The Bank's estimation of expected credit losses under IFRS 9 relies on numerous factors beyond its control and is therefore subject to inherent limitations and uncertainties, which may materially affect its assessment of impairment allowance*". Any of the factors above may significantly reduce the Bank's profit and materially and adversely affect its business, prospects, financial condition and results of operations.

The outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on the Bank's business, financial condition and results of operations.

Since early 2020, the PRC and a growing number of countries and regions around the world have encountered an outbreak of the coronavirus disease 2019 ("**COVID-19**"), a highly contagious disease known to cause respiratory illness. On 11 March 2020, the World Health Organisation announced the COVID-19 outbreak as a pandemic. Governments worldwide have since implemented various measures with the aim to curb the spread of COVID-19, including entry restrictions for foreign travellers and domestic social-distancing measures. In 2020, stringent measures, including mandatory quarantines and travel restrictions, were imposed in numerous regions across the PRC in an effort to contain the outbreak, causing a noticeable reduction in regional and national economic activities, especially in the wholesale and retail sector, which may in turn heighten some of the Bank's customers' credit risks.

Since the outbreak, PRC Government has introduced a wide range of fiscal and monetary easing initiatives aimed at countering the impact of the epidemic, including encouraging banks and financial institutions to enhance their credit support to enterprises and individuals most severely affected. The Bank has launched special supportive measures in prompt response to these initiatives. The implementation of these measures may adversely affect the maturity profile of the Bank's loan portfolio, asset quality and liquidity position. In June 2020, PRC Government called on banks and other financial institutions to surrender part of their profits through offering loans with lower interest rates, reducing fees, deferring loan repayments and granting unsecured loans to small businesses, which could adversely affect the business, financial condition and results of operations of PRC banks, including the Bank. The Bank will continue to monitor the development of COVID-19, assess and actively respond to its impact on the business operations and financial position of its customers.

Although industries and enterprises across the PRC have gradually resumed operations and production since March 2020, following a continued decrease in the number of confirmed infections, the Bank cannot foresee whether the outbreak of COVID-19 will be effectively contained worldwide, nor can it predict the severity and duration of its impact. If the outbreak is not effectively and timely controlled, the Bank's business operations, asset quality and financial condition may be materially and adversely affected due to deteriorating market outlook and sentiments, slowdown in national and global economic growth, weakened liquidity and financial condition of its customers (especially micro and small enterprises), or other factors that the Bank cannot foresee. In particular, due to the uncertainties surrounding the impact of COVID-19, the Bank's impairment losses determined under IFRS 9 may increase in the future, as such determination relies to a larger extent on forward-looking information instead of objective evidence of impairment under IAS 39. The Bank may also face a decline in the fair value of its financial investments measured at fair value amidst the uncertainties brought by COVID-19.

Any of these factors and other factors beyond the Bank's control could have an adverse effect on the overall business environment, cause uncertainties in the regions where the Bank conducts business, cause its business to suffer in ways that it cannot predict and materially and adversely impact its business, financial condition and results of operations.

The Bank faces concentration risks from its credit exposure to certain industries, borrowers and geographic regions.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's corporate loans and advances represented 65.7%, 61.5% and 58.3% of its total loans and advances to customers, respectively. As at 31 December 2020, the Bank's loans and advances to (i) the lease and business services industry, (ii) the real estate industry, (iii) the manufacturing industry, (iv) the water conservancy industry, environment and public facilities management industry, and (v) the wholesale and retail industry, which were the top five industries from which its corporate loan customers are derived, represented 31.4%, 20.5%, 14.4%, 10.5% and 8.6% of its total corporate loans and advances, respectively. As at 30 June 2021, the Bank's loans and advances to these five industries represented 32.1%, 16.4%, 17.0%, 10.8% and 9.0% of its total corporate loans and advances, respectively. As at 31 December 2020, the non-performing loan ratio for loans to corporate borrowers in these five industries was 1.83%, 2.13%, 4.89%, 0.10% and 3.82%, respectively. As at 30 June 2021, the non-performing loan ratio for loans to corporate borrowers in these five industries was 0.92%, 3.94%, 4.37%, 0.09% and 1.66%, respectively.

Any deterioration in any of the industries where the Bank's loans and advances are concentrated or any deterioration in the financial condition or results of operations of the Bank's borrowers could undermine the quality of the Bank's existing loans and its ability to extend new loans, which in turn could materially and adversely affect the Bank's business, financial condition and results of operations.

As at 31 December 2020 and 30 June 2021, loans to the Bank's ten largest single borrowers totalled RMB57,202.3 million and RMB68,040.7 million, respectively, representing 50.6% and 54.1% of the Bank's net capital base, respectively. If these loans deteriorate in quality or become non-performing, the Bank's asset quality could deteriorate significantly, and its financial condition and results of operations could be materially and adversely affected.

Furthermore, the Bank's business and operations are primarily concentrated in Northern and Northeastern China. As at 31 December 2019, 31 December 2020 and 30 June 2021, 46.1%, 43.9% and 41.6%, respectively, of the Bank's loans and advances to customers originated from Northern and Northeastern China. The Bank expects the business in Northern and Northeastern China to remain a substantial portion of its business in the foreseeable future. Therefore, the Bank's continued growth depends to a certain extent on the continued economic growth in Northern and Northeastern China, and it is exposed to risks arising from concentration of loans extended in Northern and Northeastern China. If the local economy within Northern and Northeastern China slows down or experiences negative development, the Bank may take cautious measures to reduce its risk exposure after taking into account various factors. These factors include its overall strategy for business development in different regions and its needs for credit risk control. Any material adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Northern and Northeastern China, or any material adverse change in financial condition of the Bank's customers in this region or any parties to whom they provide guarantees, may materially and adversely affect its business, financial condition and results of operations.

The collateral or guarantees securing the Bank's loans to customers may not be sufficient or fully realisable.

As at 31 December 2020, 33.1%, 10.7% and 31.1% of the Bank's total loans and advances to customers were secured by collateral, pledges, and guarantees, respectively. As at 30 June 2021, 31.2%, 13.2% and 28.2% of its total loans and advances to customers were secured by collateral, pledges, and guarantees, respectively. The collateral and pledges securing the Bank's loans to customers primarily comprised land use rights, buildings and houses, certificates of deposit, equity, and other assets. The value of the collateral and pledges securing its loans may fluctuate and decline due to various factors beyond its control, including the macroeconomic environment affecting China. For example, a slowdown in the PRC economy may lead to a downturn in the real estate market, which, in turn, may result in declines in the value of the real estate assets securing the Bank's loans to levels below the outstanding principal balance of such loans. In addition, the Bank cannot assure investors that its assessment of the value of collateral or pledges will be accurate at all times. If the collateral or pledges prove to be insufficient to cover the related loans, it may have to obtain additional collateral or pledges from the borrowers, and it cannot assure investors that it would be able to do so on satisfactory terms or at all. Reduction in value of the Bank's collateral and pledges or its inability to obtain additional collateral or pledges may result in additional impairment allowance, which may materially and adversely affect the Bank's business, financial condition, and results of operations.

In the PRC, the procedures for liquidating or otherwise realising the value of collateral or pledges may be time-consuming, the value of collateral or pledges may not be fully realised and it may be difficult to enforce claims in respect of such collateral or pledges. In addition, under certain circumstances, other claims may be senior to the Bank's claims on the collateral or pledges securing its loans. All of the foregoing factors could adversely affect its ability to realise the value of the collateral or pledges securing its loans in a timely manner, or at all.

The Bank's guaranteed loans are generally not backed by sufficient collateral or other security interests. Certain factors which affect a borrower's ability to repay a guaranteed loan in full and on time may also affect the guarantor's ability to fully perform its guarantee obligations. If the Bank is unable to dispose of the assets of borrowers and guarantors at reasonable terms or in a timely manner, or if the guarantors fail to fully perform their guarantee obligations on a timely basis, the Bank's business, financial condition, and results of operations may be materially and adversely affected.

As at 31 December 2019, 31 December 2020 and 30 June 2021, unsecured loans accounted for 20.2%, 21.6% and 20.6% of the Bank's total loans to customers, respectively. The Bank granted such unsecured loans mainly based on its credit evaluation of such customers. The Bank cannot assure investors that its credit assessments of such customers are or will be accurate at all times, or that such customers will repay their loans in full and on time. As the Bank has only general claims on the assets of defaulting borrowers under loans not secured by collateral or pledges, the Bank is exposed to risk of losing the entire outstanding amount under such loans, which may adversely affect its business, financial condition and results of operations.

Changes in accounting standards or policies may materially affect the Bank's financial condition and results of operations.

Financial accounting and reporting standards as well as the relevant interpretation of these standards, which govern the form and content of the Bank's financial statements, are subject to changes from time to time. Such changes are beyond the Bank's control, can be difficult to predict and may materially affect how the Bank records and reports its results of operations. For example, the Bank may be required to apply a new or a revised standard retroactively, leading to material changes to previously reported financial results. Any future changes to the accounting policies may have a material impact on the Bank's financial condition and results of operations.

Since 1 January 2018, the Bank has adopted IFRS 9. Among other things, IFRS 9 adopts a different credit loss model compared with that used in IAS 39, where a loss event will no longer need to occur before an impairment allowance is recognised. In addition, the impairment model of IFRS 9 requires that the Bank's management determine whether there is a significant increase in credit risks in certain assets and, if so, to make provisions for a lifetime expected credit losses for those assets rather than setting out allowance in the amount of 12-month expected credit losses.

If the Bank fails to maintain the growth rate of its deposits from customers or its deposits from customers decrease substantially, the Bank's liquidity, financial conditions and results of operations could be materially and adversely affected.

Deposits from customers are one of the Bank's key funding sources. Growth in deposits from customers has supported the expansion of the Bank's loan business and helped the Bank to meet other liquidity needs. Decreases in deposits from customers will reduce the Bank's sources of funding, which, in turn, will reduce its ability to extend new loans while meeting capital and liquidity requirements. In recent years, the Bank's deposits have continued to grow. The Bank's total deposits from customers amounted to RMB647,764.6 million, RMB758,235.8 million and RMB857,649.6 million as at 31 December 2019, 31 December 2020 and 30 June 2021, respectively. However, there are various factors affecting the growth of the Bank's deposits from customers, some of which are beyond the Bank's control, such as economic and political conditions, the availability of alternative investment products, and changes in customers' preference for savings. In particular, the Bank may not be able to attract or retain adequate corporate deposits under a tightened credit environment, where higher financing costs and difficulties in raising funds may result in increased corporate deposit withdrawals and the Bank's customers may be less willing or able to place deposits. In such cases, the Bank's liquidity, results of operations and financial condition may be adversely affected.

There is a mismatch between the maturities of the Bank's liabilities and its assets. For more details, please see "*— Risks Relating to the Bank's Business — The Bank is exposed to liquidity risk arising out of the mismatches between the maturities of its assets and liabilities, which could materially and adversely affect its business, financial condition, and results of operations.*" Such a mismatch could place strains on the Bank's liquidity position. The Bank cannot assure investors that it will always be able to maintain the growth in its deposits from customers at a pace sufficient to support its expanding business.

If the Bank is unable to maintain the growth rates of its deposits from customers, or a substantial portion of its customers withdraw their demand deposits or do not roll over their time deposits upon maturity, the Bank's ability to meet capital liquidity requirements may be materially and adversely affected and, as a result, the Bank may need to seek funding from alternative sources, which may not be available on reasonable terms or at all. Failure to secure funding from alternative sources on reasonable terms under such circumstances could materially and adversely affect its business, financial condition and results of operations.

The Bank's estimation of expected credit losses under IFRS 9 relies on numerous factors beyond its control and is therefore subject to inherent limitations and uncertainties, which may materially affect its assessment of impairment allowance.

The Bank assesses impairment allowance on loans to customers and financial investments in line with the Bank's applicable accounting policies and conduct periodic review and assessment in this respect. Following the adoption of IFRS 9 since 1 January 2018, the Bank is required to apply an expected credit loss model in determining impairment losses which, as compared to the incurred loss model under IAS 39, relies to a larger extent on forward-looking information instead of objective evidence of impairment as a precondition for recognising credit losses.

Under the expected credit loss model, a loss event will no longer need to occur before an impairment allowance is recognised. Instead, the management is required to estimate on expected credit losses and the point at which there is a significant increase in credit risk, based on available information that the management deems reasonable and applicable, all of which may involve difficult judgment. Many of these factors are beyond its control and its estimation is subjective in nature, and therefore is subject to inherent limitations.

There is no assurance that the Bank can always make accurate assessment and forecast or that the actual losses on such assets will not significantly increase in the future compared to its expected losses. The Bank also cannot assure investors that the impairment allowance will be sufficient to cover all losses it may actually incur in the future, upon the occurrence of which its business, prospects, financial condition and results of operations may be materially and adversely affected.

Changes in the fair value of the Bank's financial investments and derivative financial instruments may materially and adversely affect its operating results, financial condition and prospects.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank had financial investments measured at fair value through profit or loss of RMB36,238.3 million, RMB72,597.5 million and RMB88,803.7 million, respectively, and financial investments measured at fair value through other comprehensive income of RMB64,967.3 million, RMB61,813.6 million and RMB77,892.5 million, respectively, before taking into account the allowance for impairment losses and the interest accrued. In addition, as at the same dates, its derivative financial assets amounted to RMB158.7 million, RMB232.5 million and RMB490.5 million, respectively. For details of the Bank's financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and derivative financial instruments, see "*Assets and Liabilities*

— *Assets — Financial Investments*". All of these financial investments are stated at fair value. The Bank recognises fair value changes in profit or loss arising from re-measurement of financial investments measured at fair value through profit or loss and derivative financial instruments in the relevant accounting period. For financial investments measured at fair value through other comprehensive income, the Bank recognises changes in their fair value under other comprehensive income.

Asset valuations in future periods, reflecting then prevailing market conditions, may result in negative changes in the fair values of these financial investments, which could result in a decline in the Bank's reported shareholders' equity, book value per share and net profit. In addition, the value the Bank ultimately realises from the disposal of these investments may be lower than their current fair value. Any of these factors could require the Bank to record negative fair value adjustments, which may have a material adverse effect on the Bank's operating results, financial condition or prospects.

The Bank cannot assure investors that it can always obtain necessary or reliable data to apply relevant financial valuation models for determination of fair values, due to factors beyond its control such as loss of data or insufficient market information. In such circumstances, the Bank needs to make assumptions, judgments and estimates in order to establish the fair value. Since assumptions are subjective in nature and inherently uncertain, the actual results may differ from its estimates. Any consequential impairments or write-downs could have a material adverse effect on the Bank's operating results, financial condition and prospects.

The Bank is exposed to risks arising from loans granted to micro and small enterprises.

The Bank provides loans to micro and small enterprises. The Bank believes that micro and small enterprises are generally more vulnerable to macroeconomic fluctuations, as they may lack the financial, management or other resources necessary to withstand the adverse effects brought about by economic slowdowns or changes in the regulatory environment. Any adverse changes in the economic or regulatory environment, occurrence and/or development of natural disaster or epidemics, including the recent outbreak of COVID-19, may affect the repayment ability of micro and small enterprises, which in turn may materially and adversely affect its business, financial condition and results of operations. For more details, please also see "*— Risks Relating to the PRC — Natural disasters, epidemics, acts of war or terrorism or other factors beyond the Bank's control may have a material adverse effect on the Bank's business operations, financial condition and results of operations*". In addition, information available on micro and small enterprises could be relatively inadequate for the Bank to assess its credit risks. The Bank's NPL ratio may increase due to the effects on its micro and small enterprise customers caused by economic slowdowns or unfavourable changes in the economic or regulatory environment, which may materially and adversely affect the Bank's business, financial condition and results of operations.

Any significant or protracted downturn in, or change in national policies affecting, the real estate market in the PRC may have a material adverse effect on the Bank's business, asset quality, financial condition and results of operations.

The Bank is exposed to risks associated with the PRC real estate market, especially from corporate loans and advances to the real estate industry, residential mortgage loans and other loans secured by real estate. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's loans and advances to corporate borrowers in the real estate industry represented 23.5%, 20.5% and 16.4%, respectively, of its total corporate loans and advances.

PRC Government has imposed, and may continue to impose, macroeconomic policies to regulate the real estate market including imposing value-added tax on the transfer of residential apartments. These measures may slow down the growth of the Bank's loans to, and negatively affect the financial condition, liquidity and repayment capabilities of, the Bank's customers in the real estate industry. These measures may also reduce the demand for residential mortgage loans in the PRC. In addition, any significant or continued decline in property prices in the PRC may have a material adverse effect on the asset quality of the Bank's corporate loans and advances to customers in the real estate industry and personal residential mortgage loans. If the real estate market in the PRC experiences a recession or a prolonged period of downturn, the value of the real property as collateral for the Bank's loans and advances may decrease to a level insufficient to cover the principal of and interest on the loans, which could therefore prevent the Bank from recovering all or part of its principal and interest if the borrower defaults. The Bank cannot guarantee that the measures it has taken to manage these risks will be effective or sufficient to protect it against the foregoing adverse effects.

The Bank faces risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions.

In recent years, PRC Government has promulgated various rules and regulations to mitigate systemic risks in the financial industry. In particular, in order to, among other things, enhance risk management measures relating to leverage in the financial markets and thereby mitigate liquidity and market risks and regulatory arbitrage, the PBOC, CBIRC, CSRC and SAFE jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (the "**27 April Guideline**") on 27 April, 2018. The 27 April Guideline prohibits financial institutions, including banks, from providing investors with guarantees, in any form, for principal and investment returns in relation to wealth management products ("**Non-Guarantee Requirements**"). The 27 April Guideline also requires banks and other financial institutions to, among other things, manage the products by net value, regulate fund pools, reduce the risks of maturity mismatch, limit debt ratio of products, properly categorise underlying assets based on nature of assets, improve information disclosure on products sales and distribution management, and eliminate the practice of channels for multi-layer embedment ("**Other Requirements**"). In addition, the CBIRC issued the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) on 26 September, 2018 (the "**26 September Guidelines**"), which, among other things, strengthen the supervision and administration of wealth management products issued by commercial banks.

In line with restrictions set out in the 27 April Guideline (particularly the Non-Guarantee Requirements and Other Requirements) and its subsequent interpretations as well as the 26 September Guidelines, the Bank is no longer permitted to issue principal-protected wealth management products, whether as new products or under existing products, after a transitional period ending on 31 December 2020.

In addition, to ensure compliance with the Non-Guarantee Requirements and Other Requirements, the Bank may need to incur additional administrative or other operating expenses to bring its operation and management measures into compliance, which may materially and negatively impact its financial conditions and results of operations. Furthermore, the 27 April Guideline and the 26 September Guidelines were recently issued and may be subject to interpretation. The Bank cannot assure investors that PRC Government will not publish implementation rules with more stringent standards in interpreting the 27 April Guideline and the 26 September Guidelines, or issue new laws and rules to replace the 27 April Guideline and the 26 September Guidelines setting out limitations that are costly for the Bank to follow. Such additional rules and interpretations may materially and adversely affect the Bank's financial condition and results of operations.

Further development of interest rate liberalisation, the PBOC's adjustments to the benchmark interest rate, the deposit insurance program and other regulatory changes in the PRC's banking industry may materially and adversely affect the Bank's results of operations.

Similar to most PRC commercial banks, the Bank's results of operations depend, to a large extent, on its net interest income, which accounted for 81.1%, 87.6% and 85.7% of its operating income for the years ended 31 December 2019 and 31 December 2020 and for the six months ended 30 June 2021, respectively.

The Bank's net interest income is sensitive to adjustments in the benchmark interest rates set by PBOC. In recent years, PBOC has adjusted the benchmark interest rates several times. Adjustments by PBOC to the benchmark interest rates on loans or deposits or changes in market interest rates may affect its financial condition and results of operations in different ways. For example, changes in the PBOC benchmark interest rates could affect the average yield on its interest-earning assets to a different extent than the average cost on its interest-bearing liabilities and, therefore, may narrow its net interest margin. Such a change may lead to a decrease in the Bank's net interest income and may materially and adversely affect its results of operations and financial condition. PRC Government also implemented other monetary policies in recent years, including adjusting the PBOC statutory deposit reserve ratios from time to time. These monetary policies have a significant impact on the liquidity and funding costs of PRC commercial banks and borrowers' demand for bank financing, which in turn may affect its business, financial condition and results of operations.

Interest rates in China have been gradually liberalised in recent years. Since 8 June, 2012, PBOC has allowed financial institutions to increase the Renminbi deposit interest rate to 110% of the PBOC benchmark interest rate. On 20 July, 2013, PBOC abolished the minimum interest rate for loans excluding residential mortgage loans, which was 70% of the benchmark interest rate, and allowed financial institutions to set lending rates based purely on commercial considerations. Furthermore, on 22 November, 2014, PBOC permitted financial institutions to raise the Renminbi deposit interest rate up to 120% of the PBOC benchmark interest rate. The Renminbi deposit interest rate was raised again on 1 March, 2015 and 11 May, 2015 up to 130% and 150% of the PBOC benchmark interest rates, respectively. On 26 August, 2015, the PBOC maintained the interest rate cap of Renminbi demand deposits and time deposits with maturity in less than one year. Then on 24 October, 2015, PBOC announced that it would no longer set a floating ceiling deposit interest rate for commercial banks, signifying the further liberalisation of controls on interest rates. Furthermore, in August 2019, the PBOC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). The new LPR quotations will be based on rates of open market operations and published on a monthly basis.

According to the PBOC, commercial banks must set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates. Interest rate liberalisation may intensify competition in the PRC banking industry, as PRC commercial banks may seek to make loans and take deposits with more attractive interest rates, which could narrow the net interest margin of PRC commercial banks, thereby materially and adversely affecting the Bank's results of operations. The Bank cannot assure investors that it will be able to promptly diversify its businesses, adjust the mix of its assets and liabilities and change its pricing to effectively respond to further liberalisation of interest rates.

As a crucial step for liberalising interest rates in China, the Deposit Insurance Regulation (《存款保險條例》) was published on 17 February, 2015 and came into effect on 1 May, 2015. Under the Deposit Insurance Regulation, deposit insurance is subject to a certain reimbursement limit, with the maximum reimbursement limit set at RMB500,000. Where a depositor's total principal and interest in all insured deposit accounts at the same insured institution, calculated on a consolidated basis, is within the maximum reimbursement limit, such total amount will be reimbursed in full. Banks are required to pay premiums for the deposit insurance program, which may increase the Bank's operating costs and adversely affect its financial condition and results of operations. The Deposit Insurance Regulation's impact on the banking industry in China is still uncertain.

The Bank also conducts trading and investment activities involving certain financial instruments. The Bank's income generated from these activities is subject to volatility caused by, among other things, changes in interest rates and foreign exchange rates. For example, increases in interest rates generally cause the value of the Bank's fixed income securities portfolio to drop, which may materially and adversely affect its results of operations and financial condition. In addition, the derivatives market in the PRC is still in the early stages of development. As a result, the Bank may not be able to effectively hedge such market risks.

The Bank manages its liquidity partly through short-term borrowing in the interbank market. Its borrowing costs may increase as a result of the fluctuation in interest rates on the interbank market, which may materially and adversely affect its liquidity, financial condition and results of operations.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the balances of the Bank's financial assets sold under repurchase agreements, deposits from banks and other financial institutions and placements from banks and other financial institutions accounted for 11.9%, 16.6% and 15.8% of its total liabilities, respectively. According to relevant PRC laws and regulations, including the Notice on Standardising Interbank Business of Financial Institutions (《關於規範金融機構同業業務的通知》) jointly issued by the PBOC, CBRC, CSRC, CIRC and SAFE on April 24, 2014, the net balance of interbank lending of a commercial bank to a single incorporated financial institution (excluding interbank deposits for settlement purposes), after deducting assets with zero risk weight, shall not exceed 50% of its tier-one capital. The balance of interbank borrowing of a commercial bank shall not exceed one-third of its total liabilities. Subject to the aforementioned laws and regulations and other applicable requirements, the Bank may not be able to acquire sufficient short-term funds from the interbank market at all times, and regulatory authorities may impose further restrictions on interbank business and interbank borrowing. As a result, its funding costs may increase, which may materially and adversely affect its liquidity and profitability.

The Bank's current risk management framework, policies and procedures and internal control may not fully protect it from credit, market, liquidity, operational, and other risks.

The Bank has established a risk management framework and an internal control system to protect it from various risk exposure. For details, see "*Risk Management*". However, as these systems, policies and procedures require constant and ongoing testing and maintenance, the Bank cannot assure investors that these current systems are adequate to protect it from all types of risks. In addition, the Bank's risk management capabilities are limited by the information, tools and technologies available to it.

Although the Bank has taken various measures to improve and upgrade its overall risk management system, policies and procedures, due to the inherent limitations of its systems, it may not adequately or effectively identify or mitigate its risk exposure in all market environments or against all types of risks, including, without limitation, risks arising from the failure to dispose of non-performing assets in a timely manner and in full compliance with the regulatory requirements. As a result, its risk management methodologies and techniques may not be always effective, and it may not be able to manage and control its risks in a timely and appropriate manner, and thereby its asset quality, business, financial condition and results of operations may be materially and adversely affected.

The Bank is subject to risks associated with off-balance sheet commitments.

The Bank provides certain off-balance sheet commitments to its customers in the ordinary course of business, such as bank acceptances, letters of credit and letters of guarantees. Such arrangements are not reflected on its balance sheet, but they constitute contingent assets or contingent liabilities. As at 31 December 2019, 31 December 2020 and 30 June 2021, its off-balance sheet commitments amounted to RMB261,420.3 million, RMB281,881.7 million and RMB315,381.3 million, respectively. The Bank is subject to credit risks associated with certain of these off-balance sheet commitments and are required to provide funds when its customers are unable to perform their obligations. If the Bank is unable to recover payment from its customers, its financial condition and results of operations may be materially and adversely affected.

The Bank may have difficulties in meeting capital adequacy requirements in the future.

The Bank is subject to capital adequacy regulations set by the CBIRC. Pursuant to the requirements of PRC banking regulatory authorities, the Bank's capital adequacy ratios for each tier shall remain no lower than the minimum capital adequacy requirements under the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (the "**Capital Administrative Measures (Provisional)**") during the transitional implementation period. Calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional), as at 31 December 2020 and 30 June 2021, the Bank's core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio all satisfied the requirements of the PRC banking regulatory authorities. The CBIRC may further increase the minimum capital adequacy requirements or change the methodology for calculating regulatory capital or capital adequacy ratios, or it may otherwise be subject to new capital adequacy requirements. Such changes may materially and adversely affect its financial condition and results of operations.

The Bank's ability to satisfy the current regulatory capital adequacy requirements could be adversely affected by the deterioration of its financial condition, or the quality of its assets, such as an increase in NPLs and a decline in its profitability. If the Bank's business growth calls for additional capital in excess of what the Bank is able to generate internally or raise in the capital markets, it may need to seek additional capital by alternative means which may not be available to it on commercially acceptable terms, in a timely manner or at all. The Bank's ability to obtain additional capital may also be restricted by a number of factors, including its future business, financial condition, results of operations and cash flows, conditions prescribed by PRC law and regulatory approvals, general market conditions for capital-raising activities by commercial banks and other financial institutions, as well as economic, political and other conditions both within and outside of China. The Bank may face increased compliance and capital costs as a result of these capital requirements. Furthermore, as these capital adequacy requirements place restrictions on the ability of banks to leverage their capital to achieve growth in their loan portfolios, the Bank's results of operations may be materially and adversely affected, and its capacity to further grow its business may be constrained. If at any time in the future the Bank fails to meet these capital adequacy requirements, the CBIRC may take a series of measures on the Bank, including, for example, imposing restrictions on its lending and investment activities, restricting the growth of its loans and other assets, limiting its application to launch new businesses or restricting its ability to declare or pay dividends. Such measures may materially and adversely affect its business, financial condition and results of operations.

The Bank is exposed to liquidity risk arising out of the mismatches between the maturities of its assets and liabilities, which could materially and adversely affect its business, financial condition, and results of operations.

Most of the Bank's deposits from customers are due within one year or shorter, or are repayable upon demand, while most of its assets have a longer maturity period, which exposes it to liquidity risks caused by mismatches in the maturity of assets and liabilities.

Due to the mismatch in the maturity of its assets and liabilities, if the growth of the Bank's deposits to customers cannot be maintained at a rate in line with its business expansion, or the majority of its customers withdraw their demand deposits or do not renew after the maturity of time deposits, the Bank may need to seek other sources of funds at higher costs to meet its capital needs, which may have a material adverse impact on its business, financial condition and results of operation.

On 23 May, 2018, the CBIRC promulgated the Administrative Measures on Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), under which the Bank is required to establish and optimise its liquidity risk management system. The Bank must also comply with various regulatory liquidity indicators, such as liquidity ratio, liquidity coverage ratio, and net stable funding ratio, and submit reports to the regulatory authorities as required.

Internal and external factors affecting the Bank's liquidity risks include changes in the maturity profiles of its assets and liabilities and asset quality, as well as changes in macroeconomic trends and monetary policy. Please see "*Risk Management — Liquidity Risk Management*" for the measures the Bank has taken to manage its liquidity risks. The Bank cannot assure investors that it will be able to meet all applicable regulatory requirements and guidelines relating to liquidity risk management at all times. If it fails to comply with the relevant regulatory requirements, the regulators may issue risk warnings or take corresponding regulatory measures, which may adversely affect its business, financial condition and results of operations.

The Bank had net cash flows used in operating activities for the year ended 31 December 2019. If it has operating cash outflows in the future, its liquidity and financial conditions may be materially and adversely affected.

The Bank had net cash flow used in operating activities of RMB41,679.5 million for the year ended 31 December 2019. The Bank had net cash flow generated from operating activities of RMB52,085.4 million and RMB10,061.6 million, respectively, for the year ended 31 December 2020 and for the six months ended 30 June 2021. The negative net cash flow from operating activities for the year ended 31 December 2019 primarily resulted from the increases in its loans and advances to customers which was in line with its business expansion. The Bank cannot assure investors that it will be able to generate positive cash flows from operating activities in the future. The Bank's liquidity and financial condition may be materially and adversely affected by negative net cash flows, and it cannot assure investors that it will have sufficient cash from other sources to fund its operations. If the Bank resorts to other financing activities to generate additional cash, it will incur financing costs and it cannot guarantee that it will be able to obtain the financing on terms favorable to it, or at all.

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

The Bank may not be able to obtain the relevant land use certificates or building ownership certificates for all of its properties and cannot assure investors that its ownership rights would not be adversely affected in respect of properties for which it is unable to obtain the relevant title certificates. If the Bank ceases to hold these properties due to the failure to obtain the relevant land use right certificates or building ownership certificates, or is forced to relocate any of the operations it conducts on the affected properties, it may incur additional costs as a result of such relocation.

In addition, the Bank leases a number of properties in China, primarily as business premises for its branches and sub-branches. Some of these properties were leased from lessors who were not able to provide the title certificates or documents evidencing the authorisation or consent of the owners of such properties and who did not register the lease. As a result, the validity of the Bank's leases may be subject to legal challenge. In addition, the Bank cannot assure investors that it would be able to renew its leases on terms acceptable to it upon their expiration. If any of the Bank's leases were terminated as a result of challenges by third parties or if it failed to renew them on terms acceptable to it upon expiration, the Bank may be forced to relocate affected branches and sub-branches and incur additional costs associated therewith, and its business, financial condition and results of operations may be adversely affected.

The Bank faces risks and uncertainties associated with national and local government policies and initiatives adopted to promote local economic development.

The Bank benefits from favourable policies adopted by the national and local governments to promote the economic development, in particular initiatives targeting those areas where it makes substantial investment, such as the Collaborative Development of Beijing, Tianjin and Hebei (京津冀協同發展), the development of the Yangtze River Economic Zone and the Guangdong-Hong Kong-Macao Greater Bay Area, and the "Belt and Road Initiative (一帶一路倡議)". However, the Bank cannot guarantee that PRC Government will maintain its favourable policies in promoting the development of these regions. Any discontinuation or unfavourable change in such policies may adversely affect the Bank's business, financial condition and results of operations. In addition, any new policies issued or to be issued by the national or local government on curbing the spending limit of the local government on its local economic development could adversely affect the Bank's business, financial condition and results of operations.

The Bank may not be able to successfully accomplish its relevant plans to expand its portfolio of products and services. In particular, it may not be able to promote fee- and commission-based businesses and other non-interest income businesses as intended.

The Bank has invested in expanding its portfolio of products and services and intends to continue doing so in the future, to enhance its leading market position, capture ever changing market demand and cope with different challenges. The sustainable development of the Bank's business depends on, in part, its ability to expand its product and service portfolio to capture customer demand and evolving industry trends. However, the success of this strategy is subject to various factors beyond the Bank's control, including general economic conditions, regulatory restrictions and market competition.

In addition, in recent years, many non-bank enterprises or newly established banks with strong internet technology backgrounds have started offering internet finance services crucial to the banking value chain, including core areas that are key sources of banks' revenues, such as payment and settlement, wealth management, consumer finance and card services. See the Risk Factors section headed "*— Risks Relating to the PRC Banking Industry — The competitive environment in the banking industry is continually evolving in line with advancements in information technology, and as a result traditional banking institutions face intensified challenges with respect to internet finance*" for more details.

Furthermore, the regulatory regimes for certain products and services that generate fee and commission income continue to evolve, particularly those relating to financial markets business. See the section headed "*— Risks Relating to the Bank's Business — The Bank faces risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions*". The Bank cannot assure investors that its business will not be materially and adversely affected by the continued development of the relevant regulations. Furthermore, if the Bank is unable to obtain relevant regulatory approvals, or comply with relevant banking regulations in relation to the sales and marketing of its new financial products and services, it may be subject to legal proceedings or regulatory sanctions, which in turn could lead to significant financial losses and reputational damages to the Bank. In addition, for products where the Bank's income depends on the underlying financing party's capacity to make timely repayment, the Bank is also subject to inherent risks associated with financial performance or business operations of relevant issuers or owners of underlying assets, which are affected by many factors beyond its control, including general economic conditions and proper compliance with laws and regulations by relevant third parties. The Bank may also be subject to client complaints, negative news coverage and possible litigations which could have an adverse effect on its reputation.

The occurrence of any above-mentioned events may materially and adversely affect the Bank's business, financial condition and results of operations.

The effective operation of the Bank's business is highly dependent on the proper functioning and improvement of its information technology systems.

The Bank's business largely relies on the secure and efficient operation of its information technology systems, including its internal control, risk management, customer service and other data processing systems, each of which is critical to the sustainable development of its business and its ability to maintain competitiveness. However, the Bank's information technology systems may encounter events beyond its control, including network breakdowns, software bugs, computer virus attacks, intrusion attacks, catastrophic incidents or providers' failure to provide ongoing maintenance, which could result in a partial or complete failure of its information technology systems and disrupt its business continuity. For example, failure to prevent cyber-attacks can affect the normal operation of its internet banking or mobile banking system, causing suspension of system services, data leakages and other adverse consequences, which may further lead to litigation risks. Although the Bank has configured internet firewall access policies, intrusion detection defence and other defensive measures, the possibility of being attacked still exists, and its information system is not completely protected from damage. For details of the Bank's relevant measures, see "*Risk Management — Information Technology Risk Management*". The occurrence of any of the above-mentioned risk events or safety intrusion incidents could materially and adversely affect the Bank's business, financial condition and results of operations.

In addition, the Bank's ability to remain competitive depends partially on its ability to upgrade its information technology systems in a cost-effective manner in order to address increasing market demand for financial products and services and evolving technology challenges. Any failure to timely develop or upgrade its information technology systems effectively may materially and adversely affect its business, financial condition and results of operations.

If the Bank fails to fully comply with various regulatory requirements applicable to it, the Bank's reputation could be harmed and its business, financial condition and results of operations could be materially and adversely affected.

The Bank is subject to the regulatory requirements and guidelines set forth by various PRC regulatory authorities, such as the CBIRC, PBOC, SAFE, SAMR, CSRC, NAO, SAT, NDRC, and MOF when it conducts its business in the PRC. These laws, regulations, guidelines and regulatory requirements include approvals for banking products and services, market entry, opening of new branches or sub-branches, taxation and accounting policy, risk management, internal control and pricing. These regulatory authorities supervise and spot check banks and have the authority to impose penalties or remediation requirements based on their findings.

Failure to meet the regulatory requirements may be viewed by the regulatory authorities as a violation of prudent operation rules, which, depending on the severity of the non-compliance, could lead to a number of regulatory actions, including demand for timely rectification, fine, suspension of certain businesses, revocation of business license, restrictions on dividend distributions and asset transfers or disciplinary actions against the directors, officers or persons directly responsible for such non-compliance. The Bank cannot assure investors that it will be able to meet all applicable regulatory requirements and guidelines, or comply with all applicable regulations at all times, or that it will not be subject to sanctions, fines or other penalties in the future as the result of non-compliance. Any failure to comply with applicable requirements, guidelines, or regulations could have a material adverse effect on its business, financial condition and results of operations, and damage its reputation and its ability to grow its business.

The Bank's business, financial condition, results of operations, prospects and the value of investors' investment may be adversely affected as a result of negative media coverage of the Bank, its senior management, its business partners, or China's banking industry in general, even if such negative publicity is inaccurate, unsubstantiated or immaterial.

The Bank's business reputation is crucial to its success. China's banking industry continues to be covered extensively and critically by various news media. In recent years, incidents of fraud and issues in relation to non-performing loans, loan quality, capital adequacy, solvency, internal controls, internet finance and risk management have been extensively reported by the media. Any such negative media coverage, accurate or not, may have a material adverse effect on the Bank's reputation and will consequently undermine its customers' confidence in it. As a result, the Bank's business, financial condition, results of operations, prospects and the value of investors' investment may be materially and adversely affected. For example, there has been certain media news in October 2021 surrounding the pledge and guarantee business of the Nanjing Branch of the Bank involving an amount of RMB2.8 billion and the Bank has published a voluntary announcement on the Hong Kong Stock Exchange on it.

The Bank will need approvals from the regulatory authorities to expand its business, including establishing new branches and sub-branches and it cannot guarantee that it will obtain such approvals successfully. Even if it obtains such approvals, there is no assurance that it can successfully compete with the banks and other financial institutions in these regions.

The Bank will need to submit applications to regulatory authorities if it plans to further develop its business, including opening new branches and sub-branches (including overseas outlets). The Bank may not be able to obtain such approvals or may otherwise fail to successfully establish new branches and sub-branches. Even if the Bank successfully obtains the approval to launch new business or set up new branches and sub-branches, it may not possess the adequate knowledge of the local business environment, risk management tools and qualified personnel to successfully compete with the banks and other financial institutions existing in those areas or regions. The rate of the Bank's growth and the expansion of its business may be affected if it is unable to or unsuccessful in expanding its operation geographically, which, in turn, may materially and adversely affect its business, financial condition and results of operations.

The Bank has entered into certain agreements for information technology services and any difficulties experienced in these arrangements could result in additional expense, loss of customers and income or an interruption of its services.

The Bank obtained certain information technology services by entering into contracts with third-party technology and service providers. In the event that these service providers either fail to provide support service as usual, terminate the Bank's contracts or refuse to renew its contracts, the Bank's services to customers and its reputation may be damaged. If such an event occurs, although the Bank may pursue new third-party technology and service relationships, it may still disrupt its normal operations, increase the costs of these technology services and divert management's time and resources. If the Bank is unable to complete a transition to a suitable new service provider on a timely basis, or at all, it could be forced to temporarily or permanently discontinue certain services, which could materially and adversely affect its business, prospects, financial condition and results of operations.

The Bank may be involved in legal and other disputes arising out of its business operations from time to time.

The Bank is involved in legal and other disputes from time to time for a variety of reasons, primarily for loan collection purposes or other claims arising out of its ordinary daily operations. It is also subject to various legal proceedings and claims brought by others that have arisen in the ordinary course of business. Regardless of the merits of particular claims, legal proceedings can be unpredictable, expensive and time-consuming. The Bank cannot guarantee that the outcome in any of the litigation in which it is involved would be favourable to it, or that the judgments in litigations against it will not be subject to disputes resulting in new litigation, appeal or retrial. In addition, the Bank cannot guarantee that existing or potential disputes will not have a material adverse effect on it, or that any future legal disputes it may confront will not result in damage to its reputation, additional operational costs and a diversion of resources and management's attention from its business operations, in which case its business, financial condition and results of operations may be adversely affected.

The Bank may not be able to effectively detect money laundering and other illegal or improper activities on a timely basis, or at all, which could expose it to reputational damages and additional legal or regulatory liability risks.

The Bank is required to comply with applicable PRC anti-money laundering and anti-terrorism laws and regulations. These laws and regulations require it to adopt and enforce "know-your-customer" policies and procedures and to report large and doubtful transactions to the relevant regulatory authorities. Due to the complexity of money-laundering activities and other illegal or improper activities, such policies and procedures may not be able to eliminate the possibility that other parties use the Bank's services to engage in money laundering and other illegal or improper activities. To the extent that the Bank fails to fully comply with applicable anti-money laundering and anti-terrorism laws and regulations, the relevant governmental authorities may impose fines and other penalties on the Bank. In addition, the Bank's business and reputation could deteriorate if customers manipulate their transactions with it for money laundering or other illegal or improper purposes. For details on how the Bank controls risks arising from these activities and the applicable PRC laws and regulations, see "*Risk Management — Operational Risk Management*" and "*Risk Management — Compliance Risk Management*".

The Bank relies on the continuing efforts of its key personnel and may not be able to recruit or retain sufficient qualified staff.

The Bank's ability to maintain growth and meet future demands is dependent upon the continued service of its senior management and other key personnel. In particular, its future success depends substantially upon its key personnel's experience in the banking industry and its business operations as well as their sales and marketing skills. The departure of any member of the Bank's key personnel may have a material adverse effect on its business and results of operations. In addition, the Bank may face increasingly fierce competition in recruiting and retaining qualified staff, including senior management, since other banks are competing for the same pool of qualified candidates and its compensation packages may not be as competitive as those of its competitors. The Bank cannot assure investors that it will be able to recruit or retain qualified staff, or that competition in recruitment will not lead to increases in its employment costs. If it fails to recruit or retain sufficient qualified staff, its business, financial condition and results of operations may be materially and adversely affected.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties, and it may be subject to other operational risks.

The Bank is exposed to fraud or other misconduct committed by its employees or third parties, including the business partners with whom it cooperates, which could subject it to financial losses, third party claims, regulatory actions or reputational damage. Despite the Bank's efforts to implement remedial measures and impose disciplinary actions upon identifying such misconduct, the Bank cannot assure investors that its internal control policies and procedures will be sufficient to prevent, detect or deter all incidents of fraud and misconduct involving its employees or third parties.

Illegal activities, misconduct or improper behaviour of the Bank's customers, business partners or other third parties, whether or not related to the Bank, may damage the Bank's reputation or cause it to incur economic losses. For instance, the wrongful debt-collection and illegal sales activities by third-party internet platforms in relation to its products or services may bring it certain reputational damage, or even expose it to regulatory penalties. As the Bank has no control over these third parties, it cannot assure investors that it can always effectively prevent or mitigate the negative impact their misconduct may cause on its reputation, business, financial condition or results of operations.

Failure to protect the personal data of the Bank's customers or to comply with data privacy and protection laws and regulations could harm its reputation and deter customers from using its services, which could materially affect its results of operations.

During the ordinary course of the Bank's business, the Bank collects and stores certain private information about its customers, such as their names, addresses and contact information, as well as their social and financial information, such as employment, proof of income and credit ratings. Although the Bank strives to implement its data protection policies and procedures in a strict and consistent manner, unauthorised access to or leakage of personal data may still occur, which could materially and adversely affect its reputation, financial condition and results of operations.

PRC data privacy laws restrict the Bank's collection, storage, use, processing, disclosure and transfer of non-public personal information of customers. The PBOC's Notice on the Further Protection of Personal Financial Information by Financial Institutions issued on 27 March, 2012 (Yin Fa [2012] No. 80) (《中國人民銀行關於金融機構進一步做好客戶個人金融信息保護工作的通知》) requires that banking financial institutions strictly follow the relevant laws and regulations when collecting, maintaining and using personal financial information, or when providing the same to external parties. Meanwhile, banking institutions shall not sell personal financial information of customers to any entity or individual, or provide such information to any external party against the relevant laws and regulations. They must adopt effective measures to ensure the safety of customers' personal financial information and prevent the unauthorised disclosure and misuse of the same. The State Council General Office's Guiding Opinions on Strengthening the Protection of Financial Consumers' Rights and Interests (《國務院辦公廳關於加強金融消費者權益保護工作的指導意見》), effective since November 2015, explicitly states that financial institutions must respect and protect consumers' basic rights, including their right to information safety. Regulatory authorities including the CBIRC and PBOC have also placed a growing emphasis on the protection of personal data. In September 2020, for instance, the PBOC released its Implementation Measures for Protecting Financial Consumers' Rights and Interests (《中國人民銀行金融消費者權益保護實施辦法》), which clearly state that financial information of consumers shall be used for the purpose in compliance with laws and regulations and agreed by both parties and kept in strict confidential, and no leakage or illegal disclosure to other parties shall be allowed. Financial institutions are required to set up a management system for the usage of financial information of consumers and implement technologies and other measures as necessary to properly maintain and store the financial information of consumers collected.

Furthermore, as the internet banking business continues to evolve, it is likely that the PRC regulatory authorities, including the CBIRC and PBOC, may tighten their regulation on the protection of consumers' online personal data. The existing and any future laws and regulations can be costly to comply with and can delay or impede the development of the Bank's new products, increase its operating costs, call for significant management time and attention, and subject it to claims for remedies, litigations, fines, or demands to modify or cease existing business practices. In addition, any public concerns about the Bank's practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage its reputation, which may in turn cause material and adverse effects on its business, financial condition and results of operations.

RISKS RELATING TO THE PRC BANKING INDUSTRY

The Bank faces increasingly intensive competition in China's banking industry.

The banking industry in China is becoming increasingly competitive, and competition may intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The Bank faces competition with PRC and foreign commercial banks in all of its principal lines of business.

The Bank principally competes with other Nationwide Joint-stock Commercial Banks, large state-owned commercial banks and city commercial banks. It may also face intensified competition from privately-owned banks in the future as a result of PRC market liberalisation. Competition between the Bank and foreign financial institutions may also increase in the future. In particular, the lifting of various restrictions on foreign financial institutions conducting business in the PRC may cause the Bank to lose certain existing competitive advantages over foreign financial institutions in the banking markets of China. The Bank expects to see greater competition from foreign financial institutions in the future. Such competition may materially and adversely affect the Bank's business and future prospects by, for example, reducing its market share in its principal products and services, reducing its fee and commission income, slowing the growth of its loan or deposit portfolios and their related products and services and increasing competition for senior management talents and qualified professional personnel.

In addition to competition from other banks and financial institutions, the Bank also faces competition from other forms of investment alternatives in China. In recent years, financial disintermediation, which involves investors' moving of funds out of commercial banks and other financial institutions to direct investments, has increased in China due to the availability of new financial products, the further development of the capital markets, the diversification of customer demand and other factors. The Bank's deposit customers may move their funds deposited with it to invest into stock, debt securities or wealth management products, which may result in a decrease in the Bank's deposits from customers, the most important source of funds for the Bank's lending business, further impacting the Bank's net interest income. In addition, due to the development of the capital markets, the Bank may face competition from direct corporate financing, such as the issuance of debt or equity securities in the domestic and international capital markets. If a substantial number of its customers choose alternative ways of financing to meet their funding needs, this may adversely affect its interest income. A decrease in the demand of its corporate banking customers could materially and adversely affect its business, financial condition and results of operations.

The competitive environment in the banking industry is continually evolving in line with advancements in information technology, and as a result traditional banking institutions face intensified challenges with respect to internet finance.

In recent years, internet-based financial service companies are developing rapidly in China. At present, the major financial services provided by China's internet-based financial service companies include online personal loans, third-party online and mobile payment, as well as online and mobile wealth management. China's commercial banks are facing the challenges with respect to products, technologies and customer experience. Personal loan products provided by internet-based financial service companies may result in decreased demand of retail banking customers for commercial banks' loans. Various funds and internet wealth management products have developed rapidly, which may result in outflows of a large amount of saving deposits from commercial banks and then the return of these amounts to commercial banks in the form of interbank deposits. As a result, commercial banks may experience increased funding costs and narrowed interest margins, and therefore reduced profitability. With the further development of the internet, many non-banking financial institutions have started to distribute financial products on internet platforms, which has affected commercial banks' fee income for agency services. Competition from internet-based financial service industry may materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

The PRC banking industry is highly regulated, and the Bank is susceptible to changes in regulations and government policies.

The PRC banking industry is highly regulated and the Bank's business could be directly affected by changes in the policies, laws and regulations relating to the PRC banking industry, such as those affecting the specific lines of business in which it operates, or the specific businesses for which it can charge fees, as well as changes in other governmental policies. The Bank is subject to various regulatory requirements and guidelines set forth by the PRC regulatory authorities, which include but are not limited to the CBIRC, PBOC, MOF, NDRC, SAMR, NAO, SAT, CSRC, SAFE and their respective local branches.

Some of these regulatory authorities conduct periodic and ad hoc inspections, examinations and inquiries on the Bank's business operations and compliance with relevant laws, regulations and guidelines, and some have the authority to impose sanctions, penalties or remediation actions. These laws, regulations and guidelines impose regulatory requirements on, among other things, banking products and services, market entry, opening of new branches or institutions, tax and accounting policy and pricing. The CBIRC, as the primary banking industry regulator, has promulgated a series of banking regulations and guidelines aimed at improving the operations and risk management of Chinese commercial banks. In particular, since late 2017, in line with the policy to mitigate potential risks in the PRC financial markets, the CBIRC has promulgated a series of rules and regulations enhancing supervision and adding restrictions on various business operations of banks, including entrusted loans and cooperation between banks and trust companies. These regulations encourage banking institutions and other financial institutions to improve their risk management systems, enhance supervision on business operations and adopt more stringent corporate governance measures. The CBIRC's visions are to promote financing services in the real economy and optimise the asset quality of the financial system in China.

Many of the policies, laws and regulations governing the banking industry or the interpretation thereof may change in the future, and the Bank may not be able to adapt to such changes on a timely basis or at all. For example, although PRC regulatory authorities do not prohibit commercial banks' joint-lending business through cooperation with third-party internet platforms, the Bank cannot assure investors that future changes in regulatory policies will not restrict commercial banks in China, including the Bank, from continuing such businesses. Failure to comply with new policies, laws and regulations may result in fines or restrictions on the Bank's business. In addition, implementation of relevant laws and regulations may cause the Bank to incur additional costs or expense in business operation, force it to reduce the size of its businesses affected, divert its resources and management attention from ordinary business or demand it to engage or retain a large number of personnel with the necessary skills or expertise. The Bank may not be able to cope with these challenges in a timely manner, or at reasonable costs. Occurrence of any of such event could materially and adversely affect its business, financial condition and results of operations.

The rapid growth of the banking industry in China may not be sustainable.

The PRC banking industry has experienced rapid growth along with China's economic development. Banks have historically been, and are likely to remain, the principal domestic financing channel for corporates and the primary choice for savings. The Bank expects the banking industry in the PRC to maintain its growth as a result of the continued growth in the PRC economy and increases in household income, among other factors.

Notwithstanding the significant growth in the banking industry in China, it is uncertain whether the banking industry in China can sustain its current rate of growth. A slowdown in the growth of the PRC economy or other unfavourable macroeconomic developments and trends in China and other parts of the world could materially and adversely affect the banking industry in China. The Bank cannot assure investors that the banking industry in China is free from systemic risks, given the slowing economy, increasing local government debts, and overcapacity in certain sectors as well as unbalanced development in many regions in China. In the event that the Bank cannot adapt to such changes, its business, financial condition and results of operations could be materially and adversely affected.

The Bank is subject to credit risks associated with interbank business.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's deposits with banks and other financial institutions amounted to RMB14,051.6 million, RMB27,805.4 million and RMB69,870.2 million, respectively, representing 1.3%, 2.0% and 4.5%, respectively, of its total assets. The Bank is exposed to credit risks in its interbank business as a result of default by counterparties, being banks and other financial institutions, which may be attributable to a broad range of factors beyond the Bank's control, including, without limitation, deterioration of general economic or social conditions, liquidity crisis in the interbank market, or credit deterioration, operational failure or bankruptcy of the relevant counterparties.

In addition, the financial soundness of commercial banks may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, negative publicity and public concerns over the liquidity of a commercial bank in China could adversely affect the banking industry and increase the perceived default risks associated with commercial banks. A rise in actual or perceived default risk in the interbank markets could have an adverse effect on the Bank's interbank and overall business.

Although the Bank strives to improve its interbank credit control mechanism, it cannot assure investors that its internal policies and procedures are effective and sufficient to detect and protect it from all potential defaults by its counterparties. See "*Risk Management — Credit Risk Management*".

Changes in the PRC interbank market liquidity and volatility in interest rates could significantly increase the Bank's borrowing costs and materially and adversely affect its liquidity as well as its financial condition.

In order to meet the Bank's liquidity needs, the Bank, among other things, borrows short-term funds on the interbank market from time to time. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's financial assets sold under repurchase agreements, deposits from banks and other financial institutions and placements from banks and other financial institutions accounted for 11.9%, 16.6% and 15.8% of its total liabilities, respectively. Any significant changes in the liquidity and interest rate in the PRC interbank market could have an impact on the Bank's financing costs. A market rate system based on the Shanghai Interbank Offered Rate ("**SHIBOR**") has been developed for the PRC interbank market. However, due to the relatively short history of the PRC interbank market, there may be significant volatility in market interest rates. The Bank cannot assure investors that SHIBOR interest rates will not experience irregular fluctuations or will return to the normal range in the short term after irregular fluctuations in such rates in the future. SHIBOR reflects changes in the interest rates, which may materially affect its cost of borrowing of short-term funds in the interbank market. Any significant volatility in interest rates on the interbank market may have a material and adverse effect on the Bank's cost of borrowing short-term funds and its liquidity. For further discussion on risks associated with interbank business, see the section headed "*Risks Relating to the Bank's Business — The Bank manages its liquidity partly through short-term borrowing in the interbank market. Its borrowing costs may increase as a result of the fluctuation in interest rates on the interbank market, which may materially and adversely affect its liquidity, financial condition and results of operations*".

In addition, severe volatility in market interest rates may also have a significant impact on the value of the Bank's assets. For example, a significant increase in market interest rates may lead to a significant decrease in the fair value of the Bank's fixed income debt securities, which will have a material and adverse effect on its financial condition and results of operations.

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

Although national credit information databases developed by PBOC have been put into use, national credit information databases in China may not be able to provide complete credit information on certain credit applicants. When conducting background investigation on a borrower, the Bank also relies on other publicly available information and the Bank's internal resources, which may not be effective in assessing the credit risk associated with a particular customer. As a result, the Bank's ability to effectively manage its credit risk may be limited, which could materially and adversely affect its business, financial condition and results of operations.

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

For risk management purposes, the Bank divides its loans into ten levels in addition to the CBIRC's five-category loan classification standard, namely "normal" (level 1 to 3), "special mention" (level 1 to 3), "substandard" (level 1 & 2), "doubtful", and "loss", and designate loans classified as "substandard (level 1 & 2)", "doubtful" and "loss" as non-performing loans. In making relevant assessments, it determines and recognises provisions by using the concept of impairment under IAS 39 prior to 1 January, 2018, since when, the Bank started to apply IFRS 9 in determining provisions. The Bank is required to apply a new expected credit loss impairment model under IFRS 9, which, as compared to the incurred loss model in IAS 39, uses more forward-looking information instead of objective evidence of impairment as a precondition for recognising credit losses. Although its loan classification criteria is in compliance with the guidelines set forth by the CBIRC, certain aspects of its loan classification criteria may not be the same as those adopted by other PRC commercial banks or in other countries or regions. As a result, the Bank's loan classification as well as its impairment allowance, as determined under its loan classification and provisioning policies, may differ from those that could be reported if it were incorporated in those countries or regions.

The applicable PRC regulations impose certain limitations on the products in which the Bank may invest, and its ability to seek higher investment returns and diversify its investment portfolio is limited.

Investment by commercial banks in China is subject to a number of restrictions. The investment assets of PRC commercial banks traditionally consist primarily of debt securities issued by the MOF, PBOC, PRC policy banks, PRC commercial banks and corporate entities.

In recent years, as a result of changes to the regulatory regimes and market conditions, additional investment products have been introduced to the market, such as trust plans, asset management plans, wealth management products issued by financial institutions, investment funds, asset-backed securities, and beneficiary certificates. However, investments in equity products by commercial banks are still subject to strict restrictions. Restrictions on the ability to diversify the investment portfolio of commercial banks in China, including the Bank, may limit the Bank's ability to seek optimal returns.

RISKS RELATING TO THE PRC

The Bank is subject to risks arising from China's economic, political, social conditions, government policies, as well as the global macroeconomic environment.

The vast majority of the Bank's businesses, assets, operations and revenues are located in or derived from its operations in the PRC and, as a result, its business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. PRC Government regulates the economy and related industries by imposing industrial policies and regulating the PRC's macro-economy through fiscal and monetary policies.

The PRC economy has undergone a transition from a planned economy to a market-oriented economy. PRC Government has taken various actions to introduce free market forces, to reduce state ownership of productive assets and to promote the establishment of sound corporate governance in business entities. However, a substantial portion of productive assets in the PRC are still owned by PRC Government. In addition, PRC Government continues to play a significant role in regulating the economy and related industries by issuing industrial policies. PRC Government still retains significant control over the PRC's economic growth through the allocation of resources, its monetary policy and preferential treatment of particular industries or enterprises.

The Bank's performance has been and will continue to be affected by China's economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to affect China's economic growth. China's real GDP growth was 6.1% in 2019, 2.3% in 2020 and 12.7% for the six months ended 30 June 2021, respectively.

The Bank is unable to predict all the risks and uncertainties that it faces as a result of the current economic, political, social and regulatory development, and many of these risks are beyond its control. All such factors may adversely affect its business, financial condition and results of operations.

The PRC legal system could limit the legal protections available to Noteholders.

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. The PRC government has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations continue to evolve, may be subject to different interpretations and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, but such cases have limited precedent value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protections that are available to Noteholders and can adversely affect the value of their investment.

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

The Bank is a joint-stock company incorporated under the laws of the PRC with limited liability, and substantially all of its assets are located in the PRC. In addition, a majority of its Directors, Supervisors, and all of its senior management reside within the PRC. As a result, it may not be possible to effect service of process upon the Bank or most of its Directors, Supervisors and senior management elsewhere outside the PRC, including with respect to matters arising under applicable state securities laws. Furthermore, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court obtained in any of the other jurisdictions mentioned above may be difficult or impossible.

On 14 July, 2006, the Supreme People's Court of the PRC and the government of the Hong Kong Special Administrative Region entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of the Mainland and the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**2006 Arrangement**"). Under the 2006 Arrangement, where any designated PRC court or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to a choice of court agreement in writing, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgment. Under the 2006 Arrangement, a choice of court agreement in writing refers to an agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly selected as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing.

On 18 January, 2019, the Supreme People's Court of the PRC and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**"). The 2019 Arrangement, for the reciprocal recognition and enforcement of judgments in civil and commercial matters between the courts in Mainland China and those in the Hong Kong Special Administrative Region, stipulates the scope and particulars of judgments, the procedures and ways of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies, among others. After a judicial interpretation has been promulgated by the Supreme People's Court and the relevant procedures have been completed by the Hong Kong Special Administrative Region, both sides shall announce a date on which the 2019 Arrangement shall come into effect. The 2019 Arrangement shall apply to any judgment made on or after its effective date by the courts of both sides. The 2006 Arrangement shall be terminated on the same day when the 2019 Arrangement comes into effect. If a "written choice of court agreement" has been signed by parties according to the 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

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

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) which took effect on 1 January 2008 and was amended on 24 February 2017 and 29 December 2018 (the "**PRC Enterprise Income Tax Law**"), and its implementation rules, any gains realised on the transfer of Notes by non-resident enterprise investors may be subject to enterprise income tax if such gains are regarded as income derived from sources within the PRC. While the PRC Enterprise Income Tax Law establishes such capital gain tax rate for non-resident enterprises with no establishment or place of business within the PRC, and such, although with establishment or place of business within the PRC, gaining the income derived from or accrued in the PRC of no de facto relationship with its establishment or place of business at 20% of the gross proceeds, its implementation rules have reduced the rate to 10%. In accordance with the PRC Individual Income Tax Law（《中華人民共和國個人所得稅法》）(the "**PRC Individual Income Tax Law**") and its implementation regulations which took effect on 1 January 2019, any capital gain realised by an individual holder who has no domicile and does not stay within the PRC or who has no domicile but has stayed within the PRC for less than 183 days cumulatively within a tax year from transfer of the Notes may be regarded as being derived from sources within the PRC and thus be subject to PRC tax of up to 20%. Furthermore, any individual who has a domicile within the PRC or has no domicile but stayed in the PRC for 183 days or more cumulatively within a tax year may be regarded as being derived from sources within or outside the PRC will be subject to PRC income tax of up to 20%. There remains uncertainty as to whether the gains realised from the transfer of the Notes would be treated as income derived from sources within the PRC and whether the individual has a domicile within the PRC or has stayed within the PRC for one year or longer and be subject to the PRC enterprise income tax and individual income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law and PRC Individual Income Tax Law and their relevant implementation rules. According to the arrangement between the PRC and Hong Kong, residents of Hong Kong, including enterprise investors and individual investors, will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Notes.

Therefore, if an investor, as a non-resident enterprise, is required to pay PRC income tax on capital gains on the transfer of the Notes, its capital gains from the Notes will be levied at the current rate of 10% of their gross proceeds from the transfer, unless there is an applicable tax treaty between the PRC and the jurisdiction in which an investor, as a non-resident enterprise investor in the Notes, resides that reduces or exempts the relevant tax. If such capital gain tax is levied, the value of its investment in the Notes may be materially and adversely affected.

The bankruptcy laws of the PRC may differ from those of other jurisdictions with which the Noteholders are familiar.

The Bank was incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Bank would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond the Bank's control may have a material adverse effect on the Bank's business operations, financial condition and results of operations.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond the Bank's control may adversely affect the economy, infrastructure and livelihood of the people in the regions where the Bank conducts its business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, potential wars or terrorist attacks. Serious natural disasters may result in a tremendous loss of life, injury and destruction of assets and may disrupt the Bank's business and operations. Acts of war or terrorism may also injure the Bank's employees, cause loss of life, or disrupt the Bank's business operations.

Severe communicable disease outbreaks, including the outbreak of COVID-19 across China and around the world, could lead to widespread health crises which may materially and adversely affect the financial markets and the national economy. Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, SARS, H5N1 influenza, H1N1 influenza, H7N9 influenza or COVID-19 pandemic, may adversely affect the Bank's business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business, financial condition and results of operations. In particular, the on-going COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic, and there is no assurance that such measures will, or will continue to be, effective. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic have significantly disrupted the global economy and global markets. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities, which may persist for some time. While lock-down and stay-at-home policies previously imposed in many countries and regions are being gradually lifted or softened while the spread of COVID-19 slows down, there is still significant uncertainty surrounding its impact on economic activity and employment. A number of governments have revised GDP growth forecasts downward for 2021 in response to the economic slowdown caused by the spread of COVID-19, and it is possible that the outbreak of COVID-19 may cause a prolonged global economic crisis or recession, which may in turn adversely affect the Bank's business. In 2021, vaccination programmes have been rolled out in various countries, including the United States, China, the European Union and the United Kingdom. However, the effect of the vaccination programmes on COVID-19 remains uncertain, and many countries, including India, are experiencing another wave of COVID-19, and in some cases new variants of COVID-19 could be more contagious. As COVID-19 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 COVID-19, stabilise the capital markets and provide liquidity easing to the markets. However, the outlook for the world economy and financial markets in 2021 and beyond remains uncertain. 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. 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. For example, in June 2020, the State Council of PRC called on financial institutions to offer RMB1.5 trillion in profit for the year ended 31 December 2020 for the benefit of enterprises in response to the outbreak of COVID-19, through offering lower interest rates, cutting fees, deferring loan repayments, and granting more unsecured loans to small businesses. There is no assurance that this proposal will not be implemented in the future; nor is there assurance that this implementation will not have a material adverse impact on the Bank's business, financial condition and results of operations.

Moreover, the PRC has experienced natural disasters like 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, SARS, H5N1 flu, H1N1 flu, H7N9 flu, COVID-19 pandemic 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 its customers, which may have a material adverse effect on the Bank's results of operations.

The Bank is subject to risks related to PBOC's changes in filing requirements.

On 12 January 2017, the PBOC issued the Circular of the People's Bank of China on the Macro-prudence Management of Cross-border Financing in Full Aperture (《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 "**Cross Border Financing Circular**"), which came into effect on 12 January 2017. The Cross Border Financing Circular established a mechanism aimed at regulating cross border financing activities conducted by domestic institutions, including domestic enterprises and financial institutions other than the 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. According to the Cross Border Financing Circular, 27 mainland banks (including the Bank) are required to make filings with the PBOC in respect of their offshore bond offerings.

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

The PBOC has yet to publish implementation rules of the Cross Border Financing Circular as at the date of this Offering Circular. The filing process for the aforesaid regulations and the interpretation and enforcement of the Cross Border Financing Circular thus involve substantial uncertainties due to its recent promulgation and publication. If the PBOC takes a different view or any change will be made to such regulations, the Bank will comply with the requirements of such and any other regulatory authorities.

RISKS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME

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

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). There can be no assurance as to the liquidity of the Notes or that an active trading market will develop. The liquidity of the Notes could be affected by various factors, and in particular, if a limited number of investors subscribes for a significant portion of the Notes. Such investors may include the Issuer and entities affiliated with the Issuer. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Notes are trading at a discount, investors may not be able as 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 an application may be made for the Notes issued under the Programme to be admitted to listing on the Hong Kong Stock Exchange or such other stock exchange(s), there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes that may be 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 Tranche of Notes.

This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of the Notes.

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

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

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

An application has been made for a rating of the Programme by Moody's and S&P. Each Tranche of Notes may be rated or unrated, as specified in the relevant Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Bank and the Hong Kong Branch to perform their respective obligations under the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities. The rating can be lowered or withdrawn at any time. The Issuer is not obliged to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

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

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

Notes may not be a suitable investment for all investors.

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

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

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

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

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

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

Certain Series of Notes may be complex financial instruments. Sophisticated investors generally do not purchase complex financial instruments as standalone investments but rather purchase such complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in such Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how such 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.

The Notes are subordinated to all secured debt of each of the Bank and the Hong Kong Branch.

Each Tranche of Notes will be unsecured and will rank at least equally with all other unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by laws and rank ahead of the holders of the Notes) that each of the Bank and the Hong Kong Branch has issued or may issue. Payments under the Notes are effectively subordinated to all secured debt of each of the Bank and the Hong Kong Branch to the extent of the value of the assets securing such debt.

As a result of such security interests given to the Bank's and the Hong Kong Branch's secured lenders, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving the Bank and the Hong Kong Branch, the affected assets of the Bank and the Hong Kong Branch may not be used to pay the Noteholders until after:

- all secured claims against the affected entity have been fully paid; and
- if the affected entity is a subsidiary of the Bank, all other claims against such subsidiary, including trade payables, have been fully paid.

In the event that the Issuer (where the Issuer is the Hong Kong Branch) fails to fully perform its obligations under the Notes, performance by the Bank of such obligations may be subject to registration or verification of the PRC government authorities.

According to the Law of the People's Republic of China on Commercial Banks (《中華人民共和國商業銀行法》) and the circular issued by the PBOC named "Reply on the Issues Regarding the Civil Liabilities of the Branches of Commercial Banks" (《關於對商業銀行分支機構民事責任問題的覆函》), in the event that a branch of a commercial bank fails to fully perform the obligations to the extent of the assets of the branch, such commercial bank shall fulfil such obligations to the extent that the branch has failed to perform them.

Therefore, in the event the Issuer (where the Issuer is the Hong Kong Branch) is unable to or does not perform its obligations under the Notes, the Bank will assume all obligations of the Issuer with respect to the payments under the Notes. The remittance of funds outside the PRC by the Bank in order to perform these obligations may be subject to registration or verification of the SAFE.

Investors shall pay attention to any modification, waivers and substitution.

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.

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

The Terms and Conditions of the Notes also provide that the parties to the Fiscal Agency Agreement (as defined in the Terms and Conditions of the Notes) may agree to modify any provision thereof, but the Bank and the Hong Kong Branch shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law, or if to do so could not be expected to be materially prejudicial to the interests of the Noteholders.

Investors shall be aware of the effect of change of law.

The Terms and Conditions of the Notes are based on English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or the laws as specified in the Pricing Supplement, or administrative practices after the date of this Offering Circular.

Potential investors should not place undue reliance on the financial information incorporated by reference that is not audited.

This Offering Circular incorporates the most recently published unaudited but reviewed interim financial statements of the Bank published from time to time after the date of this Offering Circular, together with any review reports prepared in connection therewith. The Bank publishes its half-year interim reports in respect of the six months ended 30 June of each financial year. A copy of the half-year interim reports can be found on the website of the Hong Kong Stock Exchange. The half-year interim reports have not been and will not be audited by the Bank's independent auditors and were and will be prepared under IFRS. The half-year interim financial information should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such data to evaluate the Group's financial condition and results of operations. The half-year interim financial information should not be taken as an indication of the expected financial condition or results of operations of the Group for the relevant full financial year.

The Notes may be represented by Global Notes and holders of a beneficial interest in a Global Note 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. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream or lodged with the CMU (each of Euroclear, Clearstream and the CMU, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note, 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. While the Notes are represented by one or more Global Notes, 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, 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 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. Holders of beneficial interests in the Global Notes 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 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. In relation to any issue of Notes in registered form, definitive Certificates will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announce(s) an intention to permanently cease business or does in fact do so. The Pricing Supplement may provide that, if definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

Risk factors relating to potential conflicts of interest.

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

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

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

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

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

CONSIDERATIONS RELATED TO A PARTICULAR ISSUE OF NOTES

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

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

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

Regulation (EU) 2016/1011 (the "**EU Benchmarks Regulation**") was published in the Official Journal of the European Union on 29 June 2016 and applied from 1 January 2018. The EU Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the European Union. It, amongst other things, (i) requires benchmark administrators to be authorised or registered (or, if non-European Union-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by European Union supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-European Union based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") among other things, applies to the provision of benchmarks and the use of a benchmark in the United Kingdom. Similarly, it prohibits the use in the United Kingdom by United Kingdom supervised entities of benchmarks of administrators that are not authorised by the United Kingdom Financial Conduct Authority ("**FCA**") or registered on the FCA register (or, if non-United Kingdom based, not deemed equivalent or recognised or endorsed).

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

More broadly, any of the international, national, or other proposals, for reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. For example, on 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, 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 "**FCA Announcements**"). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On 5 March 2021, the FCA announced that (i) the publication of 24 LIBOR settings (as detailed in the FCA announcement) will cease immediately after 31 December 2021; (ii) the publication of the overnight and 12-month U.S. dollar LIBOR settings will cease immediately after 30 June 2023; (iii) immediately after 31 December 2021, the 1-month, 3-month and 6-month sterling LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consult on requiring the Intercontinental Exchange Benchmark Administration (the "**IBA**") to continue to publish these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after 31 December 2021) and (iv) immediately after 30 June 2023, the 1-month, 3-month and 6-month U.S. dollar LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consider the case for using its proposed powers to require the IBA to continue publishing these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after 30 June 2023). The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes or result in other consequences, in respect of any Notes linked to such benchmark. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark, or otherwise dependent on (in whole or in part) upon, a benchmark.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a Benchmark Event occurs, including if the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes ceasing to be published or ceasing to exist , or if it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate interest on any Notes by reference to such benchmark, all as more particularly set out in the definition of "Benchmark Event". Such fallback arrangements include the possibility that the rate of interest could be set by reference to a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Rate (both as defined in the Terms and Conditions of the Notes), in each case with or without the application of an adjustment spread which, if applied, could be positive, negative or zero), and allow the Issuer to make amendments to the Terms and Conditions of the Notes to ensure the proper operation of the Successor Rate or Alternative Reference Rate (as the case may be) and, in either case, an Adjustment Spread (if any).

Under these fallback arrangements, the Issuer will use all reasonable endeavours to determine or to appoint an Independent Adviser (as defined in the Terms and Conditions of the Notes), as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(b)(iv)(B) of the Terms and Conditions of the Notes) and, in either case, an Adjustment Spread and any Benchmark Amendments (as defined in the Terms and Conditions of the Notes and in accordance with Condition 5(b)(iv)(D) of the Terms and Conditions of the Notes).

There can be no assurance that such Successor Rate or Alternative Rate (as applicable) determined by the Issuer will be set at a level which is on terms commercially acceptable to all Noteholders. However, it may not be possible to determine or apply an Adjustment Spread and even if an adjustment is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to investors. If no Adjustment Spread can be determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest. The use of a Successor Rate or Alternative Rate (including the application of an Adjustment Spread) is likely to result in any Notes linked to or referencing the relevant Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the relevant Reference Rate were to continue to apply in its current form.

In the event that (i) the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or (ii) the Issuer or the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate prior to the date which is seven business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be determined using the Original Reference Rate last displayed on the relevant Screen Page prior to the relevant Interest Determination Date. This will result in the floating rate Notes, in effect, becoming fixed rate Notes.

Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, any determinations that may need to be made by the Issuer and the involvement of an Independent Adviser, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

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

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

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

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Terms and Conditions of the Notes provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR), the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR was discontinued, and if LIBOR is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Floating Rate Notes, so that the Floating Rate Notes will, in effect, become Fixed Rate Notes utilising the last available LIBOR rate. Uncertainty as to the continuation of LIBOR, the availability of quotes from reference banks and the rate that would be applicable if LIBOR is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

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

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

An optional redemption feature, if specified in the relevant Pricing Supplement, 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 will generally 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 those times, an investor would generally 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

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

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

(ii) they may receive no interest;

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

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

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

(vi) if a Relevant Factor is applied to the 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

(vii) 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.

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

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

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

Notes with variable interest rates can be volatile investments. 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/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. Such 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/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the 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.

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

There can be no assurance as to whether or not payments on the Notes may be made without withholding taxes or deductions 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 thereof having power to tax. Although pursuant to the Terms and Conditions of the Notes, the Issuer is required to gross up payments on account of any such withholding taxes or deductions (whether by way of EIT, VAT or otherwise) or the Issuer also has the right to redeem the Notes at any time in the event (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8

(Taxation) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

If the relevant Issuer redeems the Notes prior to their maturity dates, investors may not receive the same economic benefits they would have received had they held the Notes to maturity, and they may not be able to reinvest the proceeds they receive in a redemption in similar securities. In addition, such Issuer's ability to redeem the Notes may reduce the market price of the Notes.

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 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, in the context of a resolution of the Hong Kong Branch, the relevant resolution authority will have the ability to resolve other entities within the Bank as if they were themselves a within scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to such entities. Any such actions could potentially affect contractual and property rights relating to the Hong Kong Branch. In addition, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of nay priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes (whether senior or subordinated) may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain details relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries or other Group entities, the Bank's operations and/or its financial position.

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

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

Renminbi is not freely convertible and there are significant restrictions on remittance of Renminbi into or out of the PRC which may adversely affect the liquidity of RMB 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, despite significant reduction over the years by the PRC government of control over trade transactions involving the import and export of goods and services as well as other frequent routine foreign exchange transaction. These transactions are known as current account items. However, remittance of Renminbi by foreign investors into the PRC for settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from or completing specific registrations or filing with the relevant authorities on a case-by-case basis and 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 developing gradually.

On 7 April 2011, SAFE promulgated the Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi (《關於規範跨境人民幣資本項目業務操作有關問題的通知》) (the "**SAFE Circular**"), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the prior written consent of the relevant MOFCOM to the relevant local branch of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that foreign debts borrowed, and foreign guarantee provided, by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and foreign guarantee regime.

On 13 October 2011, the PBOC promulgated the Administrative Measures on Renminbi Settlement of Foreign Direct Investment (《外商直接投資人民幣結算業務管理辦法》) (the "**PBOC RMB FDI Measures**") which was later amended on 29 May 2015 as part of the implementation of the PBOC's detailed foreign direct investment ("**FDI**") accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for FDI and shareholder loans from the PBOC, which was previously required, is no longer necessary. In some cases however, post-event filing with the PBOC is still necessary. On 14 June 2012, the PBOC further issued the implementing rules for the PBOC RMB FDI Measures, which provides more detailed rules relating to cross-border Renminbi direct investments and settlement. On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (《關於簡化跨境人民幣業務流程和完善有關政策的通知》) (the "**2013 PBOC Circular**"), which sought to improve the efficiency of the cross-border Renminbi settlement process. For example, where automatic fund remittance occurs, the bank can debit the amount into the relevant account first and subsequently verify the relevant transaction. PBOC further issued the Circular on the Relevant Issues on Renminbi Settlement of Investment in Onshore Financial Institutions by Foreign Investors (《關於境外投資者投資境內金融機構人民幣結算有關事項的通知》) on 23 September 2013, which provides further details for using Renminbi to invest in a financial institution domiciled in the PRC.

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

The reforms which are being introduced and will be introduced in the Shanghai Free Trade Zone (the "**Shanghai FTZ**") aim to upgrade cross-border trade, liberalise foreign exchange control, improve convenient cross-border use of Renminbi and promote the internationalisation of Renminbi. However, given the infancy stage of the Shanghai FTZ, how the reforms will be implemented and whether (and if so when) the reforms will be rolled out throughout China remain uncertain.

To support the development of the Shanghai FTZ, the Shanghai Head Office of the PBOC issued the Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ (《關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知》) (the "**PBOC Shanghai FTZ Circular**") on 20 February 2014, which allows banks in Shanghai to settle FDI based on a foreign investor's instruction. In respect of FDI in industries that are not on the "negative list" of the Shanghai FTZ, the MOFCOM approval previously required is replaced by a filing. However, the application of the Shanghai FTZ Circular is limited to the Shanghai FTZ.

As the SAFE Circular, the PBOC RMB FDI Measures, the MOFCOM Circular and the PBOC Shanghai FTZ Circular are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

Although starting from 1 October 2016, the Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund and policies further improving accessibility to RMB to settle cross-border transactions in foreign currencies were implemented by the PBOC, there is no assurance that the PRC government will continue to gradually liberalise control over cross-border remittances of RMB in the future, that any pilot schemes for RMB 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 outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under RMB Notes.

Holders of beneficial interests in RMB Notes may be required to provide certifications and other information (including RMB account information) in order to allow holder to received payments in RMB in accordance with the RMB clearing and settlement system for participating banks in Hong Kong.

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

As a result of the restrictions imposed 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 settlement agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (each, a "**Renminbi Clearing Bank**"), including but not limited to Hong Kong, and are in the process of establishing RMB 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 relevant RMB Clearing Bank only has access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross border trade settlement. The relevant RMB Clearing Bank is not obliged to square for participating banks any open positions as a result of other foreign exchange transactions or conversion services and 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 agreements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Remittance of proceeds into or outside of the PRC in Renminbi may be difficult.

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in RMB, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there can be no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

In the event that the Issuer does remit some or all of the proceeds into the PRC in RMB and the Issuer subsequently is not able to repatriate funds outside the PRC in RMB, it will need to source RMB outside the PRC to finance its obligations under the RMB Notes, and its ability to do so will be subject to the overall availability of RMB outside the PRC.

Investment in RMB Notes is subject to exchange rate risks.

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions and by many other factors. In August 2015, the PBOC implemented changes to the way it calculates the midpoint against the U.S. dollar to take into account market-maker quotes before announcing the daily midpoint, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, among others that may be implemented, may increase the volatility in the value of the Renminbi against other currencies. All payments of interest and principal with respect to RMB Notes will be made in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments in U.S. dollar terms may vary with the prevailing exchange rates in the marketplace. If an investor measures its investment returns by reference to a currency other than Renminbi, an investment in the RMB Notes entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to the currency by reference to which an investor measures its investment returns. Depreciation of Renminbi against such currency could cause a decrease in the U.S effective yield of the Renminbi Notes below their stated coupon rates and could result in a loss when the return on the RMB Notes is translated into such currency. Accordingly, the value of the investment made by a holder of the Renminbi Notes in that foreign currency will decline.

There may be PRC tax consequences with respect to investment in the Renminbi Notes.

In considering whether to invest in the RMB Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situation as well as any tax consequences arising under the laws of any other tax jurisdictions. The value of the holder's investment in the RMB Notes may be materially and adversely affected if the holder is required to pay PRC tax with respect to acquiring, holding or disposing of and receiving payments under those RMB Notes.

An investment in RMB Notes is subject to interest rate risks.

The value of Renminbi payments under RMB Notes may be susceptible to interest rate fluctuations occurring within and outside the PRC, including PRC Renminbi repo rates and/or the Shanghai inter-bank offered rate. The PRC government has gradually liberalised the regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

The RMB Notes may carry a fixed interest rate. Consequently, the trading price of such RMB Notes will vary with fluctuations in interest rates. If a holder of RMB Notes tries to sell any RMB Notes before their maturity, they may receive an offer that is less than the amount invested.

Payments in respect of RMB Notes may only be made to investors in the manner specified in the terms and conditions of the relevant Notes.

Investors may be required to provide certifications and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong. All Renminbi payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates or global notes held with the common depositary for Euroclear and Clearstream or any alternative clearing system, by transfer to a Renminbi bank account maintained by or on behalf of the Noteholder with a bank in Hong Kong in accordance with prevailing Euroclear and/or Clearstream rules and procedures, or (ii) for so long as the RMB Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. Other than described in the Terms and Conditions of the Notes, the Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Bank's capitalisation and indebtedness as at 30 June 2021. This table should be read in conjunction with the financial statements and the accompanying notes included in this Offering Circular.

	As at 30 June 2021
	(in thousands of RMB)
	(Unaudited but reviewed)
Liabilities	
Debt securities issued	274,813,013
Other liabilities [(1)]	1,178,311,214
Total liabilities	**1,453,124,227**
Equity	
Share capital	17,762,000
Other equity instruments	19,961,604
Other comprehensive income	160,756
Capital reserve	10,732,077
Surplus reserve	5,868,637
General reserve	17,664,811
Retained earnings	35,053,418
Total equity	**107,203,303**
Total Capitalisation [(2)]	**382,016,316**

(1) Calculated as the difference between total liabilities and debt securities issued.

(2) Total capitalisation represents the sum of debt issued and total equity.

Save as disclosed in this Offering Circular, there has been no material change to the Bank's capitalisation and indebtedness since 30 June 2021.

DESCRIPTION OF THE HONG KONG BRANCH

BUSINESS ACTIVITIES

The Hong Kong Branch was established in 2020. It was the first branch of the Bank outside Mainland China. On 6 August 2020, the Bank was granted a banking licence by the Hong Kong Monetary Authority to become a licensed bank in Hong Kong. The Hong Kong Branch officially opened on 18 December 2020. The Bank took the establishment of an institution in Hong Kong as an important step towards its internationalisation to continuously explore innovative business products, enhance the bank-wide business influential ability and its external influence, and further improve the strategic layout of its branches.

The Hong Kong branch, as a fully licensed bank, can operate a full range of commercial banking services. It mainly focuses on wholesale banking. The Hong Kong branch's business is based on cross-border linkage business, focusing on opportunities such as the "Belt and Road", RMB internationalisation, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area to help enhance the Bank's international business and provide one-stop services for domestic and foreign customers, including a wide range of wholesale banking services and products, such as comprehensive bank accounts, cross-border renminbi, deposits, settlement, trade financing, bilateral loans, syndicated loans, import and export agency payments, forfaiting, letter of credit discounts, onshore guarantees for offshore loans, offshore debt under onshore guarantee, mortgage financing etc. At the same time, it can participate in interbank funds, bonds and foreign exchange market transactions.

As at 30 June 2021, the total assets of the Hong Kong branch of the Bank amounted to HK$5.5 billion.

HONG KONG BANKING INDUSTRY REGULATORY REGIME

The banking industry in Hong Kong is regulated under the provisions of the Banking Ordinance (Cap. 155) of Hong Kong (the "**Banking Ordinance**") and subject to the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks which have been granted a banking license ("**license**") by the HKMA may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks ("**licensed banks**").

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, inter alia, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, unless the HKMA permits returns to be made at less frequent intervals;

- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by a licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;

- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;

- licensed banks are obliged to report to the HKMA immediately of their likelihood of becoming unable to meet their obligations;

- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require; and

- the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by the HKMA on a regular basis.

In addition, the Hong Kong Branch is also subject to The Financial Institutions (Resolution) Ordinance (No. 23 of 2016). Please refer to risk factor "*Risk Factors — Risks Relating to the Notes issued under the Programme — The Financial Institutions (Resolution) Ordinance may adversely affect the Notes*" on page 103 for further information.

OVERVIEW

The Bank is the youngest Nationwide Joint-stock Commercial Bank in China and enjoys significant late-mover advantages. Since its establishment, through capturing opportunities brought by various national strategies in China, the Bank has established an extensive network with national coverage and an international business with strong growth potential.

As a result, the Bank experienced rapid growth in recent years. In 2021, it ranked 111th among the "Top 1000 Global Banks" released by *The Banker*, moving up 22 places compared with the previous year and ranking 22nd among all PRC banks on the list. For the year ended 31 December 2020, it achieved a 3.1% year-on-year growth in net profit and a weighted average return on net assets of 10.68%. For the six months ended 30 June 2021, it achieved a 5.9% period-to-period growth in net profit and a weighted average return on net assets of 12.48%.

The Bank identifies target customers that fit its strengths and competitive advantages by closely following the trends of national strategies and industry development, while conducting multidimensional studies on potential customers. Through years of efforts, the Bank has attracted and retained a large number of loyal customers who have grown with the Bank. It has established advantages in terms of differentiated competition and service quality through optimising its customer structure and developing innovative tailor-made products and services for specific customer groups. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's corporate loans and advances amounted to RMB465.2 billion, RMB546.1 billion and RMB569.7 billion, respectively. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's personal loans amounted to RMB233.4 billion, RMB310.4 billion and RMB340.2 billion, respectively; its interest income from personal loans amounted to RMB12.6 billion, RMB18.8 billion and RMB11.0 billion, respectively, for the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021. The rapid growth in the Bank's corporate loans and advances and personal loans was attributable both to its competitive product lines and effective marketing efforts, and to the fact that the Bank is the youngest Nationwide Joint-stock Commercial Bank growing from a relatively small scale.

Capturing the opportunities brought up by technologies, the Bank endeavours to expand the depth and breadth of its business scenarios. In selecting key cooperating partners, the Bank focuses on leading enterprises in industries compatible with both its strengths and the prevailing trends of economic growth. The Bank has formed ecosystems serving three key industry sectors, namely travel and tourism, real estate and lifestyle, and modern logistics, where it brings together platforms and consumers within the ecosystems by offering banking services that can be built into different platforms with open banking characteristics.

THE HISTORY AND DEVELOPMENT OF THE BANK

With the approval from the CBRC (which is currently known as CBIRC), the Bank was established on 30 December 2005 as a joint stock commercial bank. The Bank was jointly promoted by seven promoters, namely TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司) ("**TEDA Holding**"), Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司) (formerly known as Standard Chartered (Hong Kong) Limited (渣打(香港)有限公司) ("**SCB**") China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司), State Development & Investment Corp., Ltd. (國家開發投資集團有限公司) (formerly known as State Development & Investment Corporation (國家開發投資公司)) ("**SDIC**"), Shanghai Baosteel Group Corporation (上海寶鋼集團公司, currently known as China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)), Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司) and Tianjin Trust and Investment Company Limited (天津信託投資有限責任公司, currently known as Tianjin Trust Co., Ltd. 天津信託有限責任公司), which owned 25%, 19.99%, 13.67%, 11.67%, 11.67%, 8% and 10% of the then issued shares of the Bank, respectively, at the time of its establishment. Upon establishment, the Bank became one of the twelve Nationwide Joint-stock Commercial Banks approved by CBRC (which is currently known as CBIRC). The Bank is headquartered in Tianjin, the PRC.

Key milestones of the Bank's establishment and development are as follows:

December 2005	The Bank was officially established in the PRC. The Bank is the first Nationwide Joint-stock Commercial Bank to introduce a foreign strategic investor at the stage of establishment since 2000.
February 2006	The Bank officially commenced its business.
August 2006	The Bank's Binhai New District branch, being its first branch, officially commenced business.
March 2007	The Bank obtained approval from SAFE and became the first commercial bank to implement the positive-negative interval management mode for synthetic positions in foreign exchange settlement and sale (結售匯綜合頭寸正負區間管理模式) in the PRC.
September 2007	The Bank's Beijing branch, being the first branch outside Tianjin, officially commenced business.
May 2009	The Bank's Shanghai branch officially commenced business, marking its presence out of the Bohai Bay Economic Rim being the economic hinterland surrounding Beijing and Tianjin, including areas in Hebei, Liaoning and Shandong, which surrounds the Bohai Sea, and its efforts to take root in the Yangtze River Delta Economic Rim.
July 2009	The Bank's Shenzhen branch officially commenced business.
September 2009	The Bank issued its first subordinated debt with principal amount of RMB1.2 billion.
May 2011	The Bank obtained the qualification to provide custodian services for insurance funds as a commercial bank and became the twelfth custodian bank for insurance funds in the PRC.
October 2013	The Bank's operating income from principal business operations reached RMB10 billion.
May 2014	The Bank launched Tian Jin Bao (添金寶), a personal cash management product.
June 2014	The Bank obtained the approval from Interbank Market Clearing House Co., Ltd. (銀行間市場清算所股份有限公司) to become one of the ordinary clearing members for centralised clearing business of interest rate swaps.

October 2014	The Bank issued its first financial bond and raised RMB10.0 billion. It was rated AAA in terms of long-term credit rating by a PRC-based credit rating agency.
April 2015	The Bank's Hong Kong representative office was established.
January 2016	The Bank launched its credit card business.
July 2016	The Bank's first outlet to offer intelligent trial experience commenced business. The outlet is its Tongzhou sub-branch in Beijing.
June 2017	The Bank was ranked third nationally as a custodian bank for asset management operation outsourcing services.
August 2017	The Bank obtained the qualification as an offering bank in the over-the-counter (OTC) market for loan benchmark rate (貸款基礎利率) (currently known as loan prime rate (貸款市場報價利率)).
January 2018	The Bank's total assets reached RMB1.0 trillion.
October 2018	The Bank obtained the qualification by PBOC as a direct payment agent bank for central finance.
September 2019	The Bank issued the 2019 Undated Capital Bonds in an aggregate principal amount of RMB20.0 billion. The Bank was the first non-listed PRC bank to obtain approval for issuance of undated capital bonds.
July 2020	The Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 9668).
December 2020	The Bank's Hong Kong branch officially commenced its business.

AWARDS

Prominent honours and awards which the Bank received in recent years include:

- 2015 to 2021, *Annual Golden Bull Wealth Management Bank (年度金牛理財銀行)* selected by The China Securities Journal (《中國證券報》)
- 2021 *Innovative Active Dealer (創新活躍交易商) and Best Progress Award (最佳進步獎)* issued by the China Foreign Exchange Trade System
- 2021 *China Annual Risk Data and Analysis Technology Implementation Award* from Asian Banker
- 2021 *Blue Chip Main Board GEM Rising Star Award in Listed Company Excellence Award* from the Hong Kong Economic Journal
- 2021 *Top Ten Blockchain Application Innovation Award* from The Chinese Banker
- 2021 *Annual Financial Service Innovative Bank Award* from 21st Century Business Herald

- 2021 *Annual Financial Technology Progress Award* and the *Annual Inclusive Finance Outstanding Contribution Award* from Daily Economic News

- 2021 *Annual Green Finance Award* and the *Outstanding National Commercial Bank Award* from Financial Circle

- 2021 *Corporate Governance Model Award* from Hexun.com

- 2020 *Listed Company Award of Excellence — Rising Star Award for Main Board (上市公司卓越大獎—主板新星獎)* awarded by Hong Kong Economic Journal

- 2020 *Model Case of Outstanding Organisation for Poverty Alleviation Assisted by China Banking Industry (全國銀行業助力脱貧攻堅優秀組織典型案例)* awarded in the Forum of Poverty Alleviation Assisted by the Banking and Insurance Industry hosted by CBIRC and prepared by China Banking Association and China Insurance Association

- 2020 *Golden Pixiu Award (金貔貅獎) — 2020 Gold Bancassurance Growth Award* awarded in the Third Summit of Bancassurance Development (Beijing) in 2020 (2020第三屆銀保合作發展(北京)高峰論壇) hosted by the Financial Money magazine and Each Finance

- 2020 *Golden Jubilee Award Excellent Digital Bank (金禧獎•2020優秀數字化銀行)* awarded in the Golden Jubilee Award (金禧獎) selection jointly hosted by China Investment Network and Biaodian Institute of Finance (標點財經研究院)

- 2020 *Annual Outstanding Contribution to Inclusive Finance (年度普惠金融卓越貢獻)* and *Annual Financial Technology Progress (年度金融科技進步)* awarded in the 2020 China Golden Tripod Awards (2020中國金鼎獎) selection hosted by the National Business Daily

- 2020 *Annual Outstanding Bank Wealth Management Brand Award (年度銀行財富管理品牌卓越獎)* of Golden Wealth Management awarded by Shanghai Securities News

- 2020 *Top 10 Small and Micro Enterprise Financial Service Innovation Award (十佳小微企業金融服務創新獎)* and *Top 10 Supply Chain Financial Innovation Award (十佳供應鏈金融創新獎)* awarded by The Chinese Banker magazine in the 2020 China's Financial Innovation Award (2020 中國金融創新獎)

- 2020 *Excellent Case Award* awarded in the China Banking Industry Fintech Application Achievement Competition (中國銀行業金融科技應用成果大賽) at the 4th China Digital Banking Forum

- 2020 *Excellent Issuers — Financial Debt Securities Issuer (2020年度優秀發行機構—金融債發行人) Award* awarded in the China Bond Outstanding Member (中債優秀成員) selection hosted by China Central Depository & Clearing Co., Ltd.

- 2020 *Bond Business Progress Award (債券業務進步獎)* in the 2020 Comprehensive Evaluation of China Bond Members (2020年度中債成員綜合評定) selection hosted by China Central Depository & Clearing Co., Ltd.

- 2020 *Excellent Bank for Banking Wealth Management Registration (2020年度銀行業理財登記優秀銀行)* in the 2020 Banking Wealth Management Registration Work Appraisal of the Banking Wealth Management Registration and Custody Center Co., Ltd. (銀行業理財登記託管中心有限公司)

- *2020 Best Happy Team in Customer Contact Center Industry of China (2020年中國客戶聯絡中心行業最佳幸福團隊)* and *2020 Best Service Case of Customer Contact Centers in China (2020年中國客戶聯絡中心最佳服務案例)* granted at the 2020 (4th) China Customer Service Festival (中國客戶服務節) hosted by China Information Industry Association

- 2019 *Advanced Unit of Overall Evaluation for Green Banks (2019年度綠色銀行總體評價先進單位)* granted in the evaluation work for green banks by China Banking Association

- 2019 *Best Ten Blockchain Innovative Application Award (十佳區塊鏈應用創新獎)* at the China's Financial Innovation Award (中國金融創新獎) ceremony hosted by the Chinese Banker Magazine (《銀行家雜誌》)

- 2019 *Outstanding Wealth Management Bank of the Year (年度卓越財富管理銀行)* awarded at the China Golden Tripod Awards (中國金鼎獎) ceremony held by National Business Daily Network (每日經濟新聞網)

- 2019 *Best Wealth Management Bank in China (中國最佳財富管理銀行)*, *Best Fixed-income Investment Award (最佳固定收益投資獎)* and *Outstanding Contribution Award (突出貢獻獎)* granted by the China Banking Association

- 2019 *Consumer Finance Bank with Excellent Competitiveness (卓越競爭力消費金融銀行)* awarded at the Eleventh China Financial Summit of Excellent Competitiveness (卓越競爭力金融峰會) held by China Business Journal (《中國經營報》)

- 2019 *Wealth Manager of the Year (年度財富管理獎)* received at the Golden Amber Award (金琥珀獎) ceremony of the Third Summit of China Business Journal on Fortune (中經財富管理高峰論壇) hosted by China Business Journal (《中國經營報》)

- 2019 *China Annual Risk Data Analysis Technology Application Award (中國年度風險數據與分析技術實施大獎)* granted by The Asian Banker (《亞洲銀行家》)

- 2019 *Company Innovation Award, Service Award and Best Cases Award (公司創新力獎、服務力獎、案例獎)* selected to the Tenth Golden Pixiu Award Digital Financial Medal Tally (金貔貅獎數字金融金牌榜)

- 2019 *Frontrunner* named at the Online Banking Service Enterprises Standard Frontrunner List (網上銀行服務企業標準領跑者名單) announced by the China Internet Finance Association (中國互聯網金融協會)

- 2019 first runner-up in the selection of Outstanding Cases for Financial Services in the Emerging Industries (金融服務新興產業優秀案例二等獎)

- 2019 *Best Ten Blockchain Innovative Application Awards (十佳區塊鏈應用創新獎)* at the China's Financial Innovation Award (中國金融創新獎) ceremony hosted by the Chinese Banker Magazine (《銀行家雜誌》)

- 2019 *Annual FinTech Bank (年度金融科技銀行)* by 21st Century Business Herald (《21世紀經濟報道》)

- *2018-2019 Inclusive Finance Outstanding Solution* (普惠金融優秀解決方案) granted by FinTech Innovation Alliance, a leading PRC institution focusing on studying the industry trend of FinTech innovation

THE BANK'S COMPETITIVE STRENGTHS

The youngest Nationwide Joint-stock Commercial Bank in the PRC exhibiting strong competitiveness since establishment.

The Bank is a newly established bank benefiting from holding a national banking license. As the only Nationwide Joint-stock Commercial Bank newly established in China after the amendment to the PRC Commercial Banking Law (《中國商業銀行法》) in 2003, the Bank is the youngest among all twelve Nationwide Joint-stock Commercial Banks and enjoys significant late-mover advantages. The Bank is also the only Nationwide Joint-stock Commercial Bank that has a foreign bank as its promoter and founder.

Capitalising on its competitive advantage of being a Nationwide Joint-stock Commercial Bank, which allows it to expand its business across China, the Bank has captured the historic opportunities brought by China's rapid economic growth and the implementation of national strategies since it commenced business in 2006. Within 15 years, it has established a business network with strategic layout covering the capital cities of major provinces and metropolises that are of key economic value in China. As at 30 June 2021, the Bank's business network comprised 34 tier-one branches (including Suzhou, Qingdao and Ningbo Branches under direct management of the Head Office and 1 overseas branch), 31 tier-two branches and 162 sub-branches. As at 30 June 2021, the total number of outlets reached 261, including 227 branches and sub-branches, and 34 small and micro community sub-branches, which enables it to penetrate into regional markets throughout China and lay a solid foundation for its development.

The Bank also has high-quality and diversified shareholders which provide consistent and stable support. The Bank has strong Chinese and foreign shareholders, including Standard Chartered Bank (Hong Kong) Limited, a member of a leading international banking group; a subsidiary of China COSCO Shipping Corporation Limited, the largest ocean shipping company in the world; China Baowu Steel Group Corporation Limited, the world's second largest steel manufacturing group; SDIC, a prominent state-owned investment holding company in China; TEDA Holding, a leading state-owned enterprise in Tianjin; and competitive private companies such as Oceanwide Industry Co., Ltd., who provide long-term stable support to the Bank's business development and strategy implementation. The Bank's shareholding structure, which features a diversified and balanced shareholder base and a checks-and-balances mechanism, lays a solid foundation for it to effectively leverage its shareholders' strengths in corporate governance. For more details, please see "*Substantial Shareholders*".

The Bank has built a virtuous relationship with its shareholders. The Bank's shareholders offered long-term and consistent support in its development and participated in each round of its capital increase and new share issuance. SCB, then acting as one of the Bank's promoters, dispatched an expert team with close to 100 members who worked with the Bank closely during its establishment preparation and initial operation stages. As a result, the Bank has forged SCB's inherent values, approach of prudence and standardised operations into its management concept and corporate culture. The Bank has also entered into close strategic cooperation relationships with its other shareholders. For instance, by virtue of a strategic cooperation agreement signed in 2017, the Bank and SDIC are working to strengthen its partnership in areas such as investment, financing and asset management.

The Bank has created strong investment return for its shareholders. For the year ended 31 December 2020, it achieved a 3.1% year-on-year growth in net profit and a weighted average return on net assets of 10.68%. For the six months ended 30 June 2021, it achieved a 5.9% period-to-period growth in net profit and a weighted average return on net assets of 12.48%.

Advanced risk management concept and sophisticated risk management system leading to a continuous improvement on asset quality.

With assistance from its promoter, SCB, the Bank has promulgated a series of modern corporate management systems encompassing product management, client relation management, risk management, centralised operation, and talent recruitment, evaluation and incentive plans. These management systems have become the cornerstone of its growth.

After over one decade of evolution and upgrade, the Bank gradually developed a risk management concept of "comprehensiveness, proactivity, agility and effectiveness (全面、主動、敏捷、到位)", in accordance with international standards and China's national conditions. The Bank established a risk management system featuring the principles of "consolidation, independence, verticality, balance and integration (集中、獨立、垂直、制衡、融入)" that covers credit risk, market risk, liquidity risk, operational risk, country risk, information technology risk, strategy risk and reputation risk.

The Bank continuously improves its risk management capability by utilising five key advanced technologies, namely big data, artificial intelligence, block-chain, cloud computing and 5G technology, through which the Bank has enhanced the quantification, precision, agility, intelligence and real-time of its risk monitoring system, and implemented a comprehensive online alert mechanism for its risk assets. During this process, the Bank adopted a process with reference to studies on specific industries and scenarios, so that the Bank is able to organically integrate mature offline risk management logic and measures into its risk management system, thereby enhancing its overall risk control capacity. The Bank upholds a sound risk appetite and compliance awareness together with enhanced management of asset quality with adequate identification of credit risks. As at 31 December 2019, 31 December 2020 and 30 June 2021, its NPL ratio was 1.78%, 1.77% and 1.76%, respectively. The Bank's asset quality has been steadily improving, and the non-performing loan ratio has been stable with a decline with the trend of slowing domestic economic growth in recent years.

Precise customer targeting and outstanding financial services underlying a strong growth potential.

The Bank has a continued focus on strategic corporate banking customers and precise identification of target retail banking customer groups. The Bank identifies target customers that fit its strengths and competitive advantages by closely following national strategies and industry development trend, while conducting multidimensional studies on potential customers. To optimise the Bank's customer portfolio, the Bank pays particular attention to capturing business opportunities raised by national and regional development policies, such as the "Belt and Road Initiative (一帶一路倡議)", Guangdong-Hong Kong-Macau Greater Bay Area (粵港澳大灣區) development plan, and the Coordinated Development Strategy for the Beijing-Tianjin-Hebei Region (京津冀協同發展戰略). In developing its corporate banking business, the Bank primarily focuses on customers who have strong track records and invests in cultivating quality customers and seeking business opportunities in industries with strong growth potential and government support. The Bank's core customers comprise enterprises with robust operations, steady returns and leading industry positions who conform to the trends of economic transformation and industry upgrade, including leading real estate developers with solid track record and enterprises operating in advanced manufacturing, innovative technologies, new retail and new consumption industries.

Capitalising on its advantages and unique characteristics, the Bank has identified two demographic groups as its core retail banking customers, namely the "pressurised generation (壓力一代)", a group with strong demand for financial products and services, and the "grey-haired group (養老一族)", a group with a pressing need for wealth management services for their accumulated wealth. It also invests in developing wealth management services for individuals with strong growth potential and high-net-worth families.

The Bank provides a stewardship-style service model and diversified capital replenishment measures. The Bank leverages advanced financial technology to provide target customers with tailor-made products and services in a stewardship-style model. Through this service model, its customers can access a wide range of wealth and asset management solutions and products covering corporate banking, retail banking and financial market business. For instance, the Bank provides comprehensive services to core retail banking customers, both to the "pressurised generation (壓力一代)" and the "grey-haired group (養老一族)", with a focus on addressing their financial needs in relation to housing improvement, consumption, investment and wealth management. In terms of development potential, the abundant capital replenishment channels and the expansion of capital replenishment scale will further release the development potential and space of the Bank.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's corporate loans and advances amounted to RMB465.2 billion, RMB546.1 billion and RMB569.7 billion, respectively. As at 31 December 2019, 31 December 2020 and 30 June 2021, its personal loans amounted to RMB233.4 billion, RMB310.4 billion and RMB340.2 billion, respectively; its interest income from personal loans amounted to RMB12.6 billion, RMB18.8 billion and RMB11.0 billion, respectively, for the years ended 31 December 2019, 31 December 2020 and the six months ended 30 June 2021. The rapid growth in its corporate loans and advances and personal loans was attributable both to its competitive product lines and effective marketing efforts, and to the fact that the Bank is the youngest Nationwide Joint-stock Commercial Bank growing from a relatively small scale.

As at 30 June 2021, the Bank's total assets reached RMB1,560.3 billion. For the year ended 31 December 2020, its operating income and net profit amounted to RMB32.5 billion and RMB8.4 billion, respectively; the year-on-year increase of its net profit reaching 3.07%. For the six months ended 30 June 2021, its operating income and net profit amounted to RMB15.8 billion and RMB5.3 billion, respectively; the period-to-period increase of its net profit reached 5.90%. Going forward, with increasingly diverse capital replenishment channels and expanding capital scale, it expects to enter a new stage of development.

A progressive technological and ecological bank which enjoys the benefits from open ecosystems.

By building the ecology and reshaping the Bank's banking business and service model, the Bank has imbedded its core business and services into the work flows of cooperation platform, building an open ecological banking system under the brand name of "Online Bohai Bank (線上渤海銀行)", which upholds the value of "collaboration, sharing and win-win (共建、共享、共贏)". The Bank realises mutual empowerment, joint operation, and joint ecological construction with the cooperation platform, innovative use of federated learning technology and distributed business models to empower the segmented ecological market. In selecting key cooperating partners, the Bank focuses on leading enterprises in industries compatible with both its strengths and the prevailing trend of economic growth. It has formed and optimised ecosystems serving three key industry sectors, namely travel and tourism, real estate and lifestyle and modern logistics, where it aggregates platforms and consumers within the ecosystems.

By strengthening technology, the Bank adheres to the concept of "driving our services, businesses, risk control, operation management and innovation by technology (科技驅動服務、科技驅動業務、科技驅動風控、科技驅動管理、科技驅動創新)". The Bank regards data and technology as the core driving forces to provide universal solutions for customers' demands. In particular, the Bank continuously improves the intelligence, convenience and efficiency of its services through agile responses and upgrades for its customers. The Bank provides banking products and services through its extensive distribution channels including self-service banking facilities, and electronic banking channels. The Bank provides comprehensive financial services, such as account inquiry and management, payment and settlement, payroll services, and money transfer and remittance, investment and wealth management, and application for personal loans for customers, through its electronic banking channels including online banking, mobile banking, telephone banking, and third-party internet finance platforms. In addition, the Bank's self-service banking facilities include automatic teller machines, cash recycling system (CRS) and virtual teller machine (VTM). These machines provide customers with convenient banking services while allowing the Bank to effectively reduce operating costs. Services provided through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, and payment of public utility bills.

By improving organisation, the Bank cemented the digital concept, broke the vertical division model of traditional banking technology according to lines, and conducted horizontal division by online and offline. Through coordinating the construction of an infrastructure platform, constructing an integrated application platform managing payment, image processing, online accounts, asset integration management by intermediary business, the Bank has standardised its system development process and enabled a convenient one-click access to its comprehensive financial products.

To increase its presence in the thriving internet consumer finance industry, and to closely follow China's implementation of the "Internet +" strategy, the Bank endeavors to cooperate with influential third-party platforms, develop its B2C, B2B and B2G online integrated financial services systems, and expand its electronic distribution channels. In addition, the Bank provides comprehensive online financial services, through its "Bohai Champion Commerce (渤商贏)" and "Bohai Government Link (渤政通)" business lines, to various B2B/B2G transactional platforms, including account management, payment and settlement, fund deposit and custody, and wealth accumulation. For the past few years, the Bank's platform-related businesses had evolved into a thriving business serving a wide variety of industries and bolstered by three signature "online ecosystems (線上生態圈)", namely travel and tourism, real estate and lifestyle, and modern logistics.

The Bank has also enhanced technology development through innovation in its organisation structure. The Bank deploys its research and development ("**R&D**") capacities across the Bank based on its online and offline business structure, and established "virtual sub-branches" where it offers deposit, wealth management and loan services to potential customers through online platforms. Through coordinating the construction of different infrastructure platforms, it has constructed a uniform application platform managing payment, image processing, online accounts, consolidation of fee- and commission-based business management. As a result, it could symphonise its business protocols throughout the Bank and has standardised its system development process and enabled a convenient one-click access to its comprehensive financial products. It relied upon its in-house innovation to construct and launch the "intra-city dual active (同城雙活)" technology structure, where the systems can smoothly support its services without noticeable delay or interruption experienced by customers. The Bank established a strategic cooperation relationship with Alibaba Cloud, and improved the bank-wide core technologies' R&D and deployment which laid a solid foundation for the Bank's increasing efforts in technological innovation and technology application.

Distinguished management team supported by outstanding employees and a lean and agile management culture.

The Bank's senior management team has an outstanding strategic vision and rich industry experience. Members of the Bank's senior management team come from a broad range of backgrounds, including banking, securities, government authorities and financial regulatory institutions. Their rich experience complements each other's advantages, and their leadership constitutes a strong support to the Bank's development. The senior management team of the Bank has over 27 years of banking industry management experience on average. They have a deep understanding and strong capacity in operations in banking industry, wealth and treasury management and financial technology ("**FinTech**"). Many members among them used to serve key positions in large state-owned commercial banks and hold professional qualifications, such as senior economist and/or doctoral supervisor.

The Bank offers competitive compensation packages and continue to improve its market-oriented talent recruitment and evaluation system. The Bank cares about the career development of its employees and offers them a flexible promotion mechanism. By virtue of this system, the Bank managed to attract talents from different large financial institutions and forged a team of employees with rich experience, youth, strong academic background and cohesion. The Bank strives to build an agile and warm banking culture of "external differentiation, internal simplicity and expertise in collaboration (外部差異化、內部簡約化和精於協同)", provides full-process and full-cycle online services, actively introduces lean six sigma (精益六西格瑪), and strives to build a bank with processes placing priority on the customers. The Bank persistently carried out its obligations and responsibilities as a financial institution and strived to develop green credit. The Bank also increased credit support for energy conservation and environmental protection enterprises and projects such as energy conservation and emission reduction, circular economy and clean energy, so as to promote the development of green credit business in an all-round manner. As at 30 June 2021, the Bank's green credit balance amounted to RMB26.6 billion, an increase of 33.7% from the end of the previous year. The Bank actively participates in social welfare events and has provided funds and material support to targeted poverty stricken areas and institutions for many consecutive years. The Bank strongly promotes inclusive finance, providing financial services to micro and small enterprises, "San Nong (三農)", start-ups and innovators, through which the Bank has contributed to the sustainable development of the economy, the society and the environment.

THE BANK'S DEVELOPMENT STRATEGIES

The Bank's strategic mission is to become a modern wealth and treasury manager offering superior customer experience (客戶最佳體驗的現代財資管家). The Bank is devoted to offering customers comprehensive financial services in a caring way, creating sustainable and stable value for shareholders and establishing an optimum development platform for employees.

Through continuous developing and improving fields including accurate marketing, precise management, lean cooperation, talents cultivation, and culture sincerity building, the Bank intends to achieve high quality realisation of its strategic vision by strengthening its customer oriented financial services capabilities that can "work through (穿行)" different ecosystems, "penetrate through (穿透)" centralised management and "pass through (穿越)" relevant financial markets. The Bank fortifies its strategy execution from six perspectives, namely customers, products, channels, risk control, internationalisation, corporate organisation structure and cultures. The Bank is determined to transform into a retail bank, transaction bank and light-model bank, and promote high quality development of the Bank. It continuously improves customer experience and improves the brand recognition of "wealth and treasury manager (財資管家)" with craftsmanship spirit. It keeps expanding product portfolio and continuously improves comprehensive and stewardship-style financial service capability. The Bank continuously enhances multi-channel product offering and introduces banking services through its open ecosystems. Adhering to a risk management concept featuring "comprehensive, proactive, agile and effective (全面、主動、敏捷、到位)", the Bank improves a risk management system featuring "integration, vertical, independence, balance and integration (集中、垂直、獨立、制衡、融入)" and further improves risk management capability. It continues to develop its international business and steadily promotes cross-border financial services ecosystems. The Bank continues to optimise its lean management model, corporate culture and talents recruitment so that it can offer the best customer experience through a high-quality and efficient management and operation system.

Continuously improve customer experience and improve the brand recognition of "wealth and treasury manager (財資管家)" with craftsmanship spirit.

Capitalising on its strategic network layout of key cities and gradually improved online ecosystems, the Bank intends to further optimise methods and algorithms to analyse customer groups. In particular, it plans to make timely studies on changes in financial markets and customer needs for financial services, to further differentiate target customer groups. It plans to keep promoting further development of customer marketing. The Bank will keep focusing on core retail banking customers groups, being the "pressurised generation (壓力一代)" and "grey-haired group (養老一族)", to build tailor-made personal financial service scenarios based on accurate studies of their specific demands. It plans to focus on key corporate banking customers like multi-national enterprises, large groups and enterprises with strong growth potential, to jointly develop boutique financial service scenarios. It also intends to make a full study of multi-dimensional characteristics of inclusive finance to micro and small enterprises, to implement scale-up, standard and online marketing strategy and service model.

The Bank intends to further enhance tailor-made services, expand client acquisition opportunities and improve the Bank's client retention by serving the entire life cycle. The Bank will further diversify financial and non-financial services to clients, keep supplementing the financial service scenario for retail banking customers and construct a service ecosystem that targets to solve the everyday needs of customers, including "clothing, food, household and travel (衣食住行)". It intends to closely track changes in customers' needs and construct a service model that covers an entire life cycle and offers caring services to clients, so that it could improve communications and interactions between the Bank and its customers. It intends to further supplement the retail banking customer financial service ecosystems based on specific demand for financial products and services at different ages of an individual. In addition, it plans to keep improving integrated and stewardship-style treasury management services that cover the full value chain of its corporate banking customers and their upstream and downstream sectors, and cater for its customers' specific demands for financial services at their different development stage, as a result of which, it can establish ecosystems that may "penetrate through (穿透)" different financial markets and service scenarios.

Keep expanding product portfolio and continuously improve comprehensive and stewardship-style financial service capability.

The Bank intends to further supplement financial products and services portfolio, and improve product structure, standard and digitisation. It plans to steadily establish a scientific and efficient full-life cycle management mechanism that has a clear delineation of responsibilities between the front-, middle- and back-end offices where work flow can seamlessly connect, through which, it can make prompt responses to changes in market and customers' demands to ensure over-saturated supply of products. By closely tracking development of, and changes in, financial conditions and demands for financial products of the "pressurised generation (壓力一代)" and "grey-haired group (養老一族)", its two core retail banking customer groups, the Bank intends to continue expanding different lines of retail banking products, so that customers can have convenient access to its products at any time, and offer more standard, comprehensive and inclusive products. It plans to invest in developing a private banking business with a focus on major cities with ample wealth accumulation and provide the high-net-worth group with exclusive services. It intends to continue enhancing the synergy between corporate banking and retail banking business segments, to build distinguished brand names for its retail banking business.

The Bank intends to keep innovating its product model and business structure to closely follow national development strategy and market demands brought up by real economy development. In particular, it plans to further improve business transformation into digital, online, light and green business models, and keep enhancing its capability of offering comprehensive corporate banking products and services. In addition, the Bank intends to keep enhancing its wealth management capability and invest in improving the development of high net-worth wealth management products and further diversify product portfolios. It plans to continue enhancing the selection, sales and maintenance of insurance and trust products that it distributes by establishing special committees to make comprehensive studies on changes in the market and effectively prevent relevant risks. It plans to expand further fee- and commission-based business, such as debt securities underwriting and sales, asset transfer, mergers acquisition financing and financial advisory. It plans to invest in expanding the custodian business and take efforts to apply and obtain useful qualifications for custodian services for funds like social welfare and enterprise annuity. It plans to develop products that can connect both capital markets and money markets to create interaction between different product lines, and provide clients with financial services that can "work through (穿行)" different ecosystems and "pass through (穿越)" relevant financial markets.

Continuously enhance multi-channel product offering and introduce banking services through the Bank's open ecosystems.

The Bank's extensive branch network enables it to effectively deliver its products and services and penetrate into local markets. As at 30 June 2021, the Bank's business network comprised 34 tier-one branches (including Suzhou, Qingdao and Ningbo Branches under direct management of the Head Office and 1 overseas branch), 31 tier-two branches and 162 sub-branches. As at 30 June 2021, the total number of outlets reached 261, including 227 branches and sub-branches, and 34 small and micro community sub-branches, which enable it to penetrate into regional markets throughout China and lay a solid foundation for its development. The Bank is headquartered in the Beijing-Tianjin-Hebei region and has established a well-balanced branch network to serve China's other prosperous economic zones, including the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Delta, and regions in Western China which show strong development potential. The Bank intends to further optimise the layout of its outlets in core cities and will upgrade the technology capacity of its business outlets to improve their capability of offering intelligent, and scenario-based services. The Bank plans to develop more comprehensive light-asset outlets, to build up an offline service network that stays closer to community customers.

The Bank intends to uphold the banking ecosystem development plan of "consolidation of online and offline business, integration of self-development and jointly-developed ecosystems (線上線下一體化, 自建生態與共建生態相結合)" and further promote all-scenario intelligent layout strategy to realise multi-channel integrated services. It plans to enhance seamless connection between internal channels and customer acquisition scenarios to provide "one-stop wealth and treasury management solutions (一站式財資管理解決方案)". It will keep promoting online and offline integration and consolidation of front-end and back-end channels, continuously improve technological sophistication and value output of technologies, administration and human resources, improving the customer conversion and connection between front-end and back-end functions. With a focus on the five key elements, namely, "sphere and chains, platform, scenario, ecology and system (圈鏈、平台、場景、生態、系統)", it plans to make scenario-based consolidation of industry resources and channels through application of FinTech and supplement "open bank (開放銀行)" service system.

Adhere to a risk management system featuring "integration, vertical, independence, balance and integration (集中、垂直、獨立、制衡、融入)" and further improve risk management capability.

Capitalising on its risk management concept that emphasises checks-and-balances and the vertical and independent risk management structure, the Bank plans to speed up construction of a data-driven risk management model, complete risk measurement model, construct a "automatic, real-time, accurate and agile (自動、實時、精準、敏捷)" smart risk control system, build up an agile and proactive comprehensive risk management mechanism and evolve its risk management strategy from "control risks (控制風險)" model into "manage risks (經營風險)" model. It plans to keep making thorough analysis of risk appetite and tolerance and establish a risk restriction system that can deal with different types of risk, and risks associated with different business segments and customer groups, through which, it will further enhance the comprehensive risk identification and coverage system and establish a multi-dimensional risk appetite transmission system. In this process, it will strictly follow regulatory requirements to establish: (i) from the horizontal perspective, a comprehensive risk evaluation index; and (ii) at the vertical perspective, a simple and easy-to-use tracking management standard list, so that, it can ensure the prompt and consistent transmission of risk appetite without deviation.

The Bank intends to continue improving value identification and creation of risk management through promptly following the direction of national strategies, taking proactive steps to meet market demands and quickly responding to clients' requests. In key strategic areas such as the establishment of self-developed financial ecosystems and inclusive financial services, it plans to further improve its risk management capability in terms of automatisation level, procedure standardisation and intelligent operation. In addition, it intends to keep optimising the risk management structure and achieve steady improvement in asset quality. It intends to let business and risk management departments jointly establish marketing guides for key industries and highlight the key focus of credit projects including credit scale, potential risks, potential return and liquidity, so that it can accomplish front-end risk management and control.

Continue to develop the Banks's international business and steadily promote cross-border financial services ecosystems.

The Bank intends to establish a cross-border financial services ecosystem. The Hong Kong branch of the Bank was established in 2020 and is the first branch officially established by the Bank outside of Mainland China. The Bank intends to develop its Hong Kong branch and its branch in Shanghai Free Trade Zone as its frontier outlets for international business. In addition, together with key outlets offering international business, particularly, branches located in coastal development regions with strong import and export business, it will provide cross-border transaction and investment and financing services. It plans to assess and develop different types of integrated products, such as cross-border dual-direction RMB cash pool services, cross-border investment custodian services, and cross-border RMB clearing services, so that it can continue to improve its international service capability.

The Bank plans to commence strategic cooperation with industry peers that have strong international competitiveness for selected oversea projects or fields. In addition, it will keep exploring negative list supervision models for international business expansion, encourage innovation in business model, products and services, which could promote its capability and ability to manage international business, so that it can improve its international influence.

Optimise the Bank's lean management model, corporate culture and talents recruitment so that it can offer the best customer experience though a high-quality and efficient management and operation system.

The Bank plans to establish a lean management model, improve preparation and implementation of strategic measures, annual plans and specific tasks according to its bank-wide middle to long term business development strategy, with an emphasis on improvement in operational responsiveness and efficiency. It plans to further improve the dynamic integration of the vertical management system within each business lines and the cross-segment coordination mechanism, so that it could optimise authorisation systems and carry out agile consolidation of internal resources with a focus on market and clients. The Bank also intends to promote construction of a digital system with the aim of operating in an "efficient, outstanding and cost-effective (高效、卓越、低成本)" way. It will accelerate agile project development by integrating different work streams, including products, risk management, technology, client service and internal control.

THE BANK'S PRINCIPAL BUSINESSES

The Bank's principal lines of business comprise corporate banking, retail banking, and financial market business. The following table sets forth its operating income by business segment for the years and periods indicated.

	For the year ended 31 December				For the six months ended 30 June			
	2019		2020		2020		2021	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
	(Audited)				*(Unaudited but reviewed)*			
Corporate banking	12,455.8	43.9%	13,936.2	42.9%	7,228.2	45.0%	7,261.6	46.0%
Retail banking	5,478.6	19.3%	8,617.2	26.5%	3,911.6	24.4%	5,633.7	35.6%
Financial markets	10,361.6	36.5%	9,549.5	29.4%	4,874.4	30.4%	2,780.0	17.6%
Others[(1)]	82.4	0.3%	389.3	1.2%	31.0	0.2%	127.6	0.8%
Total[(2)]	**28,378.4**	**100.0%**	**32,492.2**	**100.0%**	**16,045.2**	**100.0%**	**15,802.9**	**100.0%**

(1) Consists primarily of income that is not directly attributable to any specific business segment.

(2) The Bank's operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net gains/(losses) on trading activities, net gains/(losses) arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business.

Corporate Banking

Overview

The majority of the Bank's operating income is attributable to its corporate banking business. It provides comprehensive financial products and services to its corporate banking customers, ranging from corporate loans and advances (including discounted bills), corporate deposits, transaction banking services, investment banking services, and other fee- and commission- based products and services. For the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021, operating income from the Bank's corporate banking business amounted to RMB12,455.8 million, RMB13,936.2 million and RMB7,261.6 million, respectively, accounting for 43.9%, 42.9% and 46.0%, respectively, of the Bank's total operating income for the same periods.

Corporate Loans and Advances

The Bank provides its customers with corporate loans and advances, which constituted the largest component of the Bank's loan portfolio in 2019, 2020 and the six months ended 30 June 2021. As at 31 December 2019, 31 December 2020 and 30 June 2021, its corporate loans and advances amounted to RMB465,224.1 million, RMB546,118.9 million and RMB569,684.3 million, respectively, accounting for 65.7%, 61.5% and 58.3%, respectively, of its total loans to customers. In recent years, the Bank maintained a market-leading position in terms of corporate loans growth.

The Bank provides its corporate banking customers primarily with working capital loans, which address their daily financing needs, and fixed asset loans, which provide financial support to infrastructure, construction and other fixed asset investment projects. The Bank also provides different loan products and services to corporate customers of various types. Its corporate loan customers primarily include state-owned and private enterprises that engage in a broad range of industries.

Medium to large enterprises are the cornerstone for the Bank's corporate banking business. Capitalising on its in-depth knowledge of the local market and national economy, the Bank endeavours to design and launch loan products to meet the specific needs of its corporate banking customers, particularly customers with strong creditworthiness who engage in industries with strategic importance. Through implementing a proactive customer development strategy, it has established long-standing relationships with medium to large corporate banking customers, including local governments and their affiliated entities, national and provincial state-owned enterprises, and quality private enterprises.

The Bank is committed to offering customised and efficient solutions to meet the diverse financing needs of micro and small enterprises. To better serve these customers, it has established an integrated system to pull together its expertise and resources in this area. It has designated sub-branches which prioritise serving micro and small enterprises. It assigns inclusive finance customer managers (普惠客戶經理) to each of these sub-branches, and demands that their supervising branches maintain a special risk management task force to review, approve and monitor loans extended to micro and small enterprises. The Inclusive Finance Department (普惠金融事業部) at its head office takes charge of the overall strategic planning and product design for micro and small enterprises whose credit line does not exceed RMB10.0 million. In 2017, it received the *Best Inclusive Financial Services Award* (最佳普惠金融服務獎) in The Time Weekly (時代週報)'s selection of the Internet Times Finance Golden Orange Awards (互聯網時代金融金桔獎). It was also granted the *Outstanding Micro and Small Enterprise Financial Services Award* (傑出小微企業金融服務獎) at the Piloting China

(領航中國) annual forum hosted by JRJ.com (金融界網站) in 2018. For a discussion on risks arising from its loans granted to micro and small enterprises, please see "*Risk Factors — Risks Relating to the Bank's Business — The Bank is exposed to risks arising from loans granted to micro and small enterprises*".

The Bank has resolutely implemented the PRC central government's overall requirements of "Stable Performance in Six Key Areas (namely, employment, the finance sector, foreign trade, foreign investment, domestic investment, and market expectations) (六穩)" and "Security in Six Key Aspects (namely, job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments) (六保)". According to the "five specialized mechanism", the Bank further strengthened team building, accelerated product innovation and technological empowerment, focused on target customer groups, and intensified the Bank's efforts in precision marketing and inputs. During the epidemic, the Bank took a number of measures to improve the quality and efficiency of services offered to the real economy, and helped enterprises to fight against the epidemic and resume work and production. As at 30 June 2021, the Bank had an inclusive finance loan balance of RMB54.9 billion, representing an increase of RMB18.3 billion or 50.2% as compared to the previous year. As at 30 June 2021, the Bank secured 129,400 inclusive finance loan customers, representing an increase of 43,100 (new standards of the CBIRC) as compared to the previous year.

The Bank also offers a variety of loan products tailored for the financing needs of micro and small enterprises, including "Small and Swift Loans (小額快捷通)", first launched in June 2012, featuring flexible collateral schemes and a streamlined, template-based application process. In April 2019, the Bank launched "Mortgage Quick Loans (房抵快貸)" for customers who can offer quality real estate properties as collateral. This product is similarly equipped with a streamlined application and credit review process, coupled with flexible repayment options ranging from equal monthly instalments to lump-sum payment of principal upon maturity, designed to meet the urgent and varying needs of the micro and small enterprises. The maximum loan amount of Mortgage Quick Loans generally does not exceed RMB10.0 million, with a term of up to three years. In 2019, the Bank launched its supply chain finance products series "Bohai Prosperity Loans (渤發貸)" under the "1+N" model, through which it extends credits to micro and small enterprises who are the upstream suppliers or downstream customers of its core corporate customers. In January 2020, the Bank introduced "Bohai Business Loans (渤業貸)", an innovative working capital loan product tailored for micro and small enterprises which features a fully integrated online application, approval, contract execution, and fund disbursement process. Similar to its signature personal loan products, Bohai Business Loans support real-time access to the loan applicant's official data such as tax payment history, business registration and judicial records, which underlie an expedited credit approval process and enhanced risk evaluation on the micro and small enterprises.

The Bank further purchases from its corporate customers, at discounted rates, bank acceptance bills and commercial acceptance bills. The Bank's bill discounting business facilitates its customers' early acquisition of funds and effectively supplements its corporate loan products.

Corporate Deposits

The Bank provides its corporate customers with time deposit and demand deposit products, denominated in both RMB and foreign currencies including U.S. dollar, Japanese Yen, Hong Kong dollar, Pound Sterling and Euro. Its corporate deposit customers include government agencies, public institutions, state-owned enterprises and private enterprises. As at 31 December 2019, 31 December

2020 and 30 June 2021, its total corporate deposits amounted to RMB414,949.5 million, RMB476,289.4 million and RMB575,718.9 million, respectively, accounting for 65.0%, 63.8% and 68.0%, respectively, of its total deposits from customers. See "*Assets and Liabilities*" for further details.

The Bank is dedicated to developing diversified corporate deposit products and services to meet the various financial needs of corporate banking customers. For example, since launching its first tranche of institutional certificates of deposits (單位大額存單) in March 2017, it has endeavoured to diversify this product line by catering to its institutional customers' varying demand for liquidity and interest calculation options.

Transaction Banking Services

The Bank provides its corporate banking customers with a broad range of transaction banking services, including cash management, supply chain finance, and trade finance and settlement services. In recent years, transaction banking has played a growingly important role in its corporate banking business and contributed substantially to its fee and commission income. For the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021, income realised from the Bank's transaction banking intermediary business amounted to RMB796.9 million, RMB960.0 million and RMB689.0 million, respectively, accounting for 46.1%, 52.9% and 63.7% of its net fee and commission income generated from corporate banking, and 6.5%, 6.9% and 9.5% of its operating income from corporate banking business, for the same periods. For the six months ended 30 June 2021, the Bank realised international settlement of USD54.9 billion, representing a year-on-year increase of 132.9%.

Cash Management Services

The Bank provides integrated cash management services to its corporate customers, including account management, receivable and payment management, liquidity management, bill management, and financing services. It believes these services can help its corporate customers reduce their financial costs, increase capital gains, optimise the structure of assets and liabilities, and achieve a balance between liquidity and profitability.

By thoroughly analysing the cash management requirements associated with the daily operations of its customers in different industries, the Bank developed compatible product systems and tailor-made its services to better fit their demands.

In December 2011, the Bank launched its "Bills Pool Financing (票據池融資)" services for corporate customers who maintain a stable, significant amount of bank acceptance bills which can be pooled together and pledged in one batch, enabling it to expand the respective client's credit line in compliance with its credit review and approval policy. It also provides tailored supplemental financial services related to bills financing, including bill information queries, bill custody, and bill collection. In 2019, the Bank upgraded its "Group Assets Pool (集團資金池)" services for the conglomerates it serves, including their subsidiaries and branches, to help them centralise the management of financial resources and financing channels within the group and reduce financing costs across the operation. Through these innovative and customised products, it is able to optimise its customers' overall cash management experience and increase their adherence and loyalty.

Supply Chain Finance Services

The Bank provides supply chain finance services to the upstream suppliers and downstream customers of its core corporate customers, including accounts receivables financing (such as domestic factoring, reverse factoring, and loans pledged by receivables) and prepayment financing. Most of the customers it serves come from mainstream manufacturing factors such as home electronics, chemicals and metals, motor vehicles, and apparels.

When designing its products and services, the Bank focuses on the nature of the business transactions among different entities, its customers' specific financial needs at different stages, and the prospects of the relevant industries, based on which it tailors its product specifications. Meanwhile, it conducts rigorous initial and ongoing credit review on both the core customers and their suppliers or customers. Under its "1+N" supply chain finance model, for example, it has adopted a "dual credit review system (雙授信模式)" where it first selects core customers with a strong credit profile, who are usually its existing strategic customers or otherwise leaders in the "supported industries" enumerated in its annual credit policy guidelines, and then ensures that the core customer's suppliers or customers also go through the Bank's standard, independent credit review and approval procedures before a loan can be granted to them.

To enhance user experience, in November 2018, the Bank began to offer online supply chain financing services through the Bank's internet platforms customised for key customers. In particular, leveraging the latest blockchain technology and through collaboration with a third-party developer, it has built a one-stop supply chain financing platform which encompasses all stages of a typical transaction, from contract formation, order placing, to delivery and settlement. The Bank received, in 2019, the *Best Ten Blockchain Innovative Application Awards* (十佳區塊鏈應用創新獎) at the China's Financial Innovation Award (中國金融創新獎) ceremony hosted by the Chinese Banker Magazine (《銀行家雜誌》) for its distinguished performance in this field.

Trade Finance and Settlement Services

The Bank offers domestic and international trade finance and settlement services designed for export trading, import trading, domestic trading, and cross-border transactions.

In recent years, the Bank strived to digitalise traditional trade finance services, particularly bill transactions, in an effort to promote real-time trading, transparency, and enhanced customer experience.

- *Domestic settlement*. The Bank's domestic settlement products and services primarily include settlement effected through drafts, promissory notes, bank acceptance bills, commercial acceptance bills, letters of credit, letters of guarantee, and telegraphic transfers.

  As at 31 December 2019, 31 December 2020 and 30 June 2021, the balance of its bank acceptance bills was RMB167.5 billion, RMB194.6 billion and RMB206.9 billion, respectively.

- *International settlement*. The Bank's international settlement services primarily include inbound and outbound remittances, import and export collection, import bill advance and export bill purchase, and import and export letters of credit. It is also an active participant in SWIFT's global payment initiative ("GPI"). Leveraging SWIFT's innovative technology, it endeavors to provide its customers with cross-border payment services featuring high speed, transparent fees, and real-time remittance status tracing.

Since its establishment, the Bank has forged a strong cooperative relationship with its shareholder, SCB, across various business sectors including cross-border settlement, trade finance and financial markets services to bring quality services to its customers. In the future, it intends to work closely with SCB to explore other cooperative opportunities arising from RMB internationalisation and the "Belt and Road Initiative (一帶一路倡議)".

Investment Banking Services

Besides traditional loans and deposits businesses, the Bank provides corporate customers with comprehensive investment banking services, including debt securities underwriting, financial advisory services, structured financing and asset securitisation services.

Debt Securities Underwriting

The Bank's investment banking team actively participates in the underwriting of debt securities to leverage its strong capacity in managing capital market transactions, and to broaden its customer base. Capitalising on its expertise in debt securities and analytical capabilities on China's economy, the Bank aims to accurately seize market opportunities for security issuance, and to establish and maintain long-term relationships with its investors, all of which enabled it to achieve a strong track record in recent years and enhance its market recognition.

The Bank obtained Class-A qualification for underwriting debt financing instruments issued by non-financial enterprises in 2007. It engages in bonds issuance primarily for prominent state-owned enterprises, as well as leading private companies who have received a credit rating of AA+ or above, from which the Bank receives agency service fees typically stipulated as a percentage of the principal amount of debt securities underwritten by it, taking into account the prevailing market rates and pursuant to commercial negotiations with the issuer. Financial Advisory Services.

The Bank provides high-quality financial advisory services to corporate customers. Relying on its all-round expertise in project marketing, agency selection, project design, regulatory communication, issuance and sales, the Bank helps its clients maximise their capital utilisation rate.

Structured Financing and Asset Securitisation Services

The Bank's investment banking team also offers structured financing and asset securitisation services. With respect to structured financing, it assists customers with devising and setting up transaction structures, utilising special purpose vehicles and other instruments, in compliance with PRC laws and regulations.

The Bank's investment banking team also assists corporate customers with the negotiation of syndicated loans and M&A financing and offers related advisory services. Its M&A services, for example, are designed primarily for enterprises with strong earning prospect and solid corporate governance who have a vision to expand, especially those industries encouraged by PRC government.

Other Fee- and Commission-Based Corporate Banking Products and Services

The Bank provides its corporate customers with other fee- and commission-based products and services, primarily corporate wealth management services, custodian and asset management operation outsourcing services, entrusted loan services, and guarantee services.

Corporate Wealth Management Services

The Bank offers differentiated wealth management products with flexible terms and yields based on customers' needs and risk appetites.

Custodian and Asset Management Operation Outsourcing Services

The Bank obtained the qualification to provide custodian services for securities investment funds and insurance funds in June 2010 and May 2011, respectively. The Bank's customers for custodian services now include publicly offered funds, private equity funds, insurance companies, securities firms, trust companies, commercial banks, and other financial institutions. It offers a wide range of custodian services, such as account administration, asset value evaluation, transaction settlements, and investment monitoring.

The first publicly offered fund for which the Bank served as the custodian bank was established in July 2011, marking a historical breakthrough of its business development in this area. As at 30 June 2021, according to the latest statistics published by the China Banking Association, among all 27 qualified custodian banks in the PRC, the Bank ranked 19th in terms of total assets in custody and 19th in terms of custodian fee income. In 2018, it received the *Best Custodian Institution Award* (最佳託管機構) at the Asset Securitisation — Jie Fu Award (資產證券化 — 介甫獎) ceremony, granted by Caishiv.com (財視中國), and was named the *Annual Asset Custodian Business Bank* (年度資產託管業務銀行) at the 21st Century Annual Finance Summit of Asia hosted by 21st Century Business Herald (《21世紀經濟報道》), as a testament to the enhanced market recognition it has gained as a custodian institution.

In April 2018, in collaboration with reputable financial asset exchanges and depository and clearing companies, it developed and introduced a product named "E Depository and Custodian Services (存托E)", which offers systematic business solutions featuring its "4E (excellent, easy, efficient, electronic)" technology and brings about a seamless connection between its online and offline custodian businesses. In particular, this product allows customers to open individual and corporate certified accounts at the same time, and has shown outstanding capacities in terms of fund liquidation efficiency, fund security, and promptness of contract execution.

In November 2015, the Bank became one of the seven commercial banks then qualified to engage in private equity fund business outsourcing services. Since then, it has proactively promoted the development of the Bank's asset management operation outsourcing services, including building the "Bohai Bank Golden Steward (渤海銀行金管家)" platform for outsourcing services through which it performs backstage operational duties on behalf of asset management institutions.

As at 31 December 2019, 31 December 2020 and 30 June 2021, total assets under the Bank's custodian and asset management operation outsourcing services reached RMB2,006.5 billion, RMB1,749.3 billion and RMB1,866.7 billion, respectively. For the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021, fee and commission income it received from custodian service fees amounted to RMB1,090.4 million, RMB771.0 million and RMB297.2 million, respectively.

Entrusted Loans Services

The Bank extends entrusted loans to borrowers on behalf of its corporate customers according to their lending purpose, amount, term, and interest rate. It monitors the loan utilisation status and assists with the collection of loans for corporate customers who, being the principals, assume the default risk of the loans, while it receives agency service fees based on the entrusted loan amounts.

Guarantee Services

The Bank provides various guarantee services to its corporate customers, such as tender guarantees, contract performance guarantees, advance payment guarantees and other non-financing and financing guarantees.

Corporate Banking Customer Base

The rapid growth of the Bank's corporate banking business is underpinned by its strong customer base. Catering to the specific financial needs of corporate banking customers, the Bank has launched a broad range of products and services with features targeting selected groups of customers, based on which it is able to offer comprehensive financial services with customised options.

Under the Bank's "headquarters to headquarters (總部對總部)" strategy, its head office takes the lead in developing and maintaining its list of key and strategic corporate customers, which comprises large central state-owned enterprises, world-renowned telecommunication and technology companies, leading manufacturers, wholesalers and retailers, nationwide real estate developers, and prominent financial institutions. Meanwhile, its branches in the regional markets are responsible for the implementation of cooperative agreements the Bank has entered into with the strategic customers, including conducting periodic review on the customers' demand for financial services and evaluating the effectiveness of its cooperation with the customers, through an interactive collaboration between its head office and the branches.

In line with the Bank's mission to become a modern wealth and treasury manager offering the best customer experience (客戶最佳體驗的現代財資管家), it seeks to explore the potential of existing customers and to develop new customers through collaboration among its corporate banking, retail banking and financial market departments, leveraging its capacity in offering a comprehensive suite of banking solutions through an integrated, increasingly digitalised platform. When cross-department coordination or managerial support is called for, its branches submit such requests to the head office, who will make necessary adjustments and rectifications to the respective cross-segment integrated financial service plan, so that the customers' needs can be timely addressed.

The Bank conducts continuous monitoring and annual re-evaluation on the operational status and financial condition of its key and strategic customers, so that it can timely identify potential risk exposure, capture new business opportunities, and make adjustments to the list accordingly. To improve its services for micro and small enterprises, the Bank has also streamlined the credit application, review and approval procedures tailored for micro and small enterprises.

Retail Banking

Overview

The Bank provides its retail banking customers with a wide range of products and services, including personal loans, personal deposits, card services, and other fee- and commission- based retail products and services. For the years ended 31 December 2019 and 31 December 2020 and the six months ended 30 June 2021, operating income from the Bank's retail banking business amounted to RMB5,478.6 million, RMB8,617.2 million and RMB5,633.7 million, respectively, accounting for 19.3%, 26.5% and 35.6%, respectively, of its total operating income for the same periods.

Personal Loans

The Bank provides its customers with various personal loan products, including residential and commercial housing loans, personal consumer loans, personal business loans, and credit cards. As at 31 December 2019, 31 December 2020 and 30 June 2021, its personal loans amounted to RMB233,419.9 million, RMB310,372.0 million and RMB340,193.9 million, respectively, accounting for 33.0%, 35.0% and 34.8%, of its total loans and advances to customers, respectively.

The following table sets forth its personal loans by product type as at the dates indicated.

	As at 31 December				As at 30 June	
	2019		2020		2021	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
	(Audited)				*(Unaudited but reviewed)*	
Residential and commercial housing loans	127,816.2	54.7%	167,701.3	54.0%	184,354.9	54.2%
Personal consumer loans	98,891.9	42.4%	117,005.3	37.7%	113,772.7	33.4%
Personal business loans	6,711.8	2.9%	25,665.5	8.3%	42,066.3	12.4%
Total personal loans	**233,419.9**	**100.0%**	**310,372.0**	**100.0%**	**340,193.9**	**100.0%**

Residential and Commercial Housing Loans

The Bank provides its retail banking customers with residential and commercial housing loans to facilitate their purchases of new and second-hand residential and commercial properties.

Residential mortgage loans typically have a term of up to 30 years and are secured by the properties being purchased by the borrower. Generally, the Bank's residential mortgage loan amount does not exceed 70% of the appraisal value of the property if the applicant intends to buy the first residential property or has housing mortgage loan record in cities where the government implements real estate austerity measures. Such limit will be reduced to the range of 20% to 60%, and the exact ratio depends largely on the local government's rules and guidelines, if the applicant already owns one residential property. By comparison, the Bank's personal commercial housing loans generally have a term of up to ten years and the loan amount it approves will not exceed 50% of the appraisal price of the commercial use property or 55% of the appraisal price of the mixed residential and commercial use property.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's residential and commercial housing loans amounted to RMB127,816.2 million, RMB167,701.3 million and RMB184,354.9 million, respectively, accounting for 54.7%, 54.0% and 54.2% of its total personal loans, respectively.

The Bank's residential mortgage loans feature flexible repayment options adjustable based on the customers' income, credit history, loan maturity, and the condition of the underlying properties. For example, its "Bohai Happy-Easy Loans (渤樂•輕松貸)" products divide mortgage repayment periods into two phases: borrowers are required to pay interest only during phase I, which often reduces their short-term financial burden, followed by phase II where interest and principal will be repaid together in equal monthly installments.

In 2021, the Bank also strengthened technological empowerment and launched the Bohai "Cloud Mortgage" (雲按揭) business, laying a foundation for the comprehensively digital, online and intelligent traditional personal loan business.

Please also see "*Risk Factors — Risks Relating to the Bank's Business — Any significant or protracted downturn in, or change in national policies affecting, the real estate market in the PRC may have a material adverse effect on the Bank's business, asset quality, financial condition and results of operations.*".

Personal Business Loans

The Bank provides personal business loans to owners of individual businesses and owners of micro and small enterprises, to serve their business operation needs. Considering that the capital needs of these business owners are often relatively urgent, frequent, and in smaller amounts, it offers tailor-made products to satisfy their requirements. As at 31 December 2019, 31 December 2020 and 30 June 2021, its personal business loans amounted to RMB6,711.8 million, RMB25,665.5 million and RMB42,066.3 million, respectively, accounting for 2.9%, 8.3% and 12.4% of its total personal loans, respectively.

In 2019, leveraging data analysis technology, the Bank introduced "Bohai Tax-based Business Loans (渤税經營貸)", a credit loan product built upon its real-time access to the official digital tax payment record of the loan applicants' businesses, which effectively supplements other public information and third-party databases which it routinely consults. Compared to traditional personal loans products, Bohai Tax-based Business Loans and its expeditious user-profiling system have significantly shortened the credit application process and hence further enhanced its customers' overall experience.

Personal Consumer Loans

The Bank provides personal consumer loans to its retail banking customers to help meet their personal and household consumption needs, such as home renovation, education, traveling, medical treatment, and purchases of cars and other durable consumer goods. In line with the rapid development and future trends of internet finance, one of its key development strategies is to enhance its technology innovation capacity and channel digitalisation progress within the personal consumer loan segment.

As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's personal consumer loans amounted to RMB98,891.9 million, RMB117,005.3 million and RMB113,772.7 million, respectively, representing 42.4%, 37.7% and 33.4% of its total personal loans, respectively. Please see "*Assets and Liabilities — Assets — Loans and Advances to Customers*" for further details.

The Bank adjusts the interest rate for these loans in light of the particular customer's credit profile, financial status, and tax payment history, with reference to the benchmark rate set by the PBoC (or the loan prime rate after 20 August 2019). For customers who are able to provide collateral or pledges, it offers revolving credit lines which allow them to make multiple withdrawals, coupled with a negotiable repayment schedule, within the effective period and credit limits.

The Bank sees great potential in China's booming internet consumer finance industry. In early 2017, it launched its signature online consumer finance product series "Bohai Happy E Loans (渤樂e貸)", which consisted of product lines including "Online Homeowner Loans (線上拎包貸)" catering to its existing mortgage loan borrowers' consumption needs and providing individual credit lines adjustable based on the applicants' credit history and financial condition. In 2020, the Bank focused on the online consumption credit projects that cooperate with leading platforms, added Merchants Union Consumption Loan, Vipshop Consumption Loan, WeChat Installment Payment and Qunar Joint Loan to meet the demand for consumption loans of different groups, launched Lionbridge Rent Loan targeting commercial vehicle finance lease customers, providing powerful financial support for resumption of production and operations. The first loan product supporting the daily production of farmers, "Bohai Farmer Loans (渤農貸)", was launched in 2020, innovatively using the rural land contractual management right as collateral, and utilizing financial technology to resolve the last obstacle for farmers to obtain loans. In February 2020, the "Epidemic Fighter Loans (抗疫勇士貸)" was launched to provide financial services to epidemic-fighting individuals. In 2021, the Bank increased product research and development efforts, building the "Bohai E Loans" (渤銀 E 貸) brand and launching the "Golden Lending Loan" (金領貸) product to achieve traditional transformation and innovative optimisation through the integration of product entrances, the establishment of data models, the development of scenarios and channels, and the reconstruction of business processes.

Leveraging a cooperative relationship with local government institutions, the Bank's branches and sub-branches have introduced "Bohai Bank Credit Loans (渤銀公信貸)" jointly with the management centers of local housing provident funds, "Bohai Tax Benefit Loans (渤稅惠民貸)" with the local tax bureaus, and "Bohai Bank Resident Loans (渤銀市民貸)" with municipal information centers or big-data service departments. These long-term cooperations enable it to fully utilise a legitimate and reliable big data source and efficiently adjust the amount and maturity of unsecured loans granted to a customer based on his housing provident fund information, tax records, credit status, and other basic information.

In 2018, the Bank introduced "Bohai Bank Dai Loan (渤銀代代貸)"and its accompanying mobile application "Bohai Bank Loan Shop (渤銀貸吧)", where customers can apply for a revolving credit line and enjoy flexible repayment terms, through a paperless, instant credit approval process enabled by the application's advanced data-processing capability and intelligent risk management features. Meanwhile, it has fostered robust relationships with leading third-party internet consumer finance platforms to enlarge its presence in the market and seize the flourishing opportunities in this field.

In recent years, to enhance its in-house risk control capacity, the Bank led the development of an intelligent risk management decision system designed primarily for its personal consumer loan and credit card business, in an effort to achieve independent risk control. Leveraging intelligent and digitalised technology including cloud computing and machine-learning, and employing flexible risk modeling techniques, this system encompasses key business stages such as customer identity verification, credit evaluation, credit approval and pricing, and contributes to its relatively low NPL ratio for personal loan business compared to all listed Nationwide Joint-stock Commercial Banks. In 2019, this system received the *China Annual Risk Data Analysis Technology Application Award* (中國年度風險數據與分析技術實施大獎) granted by The Asian Banker (《亞洲銀行家》) for its effective risk identification and control capacity.

Personal Deposits

The Bank offers traditional personal deposit products, including basic demand and time deposits denominated in RMB and foreign currencies, as well as signature deposit products, such as "Bohai Time Deposits (渤定存)", where customers may enjoy differentiated interest rates based on the amounts deposited and convenient access to online services. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's total personal deposits amounted to RMB52,146.7 million, RMB101,942.2 million and RMB130,778.0 million, respectively, accounting for 8.2%, 13.7% and 15.4% of its total deposits from customers, respectively.

The Bank's time deposit products have maturities generally ranging from three months to five years, while deposit products denominated in foreign currencies have maturities ranging from one month to one year. Meanwhile, the Bank designs and promotes diversified time deposit products which allow customers to enjoy the convenience of demand deposits while tapping into the higher return that time deposit products can offer. For example, it offers notice deposit products which bear higher interest rates than demand deposits but allow customers to make withdrawals pursuant to a stipulated notice period.

In addition, the Bank offers certificate of deposits (大額存單) products with terms ranging from one month to five years and a minimum subscription amount of RMB200,000. These certificates typically offer higher interest rates and more flexible withdrawal options compared to regular time deposits products.

Card Services

Debit Cards

With the Bank's regular debit cards, the Bank's customers can access basic banking services such as deposits and withdrawals, consumption, bill payment, as well as transfers and remittances. The Bank is a member of China UnionPay, which allows its retail customers to access China UnionPay's network across China and around the globe.

The Bank issues a range of debit cards to capture customers seeking differentiated financial features. In May 2014, it introduced a debit card associated with its personal cash management product "Tian Jin Bao (添金寶)", which automatically transfers new deposits into the customers' Tian Jin Bao accounts, thereby facilitating their daily wealth management needs.

Credit Cards

The Bank launched its credit card business in January 2016 and accepts applications through online portals and its branches and sub-branches. As at 31 December 2019, 31 December 2020 and 30 June 2021, the accumulated number of credit cards the Bank issued amounted to 241.2 thousand, 510.9 thousand and 771.8 thousand, respectively. The Bank has also fully upgraded its credit card app to improve the response speed and smoothness of the app. As at 30 June 2021, the number of credit card app users of the Bank amounted to 179,200,

The Bank offers four types of credit cards, namely ordinary card, gold card, platinum card and diamond card, based on the credit ratings of the applicants. Holders of each type of credit cards can enjoy the corresponding credit lines. In line with its installment-oriented marketing strategy, it offers diversified installment products and convenient installment repayment services so as to increase its installment fee income through various promotional efforts.

Since 2018, to resonate with the banking industry's growing emphasis on FinTech, the Bank has endeavored to promote its portable sales platforms' substitution for traditional paper-based credit card application procedures, and to establish and continuously enhance a new business service model featuring mobility, intelligence, paperless trading and precision. Adopting advanced technologies which support optical character recognition (OCR), GPRS positioning, digital signatures and image transmission, its portable sales platforms can, at a flexible time and location, process customer applications for credit cards, installment services and other services, while shortening the application process from days to minutes. Utilising the backstage database, its portable sales platforms are also capable of performing well-rounded and timely data analysis on key indicators such as application rejection and approval rates, thereby adding precision to its marketing campaigns.

Other Fee- and Commission-Based Retail Banking Products and Services

The Bank provides a wide variety of fee- and commission-based retail banking products and services, primarily personal wealth management services, agency services, and settlement services.

Personal Wealth Management Services

The Bank provides its retail banking customers with personal wealth management products and services under the brand name of "Bohai Infinite Wealth Management (浩瀚理財)", offering differentiated non-principal protected products under the product lines of "Bo Sheng (渤盛)", "Bo Xiang (渤祥)", "Bo Tai (渤泰)", and its newly introduced public and private NAV-measured products, each designed to meet liquidity needs, risk appetites and investment return expectations of various target customer groups. It sells personal wealth management products through a variety of channels, including its counters, mobile banking apps, and personal online banking website.

The Bank continuously enriched and improved wealth management products, developed wealth management and agency businesses, scaled up total wealth assets and improved the comprehensive competitiveness of wealth management brand. Firstly, the Bank vigorously promoted deposit business innovation, and facilitated a new breakthrough in deposit business scale by enhancing the attractiveness of the products. As at 30 June 2021, the Bank's asset portfolio wealth management balance amounted to RMB205.4 billion, representing a year-on-year increase of RMB9.1 billion. Secondly, the Bank conducted precision marketing and cross sales through data analysis and customer base profile, and actively promoted the introduction of intelligent outbound calls and digital marketing services, thereby expanding production capacity and constantly improving customers' comprehensive contribution. Thirdly, the Bank accelerated the enrichment of wealth product portfolio, conducted multi-dimensional research and development of wealth management products, and focused on agency business to meet the growing wealth management demands and asset allocation needs of its customers. Fourthly, the Bank accelerated the super-saturated supply of wealth management products and promoted the system development and channel construction of agency businesses including trust, insurance and fund. As at 30 June 2021, the bank-wide personal deposits balance amounted to RMB130.8 billion, representing an increase of RMB28.8 billion or 28.3% as compared to 31 December 2020.

The Bank plans to further diversify its product portfolio by introducing new types of personal wealth management products to satisfy its customers' varying demands.

The Bank pays particular attention to risk management in developing and managing its wealth management products. For more details, please see "*Risk Management — Credit Risk Management*".

Agency Services

The Bank's agency services mainly include agency sale of funds, bancassurance, agency sale of trusts, and agency trading of precious metals.

Agency Sale of Funds. The Bank became qualified to conduct fund distribution business in October 2009. Its customers can subscribe to, purchase and redeem fund products over its counters, or through its personal online banking website and mobile banking app.

Bancassurance. The Bank began to distribute bancassurance products through the bank-insurance link system (銀保通系統) in December 2017. The Bank provides insurance products as an agent, including traditional personal insurance products (such as health insurance and life insurance) and innovative personal insurance products (such as participating insurance).

Agency Sale of Trusts. The Bank launched its trust distribution business in November 2009 and has since established business relationships with leading trust companies in the industry.

Agency Trading of Precious Metals. The Bank began to conduct agency sales of precious metals via its WeChat official account in August 2017. Subsequently, it has entered into agency agreements with over ten manufacturers and distributors of precious metal and currently sells gold and silver coins, gold bullion, handicrafts made in gold and silver, and other precious-metal investment collections. In 2019, it introduced Bohai Bank-branded gold bullion and silver ingots.

Settlement Services

The Bank offers settlement services to its retail banking customers, including RMB denominated money transfer, deposit and withdrawal, and remittance, as well as remittances in major foreign currencies such as U.S. dollar, Hong Kong dollar, Japanese Yen, and Euro.

Retail Banking Customer Base

Capitalising on the synergy between corporate and retail banking segments and its capacity to design and promote new products, the Bank managed to steadily expand its retail banking customer base.

The Bank has identified the "pressurised generation (壓力一代)" and the "grey-haired group (養老一族)" as its key retail customer groups: the former largely referring to middle-aged and younger mortgage borrowers with a variety of consumption needs and progressive wealth management plans, and the latter generally comprising the elderly, who typically prefer more conservative investment options and may have unique desire for financial assistance in times of medical care. To capture the growing needs of its pressurised generation customers, it offers flexible, convenient and diversified consumption loan services centered around home mortgage loans, which cater to young and middle-aged customers' typical consumption scenarios such as home innovation, purchases of parking spaces and education. In addition, it offers a range of NAV-measured wealth management products tailored to different risk appetites and its signature cash management product "Tian Jin Bao + (添金寶+)".

Meanwhile, the Bank undertakes to fulfil the grey-haired group's distinctive needs in relation to daily consumption, tourism and transit, medical care and wealth management, by offering comprehensive and high-quality services through in-depth collaboration with business partners including travel agencies, car rental platforms, hospitals and retirement home project developers. Considering that the grey-haired group rely mostly on offline channels, it provides face-to-face consultation and typically recommends "Bohai Time Deposits (渤定存)" and other safer investment options.

In line with its marketing strategy, the Bank has designed promotional activities specifically targeting the pressurised generation and the grey-haired group, such as "Little Bankers (小小銀行家)" experience camps where it offers parents and children the opportunity to attend its interactive money management tutorials, and "Healthy Walk (健步行)" programs where the Bank invites its elderly customers to engage in community and recreational events.

To increase its market presence and customer loyalty, the Bank has endeavored to promote its "Bohai Infinite Wealth Management (浩瀚理財)" brand name, under which it not only issues its own wealth management products, but also carries out agency sales of trusts, funds and insurance products issued by other financial institutions, in order to capture the growingly diversified investment needs of its retail customers. In particular, it classifies its retail banking customers into four categories based on the value of their assets (including deposits and investments in wealth management products, insurance and funds) under its management, or AUM, namely: ordinary customers (大眾客戶) (with

AUM less than RMB100,000), Infinite-Gold (浩瀚•金) (with AUM between RMB100,000 and RMB1.0 million), Infinite- Platinum (浩瀚•白金) (with AUM between RMB1.0 million and RMB5.0 million), and Infinite-Diamond (浩瀚•鑽石) (with AUM above RMB5.0 million). The Bank's digital customer database and strong data analysis capability has enabled it to constantly review the composition of its client base and direct differentiated marketing efforts to each segment.

In response to the impact of restriction on customer flow caused by the epidemic, the Bank proactively developed the marketing mode of online customer acquisition, ecological customer acquisition and scenario customer acquisition: firstly, the Bank actively promoted agency payroll services and merchant acquiring business to add new customers; secondly, the Bank explored such business forms as intelligent properties and travelling, attracting customer flows by integrating with online accounts system; thirdly, the Bank built up proprietary online lightweight customer acquisition mode through "Bohai Cloud Store (渤海雲店)", and created a platform connecting physical networks, products, account managers and external cooperative channels; fourthly, the Bank continued to promote the development of co-branded card business to acquire customers; fifthly, the Bank established the entire process of Internet marketing to acquire customers, and released marketing materials by Toutiao, TikTok, WeChat and other channels to acquire customers, further enhancing the ability to acquire customers independently. As at 30 June 2021, the number of bank-wide individual customers reached 8,647,200, representing a year-on-year increase of 10.5%.

Financial Markets

Overview

The Bank's financial market business primarily consists of interbank market transactions, investment management, wealth management, and bill discounting and rediscounting. For the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, operating income generated from its financial market business amounted to RMB10,361.6 million, RMB9,549.5 million and RMB2,780.0 million, respectively, accounting for 36.5%, 29.4% and 17.6%, respectively, of its total operating income for the same periods.

Interbank Market Transactions

The Bank's interbank market transactions business primarily consists of: (i) interbank deposits; (ii) interbank placements; and (iii) purchase under resale agreements and sale under repurchase agreements, which mainly involves bonds and bills. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's deposits with banks and other financial institutions were RMB14,051.6 million, RMB27,805.4 million and RMB69,870.2 million, respectively, and the Bank's deposits from banks and other financial institutions were RMB78,547.4 million, RMB130,273.4 million and RMB151,807.0 million, respectively. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's placements with banks and other financial institutions were RMB4,410.8 million, RMB6,063.7 million and RMB5,070.4 million respectively, and the Bank's placements from banks and other financial institutions were RMB21,500.2 million, RMB31,920.6 million and RMB61,723.5 million, respectively.

As part of the Bank's interbank business, the Bank purchases financial assets under resale agreements at certain prices from counterparties (including banks and other financial institutions) with the commitment to resell these assets to the original sellers in the future at predetermined prices. The Bank also sells financial assets under repurchase agreements to counterparties with the commitment to buy back these assets in the future at predetermined prices. As at 31 December 2019, 31 December 2020 and 30 June 2021, the Bank's financial assets held under resale agreements were RMB1,850.3 million, nil and RMB2,293.3 million, respectively, and the Bank's financial assets sold under repurchase agreements were RMB23,069.1 million, RMB52,406.1 million and RMB15,661.8 million respectively. The underlying financial assets in these transactions primarily comprised debt securities issued by PRC Government, commercial banks and other financial institutions, as well as bank acceptance bills.

Investment Management

The Bank's investment management business mainly consists of debt securities investment and special purpose vehicle investment. Debt securities in which the Bank invests include debt securities issued by PRC Government, policy banks, commercial banks and other financial institutions, and enterprises. Special purpose vehicle investment primarily consists of the Bank's investments in trust plans, asset management plans, wealth management products, and investment funds.

When making debt securities investment and special purpose vehicle investment, the Bank takes into account a broad range of factors and strives to achieve a better balance between risks and returns. Factors that the Bank considers include, but not limited to, its risk appetite, capital consumption level, tax impact, and expected yields of relevant products, as well as overall economic conditions and relevant regulatory requirements. Based on the result of the Bank's analysis on these factors, the Bank from time to time adjusts its investment portfolio to enhance profitability while properly managing risk.

Wealth Management

The Bank has issued both principal-protected and non-principal protected wealth management products to its corporate customers (including interbank customers) and retail customers. The Bank sets varying maturity terms and expected rates of return for different tranches of wealth management products in order to capture a broader range of customers with different wealth management needs and risk tolerance levels and has steadily expanded the Bank's online distribution channels.

In July 2018, the Bank introduced fixed-income NAV-measured wealth management products targeting experienced corporate investors. For the Bank's retail banking customers, the Bank introduced and promoted non-principal protected wealth management series including "Bo Xiang (渤祥)", "Bo Tai (渤泰)", and public and private NAV-measured wealth management products. As at 31 December 2020 and 30 June 2021, the balance of the Bank's wealth management products was RMB213.2 billion and RMB224.3 billion, respectively.

Bill Discounting and Rediscounting

The Bank also engages in interbank discounts of commercial bills with other qualified financial institutions or rediscounts of commercial bills with the PBOC, to generate working capital and income from interest spreads. The Bank offers interbank discount services such as bills purchase, bills sale, bills purchased under resale agreements and sold under repurchase agreements. The Bank rediscounts bills in accordance with the regulations of the PBOC.

Financial Technology

Overview

The Bank has seized the window of opportunity for layout of the ecosystem strategies to accelerate the construction of an open banking system and strengthen the financial empowerment of the platform ecosystem. The Bank has paid attention to the end-to-end customer experience, promoted the close linkage of business lines, and vigorously developed a wider range of business scenarios, with steady progress in various businesses and financial service capacity improved significantly. The Bank has continued to implement the development strategy of a technological ecological bank, strived to improve the financial technology capabilities and the output of platform ecological service capabilities, strengthened the empowerment of financial technology, and accelerated the construction of ecological scenarios, constantly advancing the construction of an ecological bank.

Financial services capabilities

The Bank has developed ecological scenarios and improved financial service capabilities in multiple fields. The Bank has actively explored ecological scenarios such as human resources, property, education and industrial Internet, and continued to improve the product and service capabilities of Bohai Champion Commerce (渤商贏). Aiming at the human resources field, the Bank has launched a comprehensive solution of "Human Resources + Internet + Finance", exported standardised products and services to the human resources vertical industries, and rapidly expanded the scale of services, effectively assisting traditional human service organisations in the Internet adoption, online, and digitalised upgrade to achieve win-win cooperation. The program has been implemented through the "Strait Human Cloud" (海峽人力雲) project in the Chinese Strait Talent Market.

For the real estate sector, the Bank has launched smart real estate solutions. Based on technology platforms, digital tools and financial products, and with financial services as the starting point, the Bank opened the door to serve customers in the public sector and activated the ecological linkage of the community through financial products such as special deposits and consumer loans, as well as personalised value-added services combined with consumption scenarios.

Focusing on the education industry, the Bank launched smart education solutions. On the basis of the "earnest money" of deposit products, the Bank carried out personalised upgrades for the education and training industry, which brought comprehensive benefits to the Bank while ensuring the safety of customers' funds. The Bank targeted the industrial internet field and launched comprehensive solutions.

Relying on the Bank's core financial capabilities and technological capabilities such as blockchain, big data, remote video and artificial intelligence, as well as ecological resources such as the Bank's corporate customer base and industrial platforms, the Bank has created a closed-loop scenario platform system to provide the underlying account system and corporate financial services for corporate customers on the industrial Internet platform. As at 30 June 2021, the Bank docked with around 100 platforms in the industrial internet field, covering numerous industries such as logistics, security, medical care, supply chain finance and steel trading.

The Bank also enriched the "B2C" business function module, established the online smart property platform, further developed ecosystems including travelling, properties, intelligent human resources, having significantly improved the ability of its open banking system to acquire clients.

Further, the Bank accelerated the establishment of online portal to build an Internet financial operation system with serving the clients as the core. The Bank accelerated the development of new product functions of mobile banking and individual online banking to improve the operation ability of WeChat public platform.

Electronic channels

The Bank has accelerated smart transformation and strengthened the smart construction of electronic channels. The Bank continued to promote the construction of the new version of the mobile banking project, optimised the financial service system, focused on building a non-financial service ecosystem, gave full play to the advantages of channel, self-operated, and platform resources, built a special scene for the Bank, and made effort to create a mobile portal app with core features of "digitalisation", "intelligence", "aggregate high-quality equity" and "immersive customer experience". The Bank established an online teller intelligent interactive capability management platform to achieve the triple-play capability output of "Interactive Service + Intelligent Analysis + Precision Marketing" through the use of artificial intelligence, big data analysis, virtual digital human, 5G and other advanced technologies. At the same time, the Bank deepened the concept of "Internet of Things + Banking", planned professional solutions for home "AIoT" (artificial intelligence across Internet of Things) management terminals, and created an artificial intelligence bank capable of "listening and speaking, thinking and understanding".

Payment and settlement service

The Bank has expanded payment scenarios and continued to improve payment and settlement service capabilities. The Bank has created new UnionPay collection and authentication channels. The Bank also completed the construction and development of the intrabank system connecting with the UnionPay SASS platform, and comprehensively realised the output of Type III accounts system, online top-up and online payment functions. The Bank continued to expand the online application scenarios of electronic accounts, removed the "last mile" obstacle for electronic accounts, and created a new Type II account service function with UnionPay SASS platform to enrich the online functions of Type II and Type III accounts. The Bank actively carried out the Corporate Token transformation of UnionPay channels, and the upgrade and transformation of services of merchant-acquiring side in respect to UnionPay payment channels. The Bank continuously strengthened the optimisation and upgrade of online payment functions, and improved the construction of online payment channels, thus promoting the development of mobile payment business. The Bank has strengthened referral traffic on the platform, and realised the one-stop service for clients to open accounts, link cards and recharge at the platform end. Meanwhile, the Bank extensively cooperated with numerous leading payment institutions in receiving payments, concentrated on merchant expansion with respect to corporate and retail customers, and achieved remarkable results in expanding business scale.

COMPETITION

The banking industry in China has become increasingly competitive. The Bank faces competition mainly from other commercial banks in the regions where it operates. The Bank's main competitors include large commercial banks and other Nationwide Joint-stock Commercial Banks, as well as city commercial banks. The principal competitive factors in the banking industry include capital adequacy, risk management, asset quality, reach of distribution network and customer base, brand recognition and scope, as well as quality and pricing of products and services. The primary factors driving competition for deposits products are customer service, interest rates, fees charged, branch locations and hours, online and mobile banking functionality, and the range of products offered. The primary factors driving competition for loan products are customer service, range of products offered, price, reputation, and quality of execution.

The Bank also competes with non-banking institutions including securities companies and fund management companies and rising non-financial institutions such as internet-based finance companies with respect to the provision of financial services. Competition between foreign financial institutions and the Bank may intensify in the future, and such intensifying competition may have an adverse effect on its business and results of operations.

In response to the aforementioned competitive environment, the Bank plans to expand its electronic banking network, reinforce its traditional banking businesses, innovate its products and services, and explore diversified business development strategies.

EMPLOYEES

As at 30 June 2021, the Bank had 10,837 employees, among which, 23.3% held postgraduate or master's degree and above and 73.8% held undergraduate or bachelor's degree. Attracting and retaining qualified employees is vital to the Bank's success. The Bank offers competitive remuneration, strives to establish a market-based recruitment program and a transparent evaluation mechanism, and is dedicated to talent cultivation and development. Believing that the Bank's sustainable growth relies on the capability and dedication of its employees, the Bank has invested significant resources in talent development. The Bank offers a variety of training programs tailored for its employees at different levels and in different business segments.

INTELLECTUAL PROPERTY

The Bank conducts business under the brand names and logos of "渤海銀行", "CBHB" and "渤海银行 CHINA BOHAI BANK" and several other brand names and logos. The Bank's intellectual property rights mainly include trademarks and internet domain names, including cbhb.com.cn.

LEGAL PROCEEDINGS

The Bank is involved in various claims and lawsuits in the ordinary course of its business from time to time. As at the date of this Offering Circular, the Bank is not party to any legal or administrative proceedings which may have a material adverse effect on its financial condition or results of operations, nor is the Bank aware that any such proceedings are pending or threatened.

FUNDING AND CAPITAL ADEQUACY OF THE BANK

FUNDING

As at 30 June 2021, total deposits from customers of the Bank amounted to RMB857,649.6 million, representing an increase of 13.1% as compared with the end of the previous year. Deposits from customers accounted for 59.0% of the total liabilities of the Bank, and were the major funding source of the Bank.

The following table sets forth, as at the dates indicated, the deposits from customers of the Bank by product type and customer type.

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
		(%)		(%)
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Corporate deposits	**575,718,891**	**67.99**	**476,289,401**	**63.78**
Of which: Demand deposits	164,129,801	19.38	187,615,249	25.12
Time deposits	411,589,090	48.61	288,674,152	38.66
Personal deposits	**130,778,022**	**15.45**	**101,942,200**	**13.65**
Of which: Demand deposits	48,848,497	5.77	20,467,078	2.74
Time deposits	81,929,525	9.68	81,475,122	10.91
Pledged deposits	140,060,573	16.54	168,289,715	22.54
Fiscal deposits	112,803	0.01	119,136	0.02
Inward and outward remittances	59,538	0.01	85,331	0.01
Gross deposits from customers	**846,729,827**	**100.00**	**746,725,783**	**100.00**
Interest accrued	10,919,810		11,510,011	
Total	**857,649,637**		**758,235,794**	

The following table sets out a breakdown of the Bank's deposit from customers by remaining maturity as at the dates indicated:

	As at 30 June 2021		As at 31 December 2020	
	Percentage	Amount	Percentage	Amount
		(%)		(%)
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Indefinite Note[1]	—	—	0.02	119,108
Repayable on demand	24.58	210,842,496	27.39	207,698,503
Within 1 month	7.11	60,976,188	7.30	55,322,139
Between 1 month and 3 months	6.45	55,315,605	11.70	88,731,884
Between 3 months and 1 year	29.43	252,384,214	21.38	162,122,294
Between 1 year and 5 years	32.22	276,305,852	31.75	240,761,577
More than 5 years	0.21	1,825,282	0.46	3,480,289
Total	**100.00**	**857,649,637**	**100.00**	**758,235,794**

(1) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans and advances, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

CAPITAL ADEQUACY

The Bank continued to optimise its business structure and enhance capital management, and satisfied the minimum capital requirements, the reserve capital requirements and the counter-cyclical capital requirements under the transitional arrangements of CBIRC as at 31 December 2020 and 30 June 2021.

As at 30 June 2021, the Bank calculated the capital adequacy ratios at all levels in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) promulgated by the CBIRC and other relevant regulatory requirements, among which, the core tier-one capital adequacy ratio was 8.73%, the tier-one capital adequacy ratio was 10.75% and the capital adequacy ratio was 12.76%, all of which were in compliance with the regulatory requirements.

In calculating its capital adequacy ratios, the Bank considers itself and the financial institutions it invests directly or indirectly are in compliance with the requirements of the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). The items related to capital adequacy ratios at all levels calculated by the Bank in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and the relevant requirements are as follows as at the dates indicated:

	As at 30 June 2021	As at 31 December 2020
	(in thousands of RMB, except percentages)	
	(Unaudited but reviewed)	*(Audited)*
The Bank		
Core tier-one capital	87,241,699	83,572,689
Core tier-one capital regulatory deductions	(1,153,879)	(468,892)
Net core tier-one capital	86,087,820	83,103,797
Other tier-one capital	19,961,604	19,961,604
Net tier-one capital	106,049,424	103,065,401
Tier-two capital	19,801,826	10,056,377
Of which: Qualifying portion of tier-two capital instruments enjoying favourable policies during the transitional period	408,562	817,124
Tier-two capital regulatory deductions	—	—
Net capital	125,851,250	113,121,778
Capital adequacy ratio (%)	12.76	12.08
Tier-one capital adequacy ratio (%)	10.75	11.01
Core tier-one capital adequacy ratio (%)	8.73	8.88

Note Capital adequacy ratio equals net capital/risk-weighted assets*100%. See table below for details of risk-weighted assets.

The following table sets forth the risk-weighted assets calculated by the Bank in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), among which, credit risk-weighted assets are calculated using the method of weighting, market risk-weighted assets are calculated using the standardized approach, and operational risk-weighted assets are calculated using basic indicator approach.

	As at 30 June 2021	As at 31 December 2020
	(in thousands of RMB, except percentages)	
	(Unaudited but reviewed)	*(Audited)*
The Bank		
Credit risk-weighted assets	**930,236,234**	**881,225,155**
Of which: On-balance sheet credit risk	869,415,828	819,831,605
Off-balance sheet credit risk	59,750,613	60,787,483
Counterparty credit risk	1,069,793	606,067
Market risk-weighted assets	3,576,459	2,622,352
Operational risk-weighted assets	52,259,283	52,259,283
Total risk-weighted assets	**986,071,976**	**936,106,790**

According to the information disclosure requirements on asset securitization in Appendix 15 of the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》), as at 30 June 2021, the Bank's on-balance sheet credit risk exposure included RMB50.8 billion of on-balance sheet asset securitization risk exposure and RMB10.2 billion of risk-weighted assets.

ASSETS AND LIABILITIES

The following discussions and analysis should be read in conjunction with the Bank's audited financial statements as at and for the year ended 31 December 2020 and the Bank's unaudited but reviewed interim financial statements as at the for the six months ended 30 June 2021, which are included elsewhere in this Offering Circular. Such financial statements have been prepared in accordance with IFRS.

In this section, unless otherwise specified, loans and advances to customers or loans to customers represent total loans and advances to customers before deduction of allowance for impairment losses on loans, rather than net loans and advances to customers.

ASSETS

As at 30 June 2021, the total assets of the Bank amounted to RMB1,560.3 billion, up by 12.0% from the end of the previous year, which was mainly due to an increase in asset scale led by the rapid development of loans and advances to customers and financial investments.

The following table sets forth, as at the dates indicated, the components of the total assets of the Bank.

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
		(%)		*(%)*
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Cash and deposits with the central bank	96,693,442	6.20	96,548,417	6.93
Deposits with banks and other financial institutions	69,870,163	4.48	27,805,363	2.00
Placements with banks and other financial institutions and financial assets held under resale agreements	7,363,770	0.47	6,063,668	0.43
Derivative financial assets	490,517	0.03	232,498	0.02
Loans and advances to customers	953,838,630	61.13	867,120,217	62.22
Financial investments	409,914,387	26.27	375,926,746	26.98
Property and equipment	3,521,097	0.23	3,630,154	0.26
Deferred tax assets	9,724,046	0.62	8,664,618	0.62
Other assets	8,911,478	0.57	7,531,444	0.54
Total assets	**1,560,327,530**	**100.00**	**1,393,523,125**	**100.00**

1) Loans and advances to customers

As at 30 June 2021, gross loans and advances of the Bank amounted to RMB976.8 billion, representing an increase of 10.1% as compared with the end of the previous year; gross loans and advances accounted for 62.6% of the total assets, representing a decrease of 1.1% as compared with the end of the previous year.

Distribution of loans and advances to customers by product type

The following table sets forth, as at the dates indicated, the loans and advances to customers of the Bank by product type.

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
		(%)		*(%)*
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Corporate loans and advances	569,684,331	58.32	546,118,850	61.53
Discounted bills	66,949,948	6.85	31,046,668	3.50
Personal loans	340,193,918	34.83	310,372,027	34.97
Gross amount of loans and advances to customers	**976,828,197**	**100.00**	**887,537,545**	**100.00**
Interest accrued	4,455,012		4,408,520	
Total	**981,283,209**		**891,946,065**	

Distribution of loans by five-category classification

The following table sets forth, as at the dates indicated, the distribution of loans by categories.

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
		(%)		*(%)*
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Normal loans	935,080,024	95.73	846,131,237	95.34
Special mention loans	24,562,244	2.51	25,692,529	2.89
NPLs	17,185,929	1.76	15,713,779	1.77
Of which: Substandard loans	7,323,173	0.75	8,633,726	0.97
Doubtful loans	6,973,228	0.71	4,852,977	0.55
Loss loans	2,889,528	0.30	2,227,076	0.25
Gross loans and advances to customers	**976,828,197**	**100.00**	**887,537,545**	**100.00**

Distribution of loans and NPLs by product type

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

	30 June 2021				31 December 2020			
	Amount	(%)	NPL amount	NPL ratio (%)	Amount	(%)	NPL amount	NPL ratio (%)
	(in thousands of RMB, except percentages)							
	(Unaudited but reviewed)				*(Audited)*			
Corporate loans and advances	**569,684,331**	**58.32**	**13,147,582**	**2.31**	**546,118,850**	**61.53**	**12,728,869**	**2.33**
Of which: Short-term corporate loans	251,669,578	25.76	6,160,922	2.45	202,826,916	22.85	8,116,015	4.00
Medium- and long-term corporate loans	318,014,753	32.56	6,986,660	2.20	343,291,934	38.68	4,612,854	1.34
Discounted bills	**66,949,948**	**6.85**	**—**	**—**	**31,046,668**	**3.50**	**—**	**—**
Of which: Bank acceptance bills	62,029,139	6.35	—	—	24,189,841	2.73	—	—
Commercial acceptance bills	4,920,809	0.50	—	—	6,856,827	0.77	—	—
Personal loans	**340,193,918**	**34.83**	**4,038,347**	**1.19**	**310,372,027**	**34.97**	**2,984,910**	**0.96**
Of which: Residential and commercial housing loans	184,354,861	18.87	710,038	0.39	167,701,283	18.90	500,713	0.30
Personal consumer loans	113,772,731	11.65	2,932,152	2.58	117,005,285	13.18	2,139,312	1.83
Personal business loans	42,066,326	4.31	396,157	0.94	25,665,459	2.89	344,885	1.34
Gross loans and advances to customers	**976,828,197**	**100.00**	**17,185,929**	**1.76**	**887,537,545**	**100.00**	**15,713,779**	**1.77**

Distribution of corporate loans and NPLs by industry

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

	30 June 2021				31 December 2020			
	Amount	(%)	NPL amount	NPL ratio (%)	Amount	(%)	NPL amount	NPL ratio (%)
	(in thousands of RMB, except percentages)							
	(Unaudited but reviewed)				*(Audited)*			
Lease and business services	182,819,279	18.72	1,674,144	0.92	171,383,263	19.31	3,135,737	1.83
Manufacturing	97,030,546	9.93	4,239,186	4.37	78,572,827	8.85	3,841,511	4.89
Real estate	93,698,974	9.59	3,696,379	3.94	111,774,970	12.59	2,385,067	2.13
Water conservancy, environment and public facilities management	61,690,858	6.32	57,076	0.09	57,281,338	6.45	59,876	0.10
Wholesale and retail	51,433,541	5.27	852,606	1.66	46,695,083	5.26	1,781,545	3.82
Construction	24,944,421	2.55	1,256,333	5.04	25,998,522	2.93	284,057	1.09
Transportations and communications, storage and post	17,969,714	1.84	643,443	3.58	15,266,620	1.72	42,528	0.28
Mining	10,860,002	1.11	184,837	1.70	10,576,481	1.19	184,837	1.75
Production and supply of electricity, heat, gas and water	8,364,017	0.86	4,939	0.06	8,434,143	0.95	4,939	0.06
Finance	7,044,399	0.72	50	—	5,220,010	0.59	500,000	9.58
Education	2,573,638	0.26	—	—	2,712,058	0.31	—	—
Hygiene and social welfare	2,229,189	0.23	170,000	7.63	2,588,730	0.29	170,000	6.57
Agriculture, forestry, animal husbandry and fishery	2,685,915	0.27	—	—	2,381,667	0.27	—	—
Others	6,339,838	0.65	368,590	5.81	7,233,138	0.82	338,772	4.68
Total corporate loans and advances	**569,684,331**	**58.32**	**13,147,582**	**2.31**	**546,118,850**	**61.53**	**12,728,869**	**2.33**

Distribution of loans and NPLs by geographical areas

The following table sets forth, as at the dates indicated, the distribution of loans and NPLs by geographical areas.

	30 June 2021				31 December 2020			
	Amount	(%)	NPL amount	NPL ratio (%)	Amount	(%)	NPL amount	NPL ratio (%)
	(in thousands of RMB, except percentages)							
	(Unaudited but reviewed)				*(Audited)*			
Northern and Northeastern China	406,241,526	41.59	8,041,180	1.98	389,592,957	43.89	6,510,978	1.67
Eastern China	241,310,525	24.70	3,533,665	1.46	211,867,272	23.87	2,242,715	1.06
Central and Southern China	242,175,722	24.79	5,439,391	2.25	209,862,150	23.65	6,445,485	3.07
Western China	87,100,424	8.92	171,693	0.20	76,215,166	8.59	514,601	0.68
Gross loans and advances to customers	**976,828,197**	**100.00**	**17,185,929**	**1.76**	**887,537,545**	**100.00**	**15,713,779**	**1.77**

Distribution of loans and NPLs by security type

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

	30 June 2021				31 December 2020			
	Amount	(%)	NPL amount	NPL ratio (%)	Amount	(%)	NPL amount	NPL ratio (%)
	(in thousands of RMB, except percentages)							
	(Unaudited but reviewed)				*(Audited)*			
Collateralized loans	305,202,924	31.24	5,030,519	1.65	294,096,608	33.14	3,313,043	1.13
Pledged loans	128,434,085	13.15	2,416,369	1.88	95,062,754	10.71	3,131,023	3.29
Guaranteed loans	275,034,010	28.16	6,482,397	2.36	275,929,006	31.09	6,876,835	2.49
Unsecured loans	201,207,230	20.60	3,256,644	1.62	191,402,509	21.56	2,392,878	1.25
Discounted bills	66,949,948	6.85	—	—	31,046,668	3.50	—	—
Gross loans and advances to customers	**976,828,197**	**100.00**	**17,185,929**	**1.76**	**887,537,545**	**100.00**	**15,713,779**	**1.77**

Distribution of loans by overdue period

The following table sets forth, as at the dates indicated, the distribution of loans by overdue period.

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
		(%)		*(%)*
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Overdue within three months	17,240,654	1.77	10,606,590	1.20
Overdue more than three months to one year	6,902,362	0.71	8,270,669	0.93
Overdue more than one year to three years	6,248,677	0.64	4,069,444	0.46
Overdue more than three years	2,584,284	0.26	1,703,509	0.19
Total overdue loans	**32,975,977**	**3.38**	**24,650,212**	**2.78**
Gross loans and advances to customers	**976,828,197**	**100.00**	**887,537,545**	**100.00**

Loans to ten largest customers who are single borrowers

The following table sets forth, as at the dates indicated, the loans to ten largest customers who are single borrowers.

		30 June 2021			
		Amount	**NPL amount**	**% of net capital base**	**% of gross loans**
		(in thousands of RMB, except percentages)			
		(Unaudited but reviewed)			
Borrowers	**Industry**				
Customer A	Manufacturing	11,520,334	—	9.15	1.18
Customer B	Lease and business services	9,171,803	—	7,29	0.94
Customer C	Manufacturing	8,734,530	—	6.94	0.89
Customer D	Manufacturing	6,457,300	—	5.13	0.66
Customer E	Real estate	5,820,000	—	4.62	0.59
Customer F	Lease and business services	5,638,248	—	4.48	0.58
Customer G	Manufacturing	5,553,708	—	4.41	0.57
Customer H	Manufacturing	5,459,997	—	4.34	0.56
Customer I	Manufacturing	4,843,783	—	3.85	0.50
Customer J	Lease and business services	4,841,000	—	3.85	0.50
Total		**68,040,703**	**—**	**54.06**	**6.97**

2) **Financial investments**

As at 30 June 2021, the financial investments of the Bank amounted to RMB409,914.4 million, representing an increase of 9.04% as compared to the end of the previous year.

The following table sets forth, as at the dates indicated, the composition of financial investments of the Bank.

	30 June 2021		31 December 2020	
	Amount	**Percentage**	**Amount**	**Percentage**
		(%)		*(%)*
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Financial investments measured at fair value through profit or loss	88,803,652	21.67	72,597,497	19.31
Financial investments measured at fair value through other comprehensive income	77,892,511	19.00	61,813,595	16.44
Financial investments measured at amortised cost	243,218,224	59.33	241,515,654	64.25
Total	**409,914,387**	**100.00**	**375,926,746**	**100.00**

3) Financial derivatives transactions

The Bank's financial derivatives transactions mainly consists of interest rate swaps, interest rate options, standard bond forwards, foreign exchange swaps and foreign exchange forwards. The Bank flexibly uses various derivative financial instruments to hedge exchange rate and interest rate risks, and actively uses derivative financial instruments to hedge transaction risk exposure, manage the portfolio of liability position and optimize the structure of liability maturity in order to cooperate with the Bank's liquidity management.

The following table sets forth, as at the dates indicated, the contractual amounts and fair value of the main types of unexpired derivative financial instruments held by the Bank:

	30 June 2021			31 December 2020		
	Contract/ Notional amount	Fair value		Contract/ Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	(in thousands of RMB)					
	(Unaudited but reviewed)			*(Audited)*		
Interest rate swaps	216,258,792	40,142	(30,752)	130,258,400	82,861	(73,125)
Exchange rate swaps	35,445,597	117,801	(296,107)	25,338,865	16,575	(255,739)
Exchange rate forwards	28,221,930	315,598	(267,115)	6,921,165	123,941	(115,620)
Precious metal swaps	2,658,255	—	(239,158)	2,739,600	—	(82,149)
Option contracts	1,703,913	16,976	(14,386)	1,725,576	9,121	(6,531)
Total	**284,288,487**	**490,517**	**(847,518)**	**166,983,606**	**232,498**	**(533,164)**

LIABILITIES

As at 30 June 2021, the total liabilities of the Bank amounted to RMB1,453.1 billion, representing an increase of 12.6% as compared with the end of the previous year, which was mainly due to an increase in total liabilities led by the increase of deposits from customers and debt securities issued.

The following table sets forth, as at the dates indicated, the components of the total liabilities of the Bank.

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
		(%)		(%)
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Borrowings from the central bank	72,455,956	4.99	71,592,485	5.55
Deposits from banks and other financial institutions	151,807,022	10.45	130,273,359	10.10
Placements from banks and other financial institutions	61,723,545	4.25	31,920,614	2.47
Derivative financial liabilities	847,518	0.06	533,164	0.04
Financial assets sold under repurchase agreements	15,661,750	1.08	52,406,083	4.06
Deposits from customers	857,649,637	59.02	758,235,794	58.77
Income tax payable	1,032,463	0.07	2,485,405	0.19
Debt securities issued	274,813,013	18.91	225,154,090	17.45
Others	17,133,323	1.17	17,676,301	1.37
Total liabilities	**1,453,124,227**	**100.00**	**1,290,277,295**	**100.00**

Deposits from customers

As at 30 June 2021, total deposits from customers of the Bank amounted to RMB846,729.8 million, representing an increase of 13.39% as compared with the end of the previous year. Deposits from customers, accounting for 59.0% of the total liabilities of the Bank, was the major funding source of the Bank.

The following table sets forth, as at the dates indicated, the deposits from customers of the Bank by product type and customer type.

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
		(%)		*(%)*
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
Corporate deposits	**575,718,891**	**67.99**	**476,289,401**	**63.78**
Of which: Demand deposits	164,129,801	19.38	187,615,249	25.12
Time deposits	411,589,090	48.61	288,674,152	38.66
Personal deposits	**130,778,022**	**15.45**	**101,942,200**	**13.65**
Of which: Demand deposits	48,848,497	5.77	20,467,078	2.74
Time deposits	81,929,525	9.68	81,475,122	10.91
Pledged deposits	140,060,573	16.54	168,289,715	22.54
Fiscal deposits	112,803	0.01	119,136	0.02
Inward and outward remittances	59,538	0.01	85,331	0.01
Gross deposits from customers	**846,729,827**	**100.00**	**746,725,783**	**100.00**
Interest accrued	10,919,810		11,510,011	
Total	**857,649,637**		**758,235,794**	

The following table sets forth the distribution of the Bank's deposits from customers by currency as at the dates indicated:

	30 June 2021		31 December 2020	
	Amount	Percentage	Amount	Percentage
		(%)		*(%)*
	(in thousands of RMB, except percentages)			
	(Unaudited but reviewed)		*(Audited)*	
RMB	722,104,964	84.20	674,607,125	88.97
Foreign currency	135,544,673	15.80	83,628,669	11.03
Total	**857,649,637**	**100.00**	**758,235,794**	**100.00**

RISK MANAGEMENT

OVERVIEW

The backbones of the Bank's organisational structure to manage its risks are the Board of Directors, the Risk Management and Green Finance Committee of the Board of Directors (and the Related Party Transactions Control Committee subordinated to it), the Audit and Consumer Rights Protection Committee, the Board of Supervisors, senior management and its Risk Control Committee, Assets and Liabilities Management Committee and Information Technology Committee, and relevant functional departments at Head Office, including Risk Management Department, Credit Review and Approval Department, Asset Monitoring Department, Retail Risk Management Department, Assets and Liabilities Management Department, Internal Control and Compliance Department, Legal Affairs Department, and other departments responsible for operational risks, Information Technology Department, the General Office (Public Relations Department), Strategic Development and Investment Management Office, Audit Department, and risk management functional departments of the subsidiaries and branches.

The Board of Directors of the Bank is responsible for the ultimate responsibility for comprehensive risk management and is responsible for fulfilling the establishment of risk culture, formulating risk management strategies, setting risk preferences and ensuring the establishment of risk limits, reviewing and approving major risk management policies and procedures, and supervising senior management to conduct comprehensive risk management, reviewing comprehensive risk management reports, approval of the disclosure of comprehensive risks and various significant risk information, hiring the chief risk management officer, and taking the lead in comprehensive risk management and other responsibilities related to risk management.

The Board of Supervisors of the Bank is responsible for the supervision of comprehensive risk management and is responsible for supervising the performance of the Board of Directors and senior management in risk management and rectification.

The senior management shall assume the responsibilities for implementing comprehensive risk management, implementing the resolutions of the Board of Directors and fulfilling the following duties: establishing an operational management structure applicable to the comprehensive risk management; clarifying the division of risk management responsibilities of the comprehensive risk management department, business department and other departments; building an operational mechanism featuring mutual coordination and effective checks and balances among departments; formulating a clear implementation and accountability mechanism to ensure that the risk management strategies, risk appetites and risk limits are fully conveyed and effectively implemented; setting risk limits according to the risk appetites set by the Board of Directors for various dimensions including, but not limited to, industries, regions, customers and products; formulating risk management policies and procedures, and conducting periodic assessments and making adjustments when necessary; evaluating the management for comprehensive risks and various key risks and reporting to the Board of Directors; establishing a sound management information system and data quality control mechanism; supervising the breach of risk appetites and risk limits and violations of risk management policies and procedures, and handling such cases according to the authorisation of the Board of Directors; and other risk management responsibilities.

The Bank has senior management personnel (the chief risk officer) in charge of risk management, who is responsible for leading the relevant departments of the risk management line to carry out work under the risk management framework of the Bank. The chief risk officer maintains independence and can directly report the overall risk management to the Board of Directors.

The Bank has established a risk prevention system consisting of three lines of defense against each main risk to which it is exposed. Specifically:

- The first line of defense of risk management is formed by various business departments, divisions, branches and sub-branches, who are directly responsible for carrying out their risk management functions;

- The second line of defense is departments of risk management line, Assets and Liabilities Management Department, Internal Control and Compliance Department, the General Office (Public Relations Department) and Strategic Development and Investment Management Office, who assume responsibilities for formulating the requisite policies and procedures, supervising and managing risk; and

- The third line of defense of risk management is the Audit Department, who assumes audit responsibilities for the performance of the Bank's business departments and risk management departments.

Credit risk management

Credit risk refers to the risk of loss of bank business arising from the failure of a borrower or counterparty to perform its obligations as agreed.

The Bank insists on a comprehensive, vertical and independent management mode for credit risks, continuously improving and refining the posting mechanism of risk management personnel. The Bank balances the benefits and risks through active controls, so that each type of business could achieve benefits matching its risk level at least and the capital could achieve optimal allocation. The Bank has set up a kind of credit decision-making mechanism of "three in one", with the independent responsibility examination, democratic risk review and strict accountability approval as the core, to improve the expertise and independence of credit approval.

In terms of credit risk management and control policies, the Bank has actively complied with the guidelines of macro policies and regulatory policies, strengthened the guiding role of credit policy, and formulated the 2020 Credit Guidelines, which clarified the annual credit risk management strategies and management measures, and implemented the opinions and requirements of the Party Central Committee, the State Council and regulatory authorities on strengthening financial services for private enterprises and small and micro enterprises to continuously provide effective credit to private enterprises and small and micro enterprises, thereby ensuring that all indicators meet regulatory requirements. The Bank seized the opportunity period of promoting the strategy of manufacturing power and scientific and technological innovation strategy to focus on supporting the accelerated development of advanced manufacturing industries, emerging industries, and scientific and technological industries, and the transformation and upgrading of traditional industries. It supported the new infrastructure construction, medical, education, modern logistics and other industrial projects, and served high-quality development requirements. It focused on the coordinated development of Beijing-Tianjin-Hebei Region, Xiong'an New Area, Guangdong-Hong Kong-Macao Greater Bay Area, Yangtze River Economic Zone and other key areas, and connected the investment and financing demands of major projects in transportation, infrastructure construction, public services and other fields, livelihood projects and work in progress. It made full use of the systematic function of industrial credit policy and big data model to strengthen the credit management requirements on key risk fields such as real estates, financing platform business, overcapacity, non-credit investment and financing business. The Bank has steadily promoted the transformation and development of its retail credit business focusing on housing mortgage loans, production and operation loans and consumer loans as its main credit products. It insisted on the combination of online and offline businesses, rational utilization of financial technologies and service of the real economy. Combining the regional economic characteristics, it upholds the thoughts of "customer expansion, acquisition, activation, attraction and maintenance" and "sphere and chain, platform, system, ecology and scenario" to continue to improve the inclusive financial service capabilities for retail customers and small and micro enterprises.

With respect to credit approval, the Bank strictly abode by the risk bottom line, attached importance to the basic logic of credit, and adhered to diversification as the first principle of risk prevention and control. The Bank continuously improved the quality and efficiency of approval, supported the development of epidemic prevention, real economy and small and micro enterprises. The Bank strengthened review and approval management to prevent credit risk, and formulated the Guidelines on Credit Review and Approval Work in 2020 to effectively distribute relevant regulatory policies and the business orientations and risk appetite of the Head Office. The Bank gave full play to professional advantages and formulated the Guidelines on Strengthening Credit Management of Supply Chain Business, guiding business institutions to promote the rapid development of business and prevent credit risks at the same time. During the six months ended 30 June 2021, the Bank implemented unified comprehensive credit granting, upgraded and renovated eight important functions such as credit risk management and customer relations, and introduced more than 20 supporting regulations and systems to realise quantitative management and control of risk limits throughout the entire process from customer application, approval, credit use to post-loan links. The Bank has also promoted the construction of the collateral management system, planned and implemented online dynamic management and monitoring of the entire process of collateral access, evaluation, monitoring and disposal. The Bank improved the corporate credit approval system, implemented the lead approvers meeting decision system, and adopted the "Four unifications" operation model of unified acceptance, unified distribution, unified approval and unified management, strictly preventing risks such as multiple credit grants and excessive credit grants. The Bank promoted the online and intelligent approval of retail inclusive business in an orderly manner. The Bank accelerated digital transformation, improved the application ability of information technology in approval regarding management and data support, and conducted research and development of the intelligent model on the approval of corporate credit and retail credit.

During the six months ended 30 June 2021, the Bank vigorously developed inclusive financial services, served private enterprises, accelerated the cultivation of new advantages in green finance, supported the high-quality development of the manufacturing industry, strengthened the management of real estate loan concentration, and served the rural areas, agriculture and farmers as well as rural revitalisation. The Bank focused on key support areas and key restricted areas, formulated tiered credit policies of "encourage, maintain, control and compress", improved credit guidelines for industries, researched and designed quantitative analysis models, set quantitative range targets for industry investments, guided and promoted asset structure adjustment. The Bank formulated credit risk limit plans to specify the "ceiling" of the total credit risk control of key industries, regions and businesses, and firmly abided by the risk boundary.

The Bank has also established a real estate credit business decision support model and government debt solvency evaluation model, and promoted the extensive application of such models in credit business marketing, approval decision-making, post-loan monitoring and other scenarios, thereby providing grounds for quantitative decision-making. The Bank improved the two-dimensional rating system composed of customer ratings and debt ratings, and added domestic customer rating models to provide quantitative reference for management decisions in pre-loan marketing, access, pricing, mid-loan approval and post-loan management, performance appraisal, provision management. The

Bank strengthened the construction of risk management information system, and improved the five intelligent risk identification capabilities of key risk point identification, financial report risk identification, external risk information integration application, customer risk profile and credit structure portfolio view, further supporting system functions of intelligent risk management.

With respect to the post-disbursement management, the Bank strengthened the supervision and inspection of post-disbursement management in branches, achieved systematic management on post-disbursement supervision, and tracked and analysed the completion status of inputting key customers' monitoring reports, post-disbursement inspection reports and financial statements of branches, which promoted the further improvement of post-disbursement management level. Through the development of knowledge mapping system and updating of financial early warning module, the Bank improved the ability to obtain and analyze risk information, expanded the risk analysis dimension, and refined the monitoring and evaluation system on customers' credit risk, which comprehensively improved the early warning management ability. The Bank effectively controlled substantive risks by implementing key monitoring and alert of risk mitigation proposals for customers. The Bank heightened the risk management and control of key industries such as real estate and overcapacity industries, as well as key group customers, and actively adjusted its credit structure for these industries. The Bank implemented dynamic management in list-style, strengthened the continuous tracking and special monitoring for key customers. The Bank intensified off-site monitoring and on-site inspections in key areas, standardised the operational behaviors, and effectively controlled the operational risks. In accordance with the principle of prudence, the ten-level asset quality classification management was implemented to further consolidate asset quality. As at 30 June 2021, the Bank had an NPL ratio of 1.76% with stable asset quality and controllable credit risks in general. The Bank continued to fully implement new financial instrument standards, followed the principles of prudence, timeliness, effectiveness and objectivity to make allowances for impairment financial assets incorporated into the impairment provision scope, and further increased the impairment provision to strengthen its ability to offset risks in an unfavorable environment where economic growth slows down. As at 30 June 2021, the total balance of the Bank's impairment provision on financial assets was RMB37.0 billion, representing an increase of RMB0.8 billion as compared to 31 December 2020.

Liquidity risk management

The Bank has established a sound liquidity risk management governance structure, with clear duties for the Board of Directors, senior management, special committees and other relevant management departments. The Board of Directors assumes the ultimate responsibility for liquidity risk management, reviews the Bank's acceptable liquidity risk appetites, management strategies, policies, and procedures, and supervises the effective management and control of liquidity risk, and approves information disclosure contents. As a special committee authorised by the Board of Directors, the Risk Management and Green Finance Committee can perform all responsibilities of liquidity risk management on behalf of the Board of Directors and submit relevant reports to the Board of Directors on a regular basis. The senior management implements specific management work under the liquidity management system and methods approved by the Board of Directors, timely understands and evaluates the liquidity risk level and management status of the Bank, as well as reports to the Board of Directors. The Assets and Liabilities Management Committee at the head office, as a special committee authorised by the senior management, can perform all responsibilities of liquidity risk management on behalf of the senior management. The Assets and Liabilities Management Department at the head office is responsible for leading the organisation of liquidity risk management for the Bank, formulating liquidity risk management strategies, policies and procedures, and conducting qualitative and quantitative analysis of liquidity risk and other specific management tasks. The corporate banking business, retail banking business and financial markets business management departments of the head office and branches follow the liquidity risk management policies, appetites, procedures, limits and other management requirements determined by the Board of Directors and senior management to conduct business.

The Bank adheres to prudent liquidity risk management strategies, and clarifies the overall objective, management mode, and main policies and procedures of liquidity risk management. The overall objective of the Bank's liquidity risk management is to reasonably arrange the Bank's asset and liability structure and future cash flows, to fulfil the capital requirements for various operations and to ensure compliance with liquidity regulatory indicators, and to reduce extra costs arising from liquidity as much as possible, including the opportunity cost of reserve funds, market financing premium, and loss on realization of assets. The Bank adopts a centralised approach with respect to its liquidity risk management, in which the head office centrally manages overall liquidity risk across the Bank under the liquidity risk management policies and guidance as formulated by the Board of Directors, and has established a three-tier liquidity reserve including cash, reserve and high-grade bonds. The Bank, in accordance with internal and external requirements and actual business development, formulates liquidity risk management policies and procedures, such as cash flow estimation and analysis, liquidity risk limit management, financing management, daytime liquidity risk management, qualified high-quality current asset management, liquidity alert management, stress tests, and emergency plans. Under the premise of ensuring liquidity safety, the Bank effectively balances the relationship among liquidity, safety and efficiency, so as to promote sustainable and healthy development of business.

Under the guidance of the liquidity risk management policies as formulated by the Board of Directors, the Bank implements effective identification, measurement, monitoring and control of liquidity risk of the whole bank. Based on cash flow gap analysis, the Bank realises the liquidity risk management and control under normal circumstances through intraday position management, maturity mismatch management, liquid asset portfolio management and financing strategy management. In addition, the Bank strengthens market trend research and judgment, and maintains sufficient high-quality liquid assets with the help of management tools such as stress tests and emergency plans, in order to improve the ability of the Bank to withstand liquidity risk under stress scenarios. In addition to effectively managing intraday positions, the Bank managed cash flow, balancing liquidity and profitability, and ensuring safety payment of the whole bank and on the integration management of local and foreign currency. As for liquidity mismatch management, the Bank adopts active management methods, such as continuous optimisation of internal limit management, early warning indicators monitoring, and dynamic simulation of regulatory indicators, which not only achieves accurate measurement of static liquidity mismatch, but effectively manages and controls the future liquidity mismatch of the Bank. With regard to liquid asset portfolio management and financing strategy management, the Bank timely monitors and optimizes its asset-liability structure, strengthens active liability management, enhances interbank customer relationship management, expands active liability channels, and promotes the steady growth of core liabilities. As to emergency liquidity risk management, the Bank regularly conducts liquidity risk stress tests, carefully evaluates future liquidity needs, maintains sufficient high-quality liquid assets and improves liquidity risk resistance capacity. At the same time, it organizes liquidity crisis response exercises on a regular basis, continuously optimizes the liquidity emergency management system, evaluates the effectiveness of various emergency measures, and ensures the liquidity safety of the whole bank in an emergency environment.

The Bank's liquidity risk is affected by both internal and external latent factors. External factors mainly include macroeconomic trends, changes in monetary policy, fluctuation in capital market, downgrade of external rating and negative public opinion. Internal factors mainly include increase in asset-liability mismatch, deterioration of asset quality, concentrated withdrawal of customers, and decline in profitability. The Bank identifies and analyses the main factors affecting liquidity risk, and establishes daily risk monitoring and early-warning reporting mechanisms. Besides, it implements forward-looking management and active control of potential liquidity risk that may be caused by the aforementioned risk factors through stress tests and emergency plans.

In order to cope with the influence of changes of macro-economic environment, and fluctuations of capital market and other types of risks, the Bank sets mild, moderate, and severe liquidity risk stress scenarios for main on-balance and off-balance sheet businesses after fully considering various factors that may affect liquidity risk, such as decline in the price of marketable securities, outflow of deposits, and increase in unscheduled repayment of assets. Moreover, the Bank conducts stress tests on a quarterly basis to test the Bank's resistance to potential liquidity risks and achieve forward-looking management of liquidity risks. The Bank's liquidity stress tests take the mature cash flow gap as the key pressure-bearing object and the liquidity ratio as the auxiliary pressure-bearing object. The stress test of mature cash flow gap covers the window periods of 7 days, 30 days and 90 days. During the six months ended 30 June 2021, the Bank was able to meet the minimum lifetime requirement of not less than 30 days under various stress scenarios, and with the availability of sufficient quality liquid assets which are readily realisable at any time, the Bank could meet the potential liquidity needs under stress conditions.

During the first half of 2021, the Bank's liquidity remained reasonably adequate with stable and controllable liquidity risk level, each liquidity regulatory indicators was met or beyond regulatory requirements, and major monitoring indicators operated smoothly. As at 30 June 2021, the Bank's liquidity ratio reached 68.65%, representing an increase of 15.25 percentage points as compared to the end of the previous year; the liquidity coverage ratio was 162.63%, representing an increase of 52.95 percentage points as compared to the end of the previous year; the net stable funding ratio was 106.73%, representing an increase of 3.40 percentage points as compared to the end of the previous year; the liquidity matching ratio was 116.64%, representing an increase of 7.80 percentage points as compared to the end of the previous year.

According to the requirements of the Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks (《商業銀行淨穩定資金比例信息披露辦法》), the following table sets out the Bank's net stable funding ratio indicator, available stable funds for the numerator item, and stable funds required for the denominator item at 31 December 2020 and 30 June 2021:

	30 June 2021	**31 December 2020**
	(in thousands of RMB, except percentages)	
	(Unaudited but reviewed)	*(Audited)*
Net stable funding ratio (%)	106.73	103.33
Available stable funding	913,949,942	829,018,653
Required stable funding	856,301,517	802,268,848

The following table shows the Bank's liquidity coverage ratio indicator:

	30 June 2021	31 December 2020
	(in thousands of RMB, except percentages)	
	(Unaudited but reviewed)	*(Audited)*
Liquidity coverage ratio (%)	162.63	109.68
Qualified high-quality liquid assets	134,585,905	105,927,448
Net cash outflow in the next 30 days	82,757,649	96,574,432

Market risk management

The Bank, in strict compliance with relevant requirements such as the Guidance on Market Risk Management of Commercial Bank (《商業銀行市場風險管理指引》) and the Guidelines for the Management of Interest Rate Risk in the Banking Book of Commercial Banks (Revised) (《商業銀行銀行賬簿利率風險管理指引(修訂)》), implements an independent and comprehensive market risk (including interest rate risk in the banking book, similarly hereinafter) management mode. The Board of Directors is responsible for approving the market risk management strategies, policies and procedures and determining the level of market risk tolerance. The Assets and Liabilities Management Committee under the senior management is in charge of formulating, regularly reviewing and supervising market risk policy and procedure, and process execution, and sets market risk limit according to the Board's risk appetite. The Assets and Liabilities Management Department at the Head Office is responsible for establishing the necessary market risk identification, measurement, monitoring, reporting and control mechanisms to ensure that the market risk borne by the Bank is controlled within the risk appetite set by the Board of Directors.

The Bank's market risk management is governed by a comprehensive, sound and prudent principle, and its overall goal is to control the Bank's market risk level within its tolerance, by organically combining the identification, measurement, monitoring and control of market risks with the Bank's major operational and management activities including strategic planning, business decision-making and financial budgeting.

The Bank has formulated the Market Risk Management Policy and Administrative Measures for the Classification of Bank Accounts and Transaction Accounts (Revised) on this basis, actively implemented relevant market risk (including interest rate risk in the banking book) regulatory requirements, and established a market risk management system covering all aspects of market risk identification, measurement, monitoring and control. The Bank uses gap analysis, duration analysis, foreign exchange exposure analysis, and scenario analysis to identify and measure market risk, conducts regular stress tests, and monitors and controls risk through limit management.

In respect of the interest rate risk in the banking book, the Bank primarily applies quantitative methodologies such as gap management, sensitivity analysis and duration analysis to manage it. The Bank optimised an active and static net interest margin analysis system and constantly reinforced the judgment of interest rate trends on the basis of quantitative model and qualitative analysis for providing decision-making basis for the allocation of asset-liability structure. As for trading books, the Bank mainly measures and controls through basis point value, value at risk (VAR), position limit, duration and stop-loss limits to ensure that the anticipated income of the trading books matches the trading exposure. In response to exchange rate risk, the Bank sets market risk limits, and effectively manages on-balance sheet foreign exchange risk exposure through derivative financial instruments, such as exchange rate swaps and exchange rate forwards, so as to keep the Bank's total foreign currency exposures to a low level. During the first half of 2021, in accordance with regulatory standards, the Bank's interest rate risk measurement indicator, namely the maximum economic value change under the framework of standardized measurement, accounted for 6.32% of tier 1 capital, and the cumulative foreign exchange exposure ratio was 0.90%. Both the interest rate risk and the exchange rate risk were kept within the internal limits and controllable on the whole.

The Bank's market risk-weighted assets measurement uses the standardized approach, and the market risk capital provision covers interest rate risk and specific risks in the trading books, as well as all exchange rate risks and commodity risks. As the Bank's trading position is relatively small, the market risk capital occupation is low.

The Bank's interest rate sensitivity gap

The Bank's on-balance sheet interest rate sensitivity gap is classified according to assets and liabilities on the statement of financial position at carrying amounts, by the earlier of the contractual re-pricing date or the maturity date as follows:

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Non-interest bearing	Total
			(in thousands of RMB) *(Unaudited but reviewed)*			
Total assets	454,673,279	705,502,308	293,952,795	50,499,195	55,699,953	1,560,327,530
Total liabilities	559,211,724	522,404,244	326,042,643	10,783,945	34,681,671	1,453,124,227
Total interest rate sensitivity gap	**(104,538,445)**	**183,098,064**	**(32,089,848)**	**39,715,250**	**21,018,282**	**107,203,303**

The Bank's interest rate sensitivity

The following table sets forth the results of the Bank's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant:

	Increase/(Decrease) on 30 June 2021
	(in thousands of RMB) *(Unaudited but reviewed)*
Change in net profit	
Up 100 bps parallel shift in yield curves	(363,818)
Down 100 bps parallel shift in yield curves	363,818
Change in equity	
Up 100 bps parallel shift in yield curves	327,851
Down 100 bps parallel shift in yield curves	(327,851)

The Bank's exchange rate risk exposure

The following table sets forth the Bank's foreign exchange rate risk exposure as at 30 June 2021:

	RMB	USD equivalent to RMB	Other currency equivalent to RMB	Aggregate RMB
	(in thousands of RMB)			
	(Unaudited but reviewed)			
Total assets	1,399,105,529	154,116,951	7,105,050	1,560,327,530
Total liabilities	1,253,395,901	189,895,623	9,832,703	1,453,124,227
Net exposure amount of balance sheet	145,709,628	(35,778,672)	(2,727,653)	107,203,303

Operational risk management

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and information technology systems, and external events. Operational risk includes legal risk, but excludes strategic risk and reputational risk.

The Bank has continued to improve and strengthen the operational risk management system consisting of three lines of defense, comply with regulatory requirements, and take the prevention and control of major operational risk events as the management objective, as well as further standardise the methods and processes of operational risk management and strengthen operational risk management initiative. In accordance with the risk-oriented principle, the Bank strengthened the inspection and supervision on key institutions, key positions, key businesses and key links. The Bank organised the operational risk management tools, and updated and improved the indicators in a timely manner. In 2021, it launched the "Internal Control and Compliance Management Construction Year" activity, and actively promoted supervision, inspection and rectification to continuously improve the long-term management mechanism. It also carried out special management actions for compliance risks, and focused on rectifying the problems of "repeated investigations and repeated offenders" and "investigation on the wrong offenders", continued to improve the operational risk case database and carried out a series of training to actively create a sound operational risk management culture.

Capital management

The Bank implemented comprehensive capital management, including capital planning, capital allocation and evaluation, capital monitoring and early warning, internal capital adequacy assessment, capital replenishment and emergency measures, capital measurement and reporting, and information disclosure. The capital management objectives of the Bank are to stabilise the capital base, enhance capital strength, promote bank value creation with economic capital as the core, achieve a beneficial balance between capital constraints, risk management and shareholders' returns, and maintain a satisfactory level of capital adequacy, so as to effectively deal with the major risks and unexpected losses faced by the Bank and ensure the steady operation and sustainable and healthy development of the Bank. The Bank calculated, managed and disclosed capital adequacy ratio based on the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) and other relevant regulatory rules.

As at 30 June 2021, capital adequacy ratio indicators at all levels of the Bank met the minimum capital requirements, reserve capital requirements and counter-cyclical capital requirements of the CBIRC. The capital adequacy ratio was 12.76%, representing an increase of 0.68 percentage point from the end of the previous year; the tier-one capital adequacy ratio was 10.75%, representing a decrease of 0.26 percentage point from the previous year; the core tier-one capital adequacy ratio was 8.73%, representing a decrease of 0.15 percentage point from the end of the previous year. Capital adequacy ratios at all levels experienced changes as compared with the end of the previous year. Firstly, the Bank continued to consolidate endogenous capital replenishment and focused on endogenous profit retention. As at 30 June 2021, the retained earnings totaled RMB58.6 billion, up by 6.5% from the beginning of the year. Secondly, the Bank completed the issuance of RMB9 billion tier 2 capital bonds at the beginning of the year. After deducting issuance expense, the proceeds raised were fully utilised for the replenishment of the Bank's tier 2 capital, further improving the original capital structure and driving a significant increase in the capital adequacy ratio index. Thirdly, the Bank declared cash dividend to shareholders in May 2021. Hence, the growth rate of net core tier-one capital was lower than the growth rate of risk-weighted assets during the same period.

In order to achieve the above capital management objectives, the Bank adopted the following management measures: formulating capital budgeting and capital planning based on development strategy objectives, risk appetite, financial budget and other factors, arranging the asset structure rationally under capital constraints, revitalising the existing assets, at the same time, improving the year-by-year rolling mechanism for mid- and long-term capital planning, and making a forward-looking layout for the Bank's mid-and long-term capital management work; strengthening the core concept of capital value creation, improving the capital allocation and assessment system with capital efficiency indicator as the core, strengthening the promotion of reform and transformation as well as the guidance and support to key businesses by resource allocation, and continuously improving the efficiency of capital use; perfecting the internal capital adequacy assessment system, improving the comprehensive risk management framework, regularly carrying out internal capital adequacy assessment procedures, and formulating emergency plans in response to stressful situations; actively cooperating with various capital replenishment work, continuing to explore capital instrument innovation, and gradually forming a long-term capital replenishment mechanism that mainly replenishes endogenous capital and supplemented by external capital.

Information technology risk management

In accordance with regulatory requirements such as comprehensive risk management and internal control, as well as internal requirements such as risk appetite and information technology risk management policies, the Bank implemented the financial technology transformation and development strategy, effectively performed its duties on the three lines of defense of information technology risk management, continuously improved information technology risk management methods, management mechanism, and continued to promote the rectification of information technology risk issues. During the six months ended 30 June 2021, there were no major information system emergencies (level III) or above. The information technology risk was controllable as a whole, and the information technology risk preference had not been broken, providing a guarantee for the realisation of the financial technology strategic goals.

Compliance risk management

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties, significant financial loss and reputational loss as a result of failure to comply with laws, rules and norms.

Compliance risk status

The Bank's compliance risk management is composed of the Board of Directors, Board of Supervisors, senior management, Risk Control Committee, Internal Control and Compliance Department, Audit Department, and various business lines and branches and sub-branches. The Board of Directors is responsible for reviewing and approving the Bank's compliance risk management policies and assumes ultimate responsibility for its operational and management activities in compliance with relevant applicable laws and regulations. The Bank's senior management is responsible for formulating and implementing compliance risk management policies and organising the implementation of compliance risk management, whereas the Internal Control and Compliance Department assists senior management in leading and promoting the daily management of compliance risk across the Bank. Each of the business lines is principally responsible for its compliance with the applicable laws and regulations and compliance risk management.

The Bank has adhered to the long-term compliance management concept of "system first, process first, people-oriented, and implementation-focused", identified compliance risks prudently and kept the bottom line of compliance. Through horizontal classification, vertical classification and whole process sorting, the Bank systematically sorted out and evaluated the institutional norms in implementation, clarified the boundaries of effective regulations and logical levels, and promoted the continuous improvement of internal regulations. In addition, the Bank deepened the compliance review with system review as the main body, strictly controlled the advance pass of compliance risks, and organically combined compliance risk management with case prevention and control, anti-money laundering management and operational risk management. In response to adjustments and changes in the regulatory environment and laws and regulations, the Bank strengthened policy analysis, research and judgment, enhanced risk warning, implemented various regulatory policies, and prevented compliance risk by issuing express and summary of new regulations, legal compliance environmental reports, regulations compilation, internalization of external regulations and other measures; ensured that innovative businesses operate in compliance with laws and regulations by proactively identifying, evaluating and mitigating the compliance risk of new products, new businesses and major projects; increased supervision and inspection of key areas, strengthened problem rectification and accountability, and improved the effectiveness of compliance management.

Anti-money laundering management status

The Bank has comprehensively promoted the construction of anti-money laundering governance capabilities, thoroughly implemented the "risk-based" anti-money laundering regulatory requirements, and earnestly performed anti-money laundering obligations and social responsibilities. Under the framework of the establishment of a large-scale compliance system, the Bank improved the effectiveness of anti-money laundering work in various aspects such as system construction, data governance, and system optimisation, and continuously improved its political position to consolidate the main responsibility. The Bank issued the "Guidelines for Anti-Money Laundering and Counter-Terrorist Financing of Bohai Bank's Cross-border Business (Trial)" and other systems to further consolidate the foundation of anti-money laundering. The Bank organised normalised anti-money laundering publicity training, promoted practice through learning, and devoted itself to cultivating a highly sophisticated professional team. Furthermore, the Bank solidly promoted the management of know-your-client and the management and control of high-risk areas, and comprehensively reconstructed the money-laundering risk assessment system based on the integration of customers, products and institution. It also carried out monthly activities for promoting the prevention of illegal fund-raising to actively fulfil social responsibilities, and maintain financial stability and social harmony.

Strategic risk management

Strategic risk refers to the risk of affecting the Bank's current or future profitability, reputation and market position due to inappropriate strategic positioning, improper implementation of strategies, or failure to make timely and necessary adjustments to strategies in line with changes in internal and external competitive environment in the process of formulating and implementing development strategies or making major business decisions closely related to strategies.

The Bank deeply studied the important spirit and instructions of the party, the state and Tianjin Municipal Party Committee and Government, timely followed up the latest major national strategic deployments and specific requirements, accurately studied and judged the macroeconomic situation at home and abroad, linked up and down, implemented policies accurately, actively responded to the challenges of the epidemic and seized opportunities of on-line and digital development, so as to effectively carry out strategic risk management and promote high-quality development of the Bank.

The Bank adhered to the new development concept, grasped the new development stage, integrated into the new development pattern, and implemented the preparation of the Fourth "Five-Year Plan". Combining the actual situation of the Bank, the Bank further clarified its long-term development direction and its phased goals during the Fourth "Five-Year Plan" period. With the strategic vision of becoming a modern treasury manager with the best experience, the Bank was committed to providing customers with comprehensive financial service solutions with warmth, creating sustainable and stable value for shareholders, and creating the most suitable development platform for employees. The Bank persisted in the comprehensive transformation to retail banking, transaction banking and light banking, and continuously enhanced the ability to serve the national strategy, the real economy and the people's better life.

The Bank insisted on strengthening and enhancing the implementation of strategies. The Bank undertook the high-level needs of the strategy with project management, and established and improved the implementation mechanism of the Fourth "Five-Year Plan". At the same time, the Bank established an effective and powerful incentive and restraint mechanism to establish a strong relationship between top-level design, strategic measures, annual business plans and agile projects, continued to strengthen the connection between the Fourth "Five-Year Plan" and technological planning and promoted the integrated transformation of strategy and technology. Furthermore, it coordinated strategic planning, capacity requirements, business modeling and IT implementation on the basis of the Fourth "Five-Year Plan" overall strategic plan to form a cross-promotion of the overall plan and the preparation of the financial technology special plan, enhance its digital capability, and promote the rapid release of business value.

Reputational risk management

Reputational risk refers to the risk of negative evaluation by stakeholders due to the Bank's operation, management and other behaviors or external events. The reputational impact on the Bank is generally caused by poor management of various risks such as credit risk, market risk, liquidity risk, operational risk, technology risk, strategic risk, or caused by uncontrollable external emergencies, such as social, ethnic and environmental risks.

A good reputation is essential to the development of commercial banks' management activities. The Bank always attaches great importance to reputational risk management and regards reputational risk management as an important task to ensure the normal development of business, create a harmonious public opinion environment, maintain a good image of the company and the industry, and perform corporate citizenship responsibilities.

During the six months ended 30 June 2021, the Bank fully implemented the "Measures for the Management of Reputational Risks of Banking and Insurance Institutions (Trial)", strengthened the management of reputation risk sources, continuously improved reputational risk management mechanisms and system construction, and insisted on incorporating reputation risks into corporate governance and comprehensive risk management systems; regularly carried out the investigation of public opinion risk points for the whole bank (including relevant branches), and effectively performed public opinion risk point research and judgment, early warning and preparation for response plans; continued to perform daily monitoring of public opinion, optimized the news release process, and proactively, timely and accurately responded to public opinion concerns, took multiple measures to defuse risks, properly and actively managed the entire process of public opinion post-evaluation and reputation restoration; strengthened the awareness of reputation risk prevention for all employees, and regularly held reputational risk management training and practical drills to improve the reputational risk management and control of branches and public opinion response and disposal capabilities, and strengthened the establishment of the reputational risk management team of the whole bank. During the six months ended 30 June 2021, the Bank's reputational risk management level was steadily improved, effectively maintaining its own image and good brand reputation.

Country risk management

Country risk refers to the risk that the borrowers or debtors of a country or region are unable or refuse to repay the debts of the Bank, or causes the Bank's business in the country or region to suffer losses, or causes the Bank to suffer other losses due to economic, political and social changes and events of a country or region. It may be triggered by economic deterioration, political and social turmoil, nationalization or expropriation of property, government repudiation of foreign debts, foreign exchange control or currency depreciation in the country or region.

The Bank incorporated country risk management into its comprehensive risk management system. The Board of Directors is responsible for the ultimate responsibility for the effectiveness of monitoring country risks. The senior management is responsible for implementing the country risk management policies approved by the Board of Directors.

The Bank continued to strengthen management on country risks. Pursuant to the Country Risk Management Measures of CHINA BOHAI BANK CO., LTD. which specified the objects, responsibilities and procedures, rating methods and risk limit management methods of country risk management, the Bank established a country risk reporting, supervision and inspection mechanism. During the six months ended 30 June 2021, the Bank mainly focused on RMB business, the proportion of cross-border foreign-related business increased year by year, and the Bank's cross-border counterparties were mainly concentrated in developed countries. The Bank's assets involving country risk exposure are small in size, so the country risk is controllable and the overall level is low.

BOARD OF DIRECTORS

The following table sets out certain information relating to the Bank's Directors as at the date of this Offering Circular.

Name	Date of Birth	Title
Executive Directors		
Mr. LI Fuan (李伏安)	December 1962	Executive Director and Chairman of the Board of Directors
Mr. QU Hongzhi (屈宏志)	August 1969	Executive Director and President
Mr. LI Yi (李毅)	December 1967	Executive Director
Mr. DU Gang (杜剛)	November 1970	Executive Director, Vice President and Secretary to the Board of Directors
Non-executive Directors		
Mr. FUNG Joi Lun Alan (馮載麟)	April 1948	Non-executive Director and Vice Chairman of the Board of Directors
Mr. WANG Zhiyong (王志勇)	March 1972	Non-executive Director
Mr. CUI Xuesong (崔雪松)	November 1978	Non-executive Director
Ms. YUAN Wei (元微)	February 1974	Non-executive Director
Mr. YE Baishou (葉柏壽)	June 1962	Non-executive Director
Mr. HU Aimin (胡愛民)	December 1973	Non-executive Director
Mr. ZHANG Xifang (張喜芳)	December 1972	Non-executive Director
Mr. ZHANG Yunji (張雲集)	August 1954	Non-executive Director
Independent non-executive Directors		
Mr. MAO Zhenhua (毛振華)	January 1964	Independent non-executive Director
Mr. CHI Guotai (遲國泰)	July 1955	Independent non-executive Director
Mr. MU Binrui (牟斌瑞)	September 1956	Independent non-executive Director
Mr. TSE Yat Hong (謝日康)	October 1969	Independent non-executive Director
Mr. WANG Ren (汪韧)	September 1972	Independent non-executive Director
Mr. ZHU Ning (朱寧)	September 1973	Independent non-executive Director

Executive Directors

Mr. LI Fuan (李伏安) is an executive Director, the chairman of the Board of Directors of the Bank and the secretary of the party committee of the Bank. He is the representative of the 19th National Congress of the Communist Party of China, representative of the 17th National People's Congress of Tianjin Municipality, and a director of Western Returned Scholars Association (Overseas-educated Scholars Association of China). Mr. Li also serves as the vice president of Tianjin Federation of Enterprises and the vice president of Tianjin Entrepreneur Association. He was engaged in supervision in the systems of PBOC and CBRC (currently known as CBIRC) for a long time, and formerly held the positions of deputy division director and division director of internal control and supervision bureau of PBOC, division director of foreign banks supervision division of the first division of banks supervision, division director of supervision and regulation division and assistant inspector of division of banks regulation, deputy director of the policy and legal department of CBRC (currently known as CBIRC), deputy director and director of banking innovation supervision department, secretary of the party committee and head of Henan Supervision Bureau of CBRC (currently known as CBIRC), and director of non-bank financial institutions supervision department of CBRC (currently known as CBIRC). Mr. Li is a senior economist who obtained a bachelor's degree in political economics from Wuhan University in Hubei Province, the PRC, and a master's degree from Southwestern University of Finance and Economics in Sichuan Province, the PRC, majoring in business administration. He has completed the fellowship program with a concentration in management administration and finance provided by Boston University in Boston, the United States. Mr. Li further obtained a doctorate's degree in management science and engineering in Dalian University of Technology in Liaoning Province, the PRC.

Mr. QU Hongzhi (屈宏志) is an executive Director, the President of the Bank and the deputy secretary of the party committee of the Bank. He formerly worked in China Construction Bank Corporation, where he served as the general manager of asset security department and general manager of legal affairs department of its Tianjin branch, the president of its Nankai sub-branch, the president of its Heping sub-branch, an assistant to the president, a vice president and a member of the party committee of its Tianjin branch, and the deputy secretary of the party committee and a vice president of its Jiangsu branch. Mr. Qu is a senior economist who obtained a bachelor's degree from Tianjin University in Tianjin, the PRC, majoring in construction project management. He obtained a master's degree from Nankai University in Tianjin, the PRC, majoring in finance. He further obtained a doctorate's degree in management from Tianjin University in Tianjin, the PRC, majoring in accounting.

Mr. LI Yi (李毅) is an executive Director of the Bank. He formerly worked in Bank of China Limited, where he served as the general manager of the risk management department of its Beijing branch, and a member of the party committee, an assistant to the president, and the chief risk officer for credit loans at its Gansu branch. He formerly served as the chief risk officer, vice president and a member of the party committee of the Bank. Mr. Li is an economist who obtained a bachelor's degree in law from Wuhan University in Hubei Province, the PRC, majoring in administrative management. He further obtained a master of business administration degree from Tianjin University in Tianjin, the PRC.

Mr. DU Gang (杜剛) is an executive Director, a Vice President of the Bank and the secretary to the Board of Directors of the Bank. He previously engaged in supervision at the PBOC and the CBRC (currently known as CBIRC) for a long time. He was formerly the deputy inspector of the national joint stock commercial bank supervision department of the CBIRC. Mr. Du obtained a master's degree in economics at the graduate students department finance research center of the PBOC head office in Beijing, the PRC, majoring in international finance.

Non-executive Directors

Mr. FUNG Joi Lun Alan (馮載麟) is a non-executive Director and vice chairman of the Board of Directors of the Bank. He currently serves as the managing director of SCB. He previously served as regional director of East Asia, chief operating officer of the China region and head of strategic development (Greater China) of SCB, responsible for leading and implementing strategic plans and cross-border projects. Mr. Fung obtained a bachelor's degree of social sciences, majoring in economics, accounting and business administration from the University of Hong Kong in Hong Kong. He obtained the qualification as an associate of the Chartered Institute of Bankers, England.

Mr. WANG Zhiyong (王志勇) is a non-executive Director of the Bank. Mr. Wang is an economist and a doctorate candidate in finance. He now serves as the secretary of the party committee and chairman of the board of directors of TEDA Investment Holding Co., Ltd. and chairman of the board of directors and executive director of Binhai Investment Company Limited. He once served as the deputy secretary of the party committee, general manager, secretary of the party committee and chairman of Tianjin Jinlian Investment Holdings Co., Ltd., the deputy secretary of the party committee, general manager, secretary of the party committee and chairman of Hong Kong Tsinlien Group Co., Ltd., and the chairman of the board of directors of Tianjin Development Holdings Limited.

Mr. CUI Xuesong (崔雪松) is a non-executive Director of the Bank. He currently serves as the vice chairman of Tianjin TEDA East Gas Co., Ltd. and a director of Tianjin TEDA International (Group) Co., Ltd.. He previously served as deputy manager of the investment management department, manager of the asset management department and assistant to general manager of TEDA Investment Holding Co., Ltd.. Mr. Cui is a senior engineer and senior economist who obtained a bachelor's degree from Tianjin University in Tianjin, the PRC, majoring in bioengineering. He further obtained a master's degree from Tianjin University in Tianjin, the PRC, majoring in management science and engineering.

Ms. YUAN Wei (元微) is a non-executive Director of the Bank. She currently serves as the chief investment officer and general manager of financial investment department of COSCO SHIPPING Development Co., Ltd.. She previously served as deputy general manager of financial affairs department of China Shipping Container Lines Co., Ltd., deputy general manager of financial affairs department of COSCO SHIPPING Development Co., Ltd., and investment director of COSCO Shipping Captive Insurance Co., Ltd.. Ms. Yuan is a senior economist who obtained a bachelor's degree in economics from Tianjin Institute of Finance & Economics (currently known as Tianjin University of Finance & Economics) in Tianjin, the PRC, majoring in international economic cooperation. She obtained a master's degree from Tianjin Institute of Finance & Economics (currently known as Tianjin University of Finance & Economics) in Tianjin, the PRC, majoring in international trading. Ms. Yuan further obtained a doctorate's degree from Central University of Finance and Economics in Beijing, the PRC, majoring in finance. Ms. Yuan passed the Futures Professional Qualification Examination organised by China Futures Association in June 2005.

Mr. YE Baishou (葉柏壽) is a non-executive Director of the Bank. He currently serves as the chairman of SDIC Capital Co., Ltd., and chairman of the board of directors of SDIC Taikang Trust Co., Ltd. and UBS SDIC Fund Management Co., Ltd.. He previously held the positions of division director of the finance division, vice director of finance and accounting department, and deputy director of finance planning department of State Development & Investment Corporation, chairman of the board of directors of Shenzhen Kangtai Biological Products Co., Ltd, director of finance and accounting department and deputy chief economist of State Development & Investment Corporation, vice chairman and chairman of SDIC Capital Holdings Co., Ltd.. Mr. Ye is a senior accountant who obtained a bachelor's degree in economics from Jiangxi Institute of Finance and Economies (currently known as Jiangxi University of Finance and Economics) in Jiangxi Province, the PRC, majoring in finance. He was certified as a senior accountant by senior professional technical qualification review committee of the SDIC Group in September 2019.

Mr. HU Aimin (胡愛民) is a non-executive Director of the Bank. He currently serves as the secretary of the party committee and chairman of the board of directors of Hwabao Investment Co., Ltd., the chairman of the board of directors of Hwa Bao Securities Co., Ltd., a director of Hwa Bao Trust Co., Ltd., Zhongjin Ruide (Shanghai) Shareholding Investment Management Co., Ltd., New China Life Insurance Company Ltd. and Baowu Group Zhongnan Steel Co., Ltd. (formerly known as "Baowu Group Guangdong Shaoguan Steel Co., Ltd."), and a supervisor of Xinjiang Tianshan Steel United Co., Ltd. He previously served as a deputy general manager and the general manager of the capital operation department and the general manager of the investment management department, the general manager of industry and finance integrated development center and the secretary of the party working committee of industry and finance of China Baowu Steel Group Corporation Limited, the secretary of the party committee, a director and senior vice president of Shanghai Baosteel Packaging Co., Ltd., and the general manager of Hwabao Investment Co., Ltd. Mr. Hu obtained a bachelor's degree in economics from Jiangxi Institute of Finance and Economies (currently known as Jiangxi University of Finance and Economics) in Jiangxi Province, the PRC, majoring in corporate management. He is a holder of Corporate Legal Counsel Certificate granted by the then National Ministry of Human Resources, then State Economic and Trade Committee and Ministry of Justice of the PRC in January 1999.

Mr. ZHANG Xifang (張喜芳) is a non-executive Director of the Bank. He currently serves as the chairman of the board of directors of China Minsheng Trust Co., Ltd., the chairman of the board of supervisors of Wuhan Central Business Zone Operation and Development Co., Ltd., a director of Minsheng Securities Co., Ltd., China Tonghai International Financial Limited, China Oceanwide Holdings Limited, Wuhan Central Business Zone Stock Co., Ltd. and Asia-Pacific Property and Casualty Insurance Co., Ltd. He previously served as a director and the general manager of Yingda Taihe Property Insurance Co., Ltd., the chairman of the board of directors of Yingda Insurance Asset Management Co., Ltd., the chief executive officer, chairman of the board of supervisors, and chairman of the board of directors of Oceanwide Equity Investment Management Co., Ltd., a vice executive officer, president and a vice chairman of Oceanwide Holdings Co., Ltd., and chairman of the board of directors of Oceanwide Investment Group Co., Ltd., and a vice chairman of China Minsheng Trust Co., Ltd., and an executive director and a vice executive officer of China Oceanwide Holdings Group Co., Ltd. Mr. Zhang is a senior economist who obtained a bachelor's degree in economics from Central Institute of Finance and Banking (currently known as Central University of Finance and Economics) in Beijing, the PRC, majoring in accounting. He obtained a master's degree in business management from Tsinghua University in Beijing, the PRC. He is a holder of the AMAC Fund Qualification Certificate granted by Asset Management Association of China in December 2016. Mr. Zhang is also a holder of Secretary to the Board of Directors Certificate granted by the Shenzhen Stock Exchange in March 2017.

Mr. ZHANG Yunji (張雲集) is a non-executive Director of the Bank. He currently serves as the chairman of the board of directors of Tianjin Shanghui Investment Holding Company Limited and Rongxinhui (Tianjin) Finance Lease Co., Ltd. He formerly worked in Tianjin Branch of Industrial and Commercial Bank of China Limited for a long time, where he served as an assistant to the president and a vice president. In addition, he used to serve as the chairman of the board of directors and the general manager of Tianjin Rongsheng Xinye Investment and Development Co., Ltd. Mr. Zhang obtained a master's degree in business administration from Macau University of Science and Technology in Macau.

Independent Non-executive Directors

Mr. MAO Zhenhua (毛振華) is an independent non-executive Director of the Bank. He is a senior economist and has been working in China Chengxin Credit Management Co., Ltd. (formerly known as China Chengxin Securities Rating Co., Ltd.) for a long time. He is currently the chairman of the board of directors of China Chengxin Credit Management Co., Ltd. and China Chengxin Investment Group Co., Ltd., a director of China Chengxin Credit Technology Co., Ltd., a director of Shengang Securities Co., Ltd., a director of Airstar Bank Limited, a non-executive director of Meilleure Health International Industry Group Limited, an independent non-executive director of China Infrastructure & Logistics Group Ltd., the chief economist of China Chengxin International Credit Rating Co., Ltd., the joint head of the Economic Research Institute of Renmin University of China, and the dean of Dong Fureng Economic and Social Development Research Institute of Wuhan University (Beijing).

He formerly served as the chairman of the board of directors of China Chengxin Securities Rating Co., Ltd. and a director of China Chengxin International Credit Rating Co., Ltd. Mr. Mao obtained a doctorate's degree from Wuhan University in economics in Hubei Province, the PRC, majoring in political economics.

Mr. CHI Guotai (遲國泰) is an independent non-executive Director of the Bank. He is a professor and doctoral supervisor. He is currently a professor in the School of Economics and Management, and the director of the Research Center for Financial Risk and Systematic Evaluation Management of Dalian University of Technology, and an expert in the Discipline Planning and Review Team of the National Social Science Fund of China. He formerly served as a lecturer and an associate professor in the banking management department of Heilongjiang College of Financial Staff and an associate professor in the School of Economics and Management of Dalian University of Technology. Mr. Chi obtained a bachelor's degree in engineering from Jiamusi Institute of Agricultural Machinery in Heilongjiang Province, the PRC, majoring in machinery. He obtained a master's degree in engineering from Dalian University of Technology in Liaoning Province, the PRC. Mr. Chi further obtained a doctorate's degree in management from Dalian University of Technology, majoring in management science and engineering.

Mr. MU Binrui (牟斌瑞) is an independent non-executive Director of the Bank. He is a senior economist and is granted the special government allowance by the State Council of the PRC. He is currently an independent non-executive director of China Yongda Automobiles Services Holdings Limited. He formerly served as a deputy general manager of foreign business department, a deputy general manager of marketing department, a deputy general manager and the general manager of credit management department, a deputy chief credit executive officer and the general manager of credit management department of Bank of Communications Co., Ltd. Mr. Mu graduated from Renmin University of China through long distance learning in Beijing, the PRC, majoring in finance. Mr. Mu was awarded the certificate of special government allowance by the State Council of the PRC in February 2013.

Mr. TSE Yat Hong (謝日康) is an independent non-executive Director of the Bank. He is currently an independent non-executive director of China Huirong Financial Holdings Limited, Sky Light Holdings Limited, Radiance Holdings (Group) Company Limited and E-Star Commercial Management Company Limited. He formerly served as the chief financial officer and company secretary of Shenzhen International Holdings Limited and as a joint company secretary and non-executive director of Shenzhen Expressway Company Limited. Mr. Tse obtained a bachelor of science degree from Monash University in Melbourne, Australia. He has been a Fellow of the Hong Kong Institute of Certified Public Accountants since February 2007, and a Fellow of Certified Public Accountants (FCPA) of CPA Australia since May 2012.

Mr. WANG Ren (汪韌) is an independent non-executive Director of the Bank. He is a vice president and the chief investment officer of Forchn Holdings Group, a vice chairman of the board of directors of Forchn International Pte. Ltd., and a member of the MIT Sloan Asian Executive Board. He formerly served as the associate in the investment banking department of Salomon Smith Barney Holdings Inc. of Citigroup, a managing director of investment banking department and joint head of the financial institutions group in Asia of UBS AG, a managing director, the president of Asia, and a joint head of Asia Investment Banking and Capital Markets at Jefferies Hong Kong Limited, and the chief financial officer and the president of investment bank of China Minsheng Financial Holding Corporation Limited. Mr. Wang obtained a bachelor's degree in engineering from Tsinghua University in Beijing, the PRC, majoring in management information system. He obtained a master of business administration degree from Massachusetts Institute of Technology Sloan School of Management in Massachusetts, the United States of America, majoring in business administration. Mr. Wang has been a member of the Massachusetts Institute of Technology Sloan Asian Executive Board since 2016.

Mr. ZHU Ning (朱寧) is an independent non-executive Director of the Bank. He is a professor and doctoral supervisor. He is currently a vice dean and a professor of Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University, an independent non-executive director of China Huarong Asset Management Co., Ltd. and an independent director of Utour Group Co., Ltd. and Molecular Data Inc. He formerly taught at the University of California, Davis. Mr. Zhu obtained a bachelor's degree in economics from Peking University in Beijing, the PRC, majoring in international finance, and a master's degree in science from Cornell University in Ithaca, the United States of America. Mr. Zhu further obtained a doctorate's degree in philosophy from Yale University in New Haven, the United States of America, in December 2003.

BOARD OF SUPERVISORS

The following table sets out certain information relating to the Bank's supervisors as at the date of this Offering Circular.

Name	Date of Birth	Title
Mr. WANG Chunfeng (王春峰)	February 1966	Chairman of the Board of Supervisors and employees' representative Supervisor
Mr. MA Shuming (馬書銘)........	October 1966	Employee's representative Supervisor
Mr. QI Ershi (齊二石)	February 1953	External Supervisor
Mr. DIAO Qinyi (刁欽義)	March 1955	External Supervisor
Mr. HUI Yung Chris (許勇)	November 1968	External Supervisor

Mr.WANG Chunfeng (王春峰) is the chairman of the Board of Supervisors, an employees' representative Supervisor, a deputy secretary of the party committee and the union president of the Bank. He is a professor and a doctoral supervisor. He now serves as the executive director of the China Society for Finance and Banking and the chairman of the board of supervisors of the Northern Finance Institute. He formerly served as the director at the Institute of Systems Engineering, School of Management, the director of the Financial Engineering Research Center in Tianjin University. He also served as the secretary general of Tianjin University Beiyang Education Foundation, a vice president (temporary assignment) at Bohai Securities Co., Ltd., a deputy director at Tianjin Municipal Development Planning Commission, a deputy secretary of the party committee, the president, a secretary of the party committee, the chairman of the board of directors at Bohai Securities Co., Ltd. Mr. Wang obtained a bachelor's degree from Beijing Institute of Technology in Beijing, the PRC, majoring in automatic control. He obtained a master's degree from the Institute of Systems Engineering, Tianjin University, in Tianjin, the PRC, majoring in systems engineering. Mr. Wang further obtained a doctorate's degree from the Institute of Systems Engineering, Tianjin University, in Tianjin, the PRC, majoring in systems engineering.

Mr. MA Shuming (馬書銘) is an employees' representative Supervisor of the Bank. He is currently the secretary to the party committee and president of the Tianjin Binhai New District sub-branch and a concurrent director of the office of the Board of Supervisors of the Bank. He is an economist. He served as a league secretary and the director of the union office of the Jilin Central sub-branch of the PBOC; the acting head of the personnel division, director of the office (director of the party committee office), deputy researcher, secretary to the discipline inspection commission and committee member of the party committee of the CBRC (currently known as CBIRC) Jilin sub-office; the deputy director and director of the back office services center of the CBRC (currently known as CBIRC) Jilin office; the secretary to the party committee and director of the CBRC (currently known as CBIRC) Siping office; a member of the preparation team, member of the party committee and vice president of the Bank's Changchun branch.

Mr. QI Ershi (齊二石) is an external Supervisor of the Bank. He is a professor and a doctoral supervisor. He now serves as a professor at the College of Management and Economics in Tianjin University, an expert in management innovation methods of the Ministry of Science and Technology of the PRC, an expert in the Academic Degrees Committee of the State Council of the PRC. He formerly served as the head at the College of Management in Tianjin University, an expert of the National High-Tech Research and Development Program, the director of the Management Science and Engineering Specialty Teaching Guidance Committee of Higher Schools of the Ministry of Education of the PRC, a general expert of Informatization of the Ministry of Science and Technology of the PRC. Mr. Qi obtained a bachelor's degree in mechanical engineering from Xi'an Jiaotong University in Shaanxi Province, the PRC, majoring in forge. He obtained a master's degree from Tianjin University, in Tianjin, the PRC, majoring in management science and engineering.

Mr. DIAO Qinyi (刁欽義) is an external Supervisor of the Bank. He is a senior economist. He now serves as an external director at Angang Group Company Limited, and a director at CITIC-Prudential Life Insurance Company Ltd. He previously worked at Agricultural Bank of China, and served as a member of the party committee and a vice president at its Shandong branch of Agricultural Bank of China, a secretary of the party committee and the president at its Shandong branch, the general manager of the credit management department and the credit review and approval center (tier-two department) (director level), the chief operating officer, the chief investment officer, and the chief compliance officer at the head office. Mr. Diao graduated with a bachelor's degree from Yantai University in Shandong Province, the PRC, majoring in law. He completed the postgraduate coursework in scientific socialism in Shandong University in Shandong Province, the PRC. He was appointed to the senior economist professional technical position by Agricultural Bank of China Limited. He obtained the qualification certification of independent directors for listed companies from the Shenzhen Stock Exchange in May 2017.

Mr. HUI Yung Chris (許勇) is an external Supervisor of the Bank. He now serves as an executive director of Hong Kong Taigu (China) Group Co., Ltd and its subsidiary, Weigu (Guangdong) Biological Engineering Technology Co., Ltd., and an independent non-executive director of Clarity Medical Group Holding Limited. He formerly served as a manager of the financial engineering department at the Hong Kong branch of Citibank N.A., a vice president of the debt transaction group at Merrill Lynch (Asia Pacific) Limited, a director in the global markets, debt capital markets South Asia department at the Hong Kong branch of Deutsche Bank AG, a managing director at Barclays Capital Asia Limited (during which period he had also been the head of the investment banking department in China and Hong Kong), a director at New China Trust Co., Ltd., a founding partner at J&Partners GP Limited, the secretary of the board of directors at Wanda Commercial Properties Company Limited, a non-executive director at Wanda Hotel Development Company Limited. Mr. Hui obtained a bachelor's degree in business administration from The Chinese University of Hong Kong in Hong Kong, majoring in integrated business administration programme (finance concentration).

SENIOR MANAGEMENT

The following table sets out certain information relating to the Bank's senior management as at the date of this Offering Circular.

Name	Date of Birth	Title
Mr. QU Hongzhi (屈宏志)	August 1969	President
Mr. DU Gang (杜剛)	November 1970	Vice President and Secretary to the Board of Directors
Mr. ZHAO Zhihong (趙志宏)	January 1966	Vice President and Chief Risk Officer
Mr. XIE Kai (謝凱)	September 1972	Vice President
Mr. JIN Chao (靳超)	March 1979	Vice President

For biographical details of **Mr. QU Hongzhi (屈宏志)**, and **Mr. DU Gang (杜剛)**, please see "— *Executive Directors*" of this section.

Mr. ZHAO Zhihong (趙志宏) is a Vice President and the Chief Risk Officer of the Bank. He formerly worked in China Construction Bank, where he served as a deputy division director of the general business division of the credit management department, a deputy division director of sub-branches supervision division III, the division director of the risk study division, a manager of the general division at the credit risk management department, a manager and senior manager of authorisation management division and a senior risk manager at the risk management department, a senior risk manager and deputy general manager of the quality and efficiency control department, a deputy general manager of the product and quality management department, and a deputy general manager of the product innovation and management department. He formerly served as the director of the strategic development and investment management office, strategic development president, an assistant to the president and the secretary to the Board of Directors of the Bank. Mr. Zhao is a senior economist who obtained a bachelor's degree from the Beijing Institute of Economics and Business (currently known as Capital University of Economics and Business) in Beijing, the PRC, majoring in finance. He obtained a master's degree from Shandong University in Shandong Province, the PRC, majoring in applied mathematics. He obtained a doctorate's degree from Dalian University of Technology in Liaoning Province, the PRC, majoring in management science and engineering.

Mr. XIE Kai (謝凱) is a Vice President of the Bank. Mr. Xie formerly served as a secretary at deputy-director level of the secretariat of the office, the deputy director and director of e-commerce department of electronic banking department, the director of innovation business department of electronic banking department, a member of the party committee and a vice president (temporary assignment) of Jiangsu Nantong branch, the director of mobile finance department of electronic banking department, the director of mobile finance department of internet finance department, the director of business cooperation department of e-financing department, the deputy general manager of technology and product management bureau, the deputy general manager of internet banking department, and the deputy general manager of the county area banking & inclusive finance internet finance management centre of Agricultural Bank of China Limited. Mr. Xie is a senior engineer with a doctorate's degree.

Mr. JIN Chao (靳超) is a Vice President of the Bank. Mr. Jin formerly served as the assistant to the president, a member of the party committee and the vice president of the Beijing Wangfujing sub-branch, the deputy general manager of international business department and the deputy general manager of investment banking department of Beijing branch of the Industrial and Commercial Bank of China Limited; a member of the party committee, the vice president and the chief risk officer, the secretary of the party committee and the president of the Shanghai Free Trade Zone branch and the secretary of the party committee and the president of the Fuzhou branch of Ping An Bank Co., Ltd.. Mr. Jin is a senior economist with a doctorate's degree.

JOINT COMPANY SECRETARIES

Mr. DU Gang (杜剛), is one of the joint company secretaries of the Bank. For biographical details of Mr. Du, please see "— *Executive Directors*" above in this section.

Ms. So Shuk Yi Betty (蘇淑儀) is one of the joint company secretaries of the Bank. Ms. So obtained a master's degree in Chinese and Comparative Law from the City University of Hong Kong and a master's degree in business administration from the University of Leicester (long distance learning course). Ms. So was admitted as an associate of The Chartered Governance Institute in the United Kingdom in October 1997 and an associate of The Hong Kong Chartered Governance Institute in October 1997.

COMMITTEES UNDER THE BOARD OF DIRECTORS

The Board of Directors currently has the following committees: the Risk Management and Green Finance Committee, the Related Party Transaction Control Committee (subordinated to the Risk Management and Green Finance Committee), the Audit and Consumer Rights Protection Committee, the Nomination and Remuneration Committee, and the Development Strategy and Inclusive Finance Committee. These committees operate in accordance with their respective terms of reference established by the Board of Directors.

Risk Management and Green Finance Committee

The Board of Directors has established a Risk Management and Green Finance Committee with written terms of reference. The Risk Management and Green Finance Committee consists of seven Directors, being Mr. MU Binrui, Mr. FUNG Joi Lun Alan, Mr. ZHANG Xifang, Mr. ZHANG Yunji, Mr. QU Hongzhi, Mr. LI Yi and Mr. CHI Guotai. The chairperson of the Risk Management and Green Finance Committee is Mr. MU Binrui. The primary duties of the Risk Management and Green Finance Committee are as follows:

- setting the basis and methodology for determining risk tolerance level of the Bank;
- reviewing risk appetite and risk management policies, systems and fundamental principles;
- scrutinising disposal of assets and provision of external guarantees outside the ordinary course of business;
- supervising senior management's performance in relation to risk control, periodically hearing reports on risks and risk management status prepared by senior management, making recommendations in relation to risk management and internal control where appropriate, as well as reporting to the Board of Directors and notifying senior management and the Board of Supervisors if necessary;
- hearing reports on compliance with relevant laws, regulatory requirements, policies and rules of the Bank, anti-money laundering related work arrangements and self-evaluation prepared by senior management if necessary;
- authorising the subordinated Related Party Transaction Control Committee to discharge its responsibilities in relation to related party transaction control;
- researching on and formulating green finance strategies;
- hearing reports on implementation of green finance strategies, and supervising and reviewing corresponding actions taken by senior management;
- reporting to the Board of Directors on implementation of green finance strategies and making relevant recommendations; and
- performing other responsibilities as authorised by the Board of Directors.

Related Party Transaction Control Committee

The Board of Directors has established a Related Party Transaction Control Committee with written terms of reference, subordinated to the Risk Management and Green Finance Committee of the Bank. The Related Party Transaction Control Committee consists of seven Directors, being Mr. MU Binrui, Mr. FUNG Joi Lun Alan, Mr. ZHANG Xifang, Mr. ZHANG Yunji, Mr. QU Hongzhi, Mr. LI Yi and Mr. CHI Guotai. The chairperson of the Related Party Transaction Control Committee is Mr. MU Binrui. The primary duties of the Related Party Transaction Control Committee are as follows:

- assisting the Board of Directors in performing responsibilities in relation to related party transactions and connected transactions;
- reviewing management measures on related party transactions and connected transactions before submitting to the Board of Directors, as well as preparing special annual report in relation to the implementation of such management measures and submitting it to the Board of Directors;
- reviewing and approving the lists of related parties and connected persons, and reporting them to the Board of Directors and Board of Supervisors;
- examining related party transactions and connected transactions in accordance with relevant laws and regulations, relevant requirements of the stock exchange where shares of the Bank are listed, and fair dealing commercial principles;
- reviewing and approving the information disclosure of the related party transactions and connected transactions of the Bank, and supervising the authenticity, accuracy and completeness of the information disclosure in relation to such transactions; and
- performing other responsibilities as authorised by the Board of Directors or the Risk Management and Green Finance Committee.

Audit and Consumer Rights Protection Committee

The Board of Directors has established an Audit and Consumer Rights Protection Committee with written terms of reference. The Audit and Consumer Rights Protection Committee consists of seven Directors, being Mr. TSE Yat Hong, Mr. CUI Xuesong, Mr. FUNG Joi Lun Alan, Ms. YUAN Wei, Mr. MU Binrui, Mr. WANG Ren and Mr. ZHU Ning. The chairperson of the Audit and Consumer Rights Protection Committee is Mr. TSE Yat Hong. The primary duties of the Audit and Consumer Rights Protection Committee are as follows:

- reviewing internal audit charter and medium and long-term audit plans of the Bank;
- overseeing internal audit with authorisation from the Board of Directors;
- enabling communication between internal and external auditors of the Bank;
- reviewing and approving appointment and removal of the head of internal audit department, and evaluating and supervising the performance of the head of internal audit department and the internal audit department;
- hearing reports on major audit findings from internal auditors, external auditors and relevant regulatory authorities, and supervising corresponding actions taken by senior management;

- examining financial conditions, accounting policies and procedures, financial reporting procedures, and designating working groups of the Bank to conduct independent investigations and assessments to monitor its implementation, as well as reporting to the Board of Directors and notifying senior management and the Board of Supervisors if necessary;

- directing annual audit of the Bank, designating working groups to independently check the financial results, and preparing evaluation reports on the authenticity, completeness and accuracy of the audited financial results;

- designating working groups to independently assess internal control and risk management rules and supervising the observance and effectiveness thereof;

- holding discussions on internal control system and reporting relevant issues to the Board of Directors;

- making recommendations to the Board of Directors on matters relating to the appointment, re-appointment and removal of external auditors;

- formulating strategies, policies and goals of the Bank in relation to consumer rights protection and supervising their effective implementation by senior management;

- hearing special reports on consumer rights protection periodically, supervising and evaluating the comprehensiveness, promptness, and effectiveness of consumer rights protection work and the performance of the senior management in this respect;

- reviewing resolutions in relation to consumer rights protection to be submitted to the Board of Directors and making relevant recommendations; and

- performing other responsibilities as authorised by the Board of Directors and in accordance with applicable laws and regulations.

Nomination and Remuneration Committee

The Board of Directors of the Bank has established a Nomination and Remuneration Committee with written terms of reference. The Nomination and Remuneration Committee consists of seven Directors, being Mr. MAO Zhenhua, Mr. LI Fuan, Mr. WANG Zhiyong, Mr. HU Aimin, Mr. CHI Guotai, Mr. WANG Ren and Mr. ZHU Ning. The chairperson of the Nomination and Remuneration Committee is Mr. MAO Zhenhua. The primary duties of the Nomination and Remuneration Committee are as follows:

Nomination Duties

- reviewing the procedures and standards for selecting and appointing directors and members of senior management, making relevant recommendations and submitting it to the Board of Directors of the Bank for review;

- nominating candidates for directors and members of senior management, making preliminary assessments on their qualifications, and making recommendations to the Board of Directors of the Bank;

- reviewing the standards for and reports on evaluation of directors and members of senior management, as well as reports on mutual evaluation of independent directors; and

- performing other responsibilities as authorised by the Board of Directors and in accordance with applicable laws and regulations.

Remuneration Duties

- reviewing remuneration proposals for directors, senior management and other key staff members, making recommendations on the establishment of a formal and transparent procedures for developing remuneration policy and submitting it to the Board of Directors for review;

- reviewing employees' remuneration policies and retirement plans;

- reviewing performance assessment criteria and policies; and

- performing other responsibilities as authorised by the Board of Directors and in accordance with applicable laws and regulations.

Development Strategy and Inclusive Finance Committee

The Board of Directors of the Bank has established a Development Strategy and Inclusive Finance Committee with written terms of reference. The Development Strategy and Inclusive Finance Committee consists of seven Directors, being Mr. LI Fuan, Mr. CUI Xuesong, Mr. FUNG Joi Lun Alan, Ms. YUAN Wei, Mr. YE Baishou, Mr. QU Hongzhi and Mr. DU Gang. The chairperson of the Development Strategy and Inclusive Finance Committee is Mr. LI Fuan. The primary duties of the Development Strategy and Inclusive Finance Committee are as follows:

- reviewing development strategies and medium and long-term development plans;

- assessing development strategies on a regular basis;

- reviewing proposals for material changes in shareholding, financial reorganisation, merger, division and dissolution;

- reviewing proposals for capital management, listing or other fund raising arrangements, use of proceeds, increase or reduction of registered share capital and share repurchase;

- reviewing plans for annual budget, final accounts, risk capital allocation, profit distribution and recovery of losses and other financial plans that materially affect business operations and development of the Bank, as well as giving opinions or making recommendations as to whether these plans are in line with development strategies;

- reviewing annual operational and investment plans, as well as giving opinions or making recommendations as to whether these plans are in line with development strategies;

- reviewing policies in relation to risk management, capital management and other policies that may materially affect business operations and development, as well as giving opinions or making recommendations as to whether these plans are in line with development strategies;

- assessing proposals for external investments that are outside the ordinary course business and other issues that may materially affect business development of the Bank, as well as making relevant recommendations;

- formulating plans for the development of inclusive finance business, designing related management policy and supervising its implementation; and

- performing other responsibilities as authorised by Board of Directors of the Bank.

COMMITTEES UNDER THE BOARD OF SUPERVISORS

Board of Supervisors of the Bank has established a nomination committee and a supervision committee. The committees operate in accordance with terms of reference established by Board of Supervisors.

Nomination Committee

The Board of Supervisors of the Bank has established a nomination committee with written terms of reference. The nomination committee consists of three Supervisors, being Mr. QI Ershi, Mr. WANG Chunfeng and Mr. MA Shuming. The chairperson of the nomination committee is Mr. QI Ershi. The primary duties of the nomination committee are as follows:

- formulating standards and procedures for selecting and appointing supervisors, and preliminarily examining the qualifications of supervisor candidates, and making recommendations to the Board of Supervisors of the Bank;

- overseeing the election procedure of directors;

- making comprehensive performance evaluation of directors, supervisors and senior management;

- performing off-office audits on directors and senior management; and

- reviewing remuneration policies of the Bank and assessing the scientificity and reasonableness of the remuneration plans for senior management.

Supervision Committee

The Board of Supervisors of the Bank has established a supervision committee with written terms of reference. The supervision committee consists of two Supervisors, being Mr. DIAO Qinyi and Mr. HUI Yung Chris. The chairperson of the supervision committee is Mr. DIAO Qinyi. The primary duties of the supervision committee are as follows:

- supervising the Board of Directors in the forming of sound operating concept and value standards, and a development strategy consistent with the Bank's circumstances;

- formulating a supervision plan for the Bank's financial activities and implement relevant inspections; and

- monitoring and inspecting the Bank's business decisions, internal control and risk management.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2021, the Bank had a total of 85 ordinary shareholders, including 74 holders of H Shares and 11 holders of Domestic Shares. As at 30 June 2021, the number of H shares issued by the Bank accounted for 34.91% of the total number of shares in the Bank.

The table below sets out the particulars of the Bank's top 10 shareholders as at 30 June 2021 (based on the register of shareholders as at 30 June 2021).

Name of shareholders	Nature of shareholders	Shares held at the end of the period (shares)	Percentage of total share capital (%)	Class of shares	Changes in the first half of 2021 (share)
TEDA Investment Holding Co., Ltd.	State-owned legal person	3,612,500,000	20.34	Domestic shares	—
HKSCC Nominees Limited [note]	Overseas legal person	3,311,777,990	18.65	H Shares	16,500
Standard Chartered Bank (Hong Kong) Limited	Overseas legal person	2,888,555,000	16.26	H Shares	—
China Shipping Investment Co., Ltd.	State-owned legal person	1,975,315,000	11.12	Domestic shares	—
State Development & Investment Corp., Ltd.	State-owned legal person	1,686,315,000	9.49	Domestic shares	—
China Baowu Steel Group Corporation Limited	State-owned legal person	1,686,315,000	9.49	Domestic shares	—
Oceanwide Industry Co., Ltd..	Domestic non-state-owned legal person	1,370,706,739	7.72	Domestic shares	—
Tianjin Shanghui Investment Holding Company Limited	Domestic non-state-owned legal person	1,156,000,000	6.51	Domestic shares	—
Shine Enterprise (Tianjin) Co., Ltd..	Domestic non-state-owned legal person	29,424,331	0.17	Domestic shares	—
Tianjin Xianghe Enterprise Management Consulting Co., Ltd.	Domestic non-state-owned legal person	14,712,166	0.08	Domestic shares	—
Tianjin Firstwood Co., Ltd.	Domestic non-state-owned legal person	14,712,166	0.08	Domestic shares	—

note: The shares held by HKSCC Nominees Limited as agent are the total amount of shares in the Bank's H-share investors' accounts traded on the trading platform of HKSCC Nominees Limited.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or CMU (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the Bank believe to be reliable, but none of the Issuer, the Bank or any Dealer 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 the Issuer, the Bank or any other party to the Fiscal 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.

Book-entry Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

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 capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference 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 services is open to all members of the Hong Kong Capital Markets Association, authorised institutions under the Banking Ordinance and other domestic and overseas financial institutions at the discretion of the HKMA. Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU

Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

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

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear, Clearstream and the CMU will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System. Euroclear, Clearstream and the CMU have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Euroclear, Clearstream and the CMU. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Hong Kong Branch, the Bank, the Paying Agents, the Registrar and the Dealers will be responsible for any performance by Euroclear, Clearstream or the CMU or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

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 and insurance 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 Commercial Banking Law, the Law of PRC on Supervision and Administration of Banking Sector, the PRC PBOC Law 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, 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 April 2018, CBRC and China Insurance Regulatory Commission were merged as China Banking and Insurance Regulatory Commission, covering the regulation of banking and insurance sectors in the PRC. In this Offering Circular, the term of "CBRC" is used in the context of regulations, rules and actions issued or taken by CBRC before April 2018.

CBIRC

Functions and Powers

CBIRC, established as the combination of CBRC and CIRC, is the primary supervisory authority responsible for the regulation of banking and insurance institutions operating in the PRC, including branches and representative offices established by foreign banking institutions in the PRC.

According to the Law of PRC on Supervision and Administration of Banking Sector, the main responsibilities of CBIRC in relation to banking regulation include:

(1) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(2) 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;

(3) regulating the business activities of banking institutions, including the products and services they offer;

(4) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(5) setting guidelines and standards for risk management, internal controls, capital adequacy ratio, asset quality, allowance for impairment losses, risk concentration, related party transactions, asset liquidity, corporate governance and disclosure requirements for banking institutions;

(6) conducting on-site inspection and off-site surveillance of the business activities and risk levels of banking institutions;

(7) imposing integrated supervision on banking institutions;

(8) establishing emergency disposal mechanisms with relevant authorities in the banking sector and formulating emergency disposal plans;

(9) imposing corrective and punitive measures for violations of applicable banking regulations;

(10) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(11) working with authorities (including the PBOC and the MOF);

(12) establishing emergency disposal mechanisms and to deal with any emergencies in the banking sector;

(13) drafting and publishing statistics and financial statements of national banking institutions;

(14) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(15) carrying out international communication and cooperation activities related to supervisions of the banking sector.

Examination and Supervision

CBIRC, through its head office in Beijing and offices across the PRC, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include inspecting 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 and monitoring banks' business activities and risk exposure status to evaluate and analyse 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 asset transfers, suspension of new branches opening 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 PRC PBOC Law, PBOC is empowered to:

(1) draft and enforce relevant laws, rules and regulations that are related to fulfilling its functions;

(2) formulate and implement monetary policies in accordance with the laws;

(3) issue Renminbi, the currency of the PRC, and regulate the flow of Renminbi;

(4) regulate the inter-bank lending market and inter-bank bond market;

(5) implement foreign exchange controls and regulate inter-bank foreign exchange market;

(6) regulate the gold market;

(7) hold, administer and manage the PRC's foreign exchange reserves and gold reserves;

(8) manage the state treasury;

(9) maintain the normal operation of payment and settlement systems;

(10) guide and supervise anti-money laundering efforts of financial institutions and monitor fund transfers to ensure that such transfers are in compliance with anti-money laundering regulations;

(11) be responsible for the statistics, investigation, analysis, and forecasting of the financial industry; and

(12) participate in international financial activities at the capacity of the central bank.

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, but not limited to, the MOF, NDRC and SAFE.

Regulations Regarding Capital Adequacy

In March 2004, CBRC implemented the Administrative Measures for Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法) (the "**Capital Adequacy Measures**") applicable to all commercial banks in the PRC. The Capital Adequacy Measures provided for a phase-in period whereby all domestic banks must have met minimum capital adequacy ratios by 1 January 2007. On 3 July 2007, CBRC amended the Capital Adequacy Measures issued in March 2004 to set forth new and more stringent capital adequacy guidelines which must be complied with from 3 July 2007.

In June 2012, the CBRC issued the Capital Management Rules regulating capital adequacy ratios ("**CAR**") of PRC commercial banks, which became effective on 1 January 2013 and abolished the Capital Adequacy Measures amended on 3 July 2007. The Capital Management Rules, 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% for domestic systematically important commercial banks and 10.5% for other commercial banks. Commercial banks in the PRC are required to have a CAR of not less than 8%, Tier 1 CAR of not less than 6% and Core Tier 1 CAR of not less than 5%. The CARs are calculated in accordance with the Capital Management Rules as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \text{ x 100 per cent.}$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \text{ x 100 per cent.}$$

$$\text{Core Tier 1 Capital Adequacy Ratio} = \frac{\text{Core Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \text{ x 100 per cent.}$$

Further details regarding the basic principles of such calculations can be obtained at the official website of the CBIRC. The contents of this website do not form a part of this Offering Circular.

On 29 November 2012, the CBRC released the Guiding Opinions, allowing and encouraging commercial banks to develop capital instruments (including Tier 2 Capital instruments) that comply with the Capital Management Rules. Pursuant to the Guiding Opinions, Additional Tier 1 Capital instruments and Tier 2 Capital instruments issued by a commercial bank after 1 January 2013 must contain a provision that requires such instruments to be either written off or converted into common stock upon the occurrence of a triggering event. A triggering event for Additional Tier 1 Capital instruments occurs when the Core Tier 1 Capital Adequacy Ratio of the commercial bank falls to 5.125% or below. A triggering event for Tier 2 Capital instruments occurs upon the earlier of: (i) a decision of write-off or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) a decision to make a public sector injection of capital or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities. The Guiding Opinions was further revised by CBIRC on 22 November 2019, which requires that: (i) when the same triggering event occurs, the Additional Tier 1 Capital instrument shall be written down or converted into shares in full amount, before the write-down or share conversion of the Tier 2 Capital instrument is launched; and (ii) when the same triggering event occurs, each capital instrument of the same tier shall be written down or converted into shares at the same time, in proportion to the percentage for which the instrument accounts of the total amount of the capital instruments of that tier. The amended Guiding Opinions further demand that both kinds of triggering events stated above shall be set concurrently for Additional Tier 1 Capital instruments to be issued after the amendment if classified in accounting as liabilities.

On 3 April 2014, the CBRC and CSRC promulgated the Guiding Opinions of the China Banking Regulatory Commission and China Securities Regulatory Commission on the Issuance of Preference Shares by Commercial Banks to Replenish Tier-one Capital (《中國銀監會、中國證監會關於商業銀行發行優先股補充一級資本的指導意見》) which was amended on 11 June 2019, the commercial banks issuing preference shares shall comply with relevant regulations promulgated by the State Council and CSRC and the requirements of capital instruments released by CBIRC, and the Core Tier 1 Capital Adequacy Ratio shall comply with the prudential regulation principles formulated by CBIRC. The commercial banks issuing preference shares to supplement tier 1 capital shall comply with the criteria of the Additional Tier 1 Capital instruments under the Capital Management Rules and the Guiding Opinions, and shall not issue the preference shares with put provisions.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers or certain professional investors) may be subject to special rules. Investors should consult their own tax advisers regarding the tax consequences of an investment in the Notes.

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" or "non-resident 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 PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), as amended on 30 June 2011 and 31 August 2018, and their implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-resident Noteholders, including non-resident enterprises and non-resident individuals.

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》(財稅[2016]36號)) (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 the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC, but where the services are sold by offshore entities or individuals to onshore entities or individuals and such services purely take place outside the PRC, they should not be deemed as services sold within the territory of the PRC. 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 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 withholding 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 PRC 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, the holders of the Notes would be regarded as providing the financial services within the PRC 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 Issuer pays interest income to Noteholders who are located outside of the PRC, the Issuer, 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 Issuer 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*".

Under the PRC Enterprise Income Tax Law and its implementation rules, any gains realised on the transfer of the Notes by holders who are deemed as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Notes would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an arrangement between the PRC and Hong Kong for avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes.

(II) In the event that the Issuer is the Hong Kong Branch

In the event that the Issuer is the Hong Kong Branch, the Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC and the issuer is not held to be a PRC tax resident enterprise by PRC tax authorities. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the Issuer is a PRC tax resident or the interest on the Notes payable by the Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

In the case of issuance of Notes by the Hong Kong Branch, Circular 36 is unlikely to apply if the provision of loans by individuals or entities located outside the PRC takes place outside the PRC, but there is uncertainty as to the applicability of VAT as this will depend on how the PRC tax authorities interpret, apply or enforce the Circular 36 and its implementation rules.

If the Bank shall perform the obligation of paying interest of the Notes in the event and only when the Issuer fails to perform its obligations of paying the interest of the Notes, the Bank will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and if the holders of the Notes are regarded as providing the financial services within the PRC, 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.

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. According to an arrangement between the PRC and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes. 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 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.

Circular 36 has been issued quite recently, 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 and the VAT reform detailed above, the Issuer shall withhold EIT (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC Noteholder and the Issuer 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 the Issuer is required to make such a deduction or withholding (whether by way of EIT or VAT otherwise), the Issuer has agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "*Terms and Conditions of the Notes — Condition 8 (Taxation)*".

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

Hong Kong

Withholding Tax

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

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong 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).

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 received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(ii) 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; or

(iii) 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; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance).

Where the Hong Kong Branch is the Issuer, pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, *inter alia*, an authorised institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Cap. 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no prospectus involving the issue of the Notes is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, the issue of the Notes by the Issuer is expected to constitute a deposit to which the above exemption from payment will apply.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person (other than a corporation) who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

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 Inland Revenue Ordinance) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Gains or profits received by or accrued to a financial institution from the sale, disposal and redemption of the Notes arising through or from the carrying on by the financial institution of its business in Hong Kong will be subject to profits tax.

Stamp Duty

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

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong 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).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the 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 sale and purchase or change in beneficial ownership of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any sale and purchase or change in beneficial ownership of Registered Notes, provided that either:

(i) such 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) such Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

With effect from 1 August 2021, if stamp duty is payable in respect of the transfer of Registered Bonds 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 on each instrument of transfer executed in relation to any transfer of the Registered Bonds if the relevant transfer is required to be registered in Hong Kong.

United States FATCA Tax Provisions

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the People's Republic of China) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. 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 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 Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "*Terms and Conditions of the Notes — Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

PRC CURRENCY CONTROLS

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. On July 2009, the PRC government promulgated Measures for the Administration of the Pilot Program of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法) (the "**Measures**") and its implementation rules, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since July 2009, subject to the Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Program of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Jiangsu, Zhejiang, Liaoning, Shandong and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 27 July 2011, the PRC government promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算地區的通知), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PRC government promulgated the Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi.

On 5 July 2013, the PBOC promulgated the Notice on Simplifying the Procedures of Cross-border Renminbi Business and Improving Relevant Policies (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the "**2013 PBOC Circular**"), which, in particular, simplifies the procedures for cross-border Renminbi trade settlement under current account items. On 1 November 2014, the PBOC introduced a cash pooling arrangement for qualified multinational enterprise group companies, 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. On 5 September 2015, the PBOC promulgated the Circular on Further Facilitating the Cross-Border Bi-directional Renminbi Cash Pooling Business by Multinational Enterprise Groups (關於進一步便利跨國企業集團開展跨境雙向人民幣資金池業務的通知) (the "**2015 PBOC Circular**"), which, among others, have lowered the eligibility requirements for multinational enterprise groups and increased the cap for net cash inflow.

The 2015 PBOC Circular also provides that enterprises within a pilot free trade zone in the PRC, such as the China (Shanghai) Pilot Free Trade Zone may establish an additional cash pool in the local scheme in such pilot free trade zone, but each onshore company within the group may only elect to participate in one cash pool.

On 29 April 2019, the SAFE issued Administrative Measures for the Foreign Exchange Service of Payment Institutions (支付機構外匯業務管理辦法), which facilitates domestic institutions and individuals to carry out e-commerce trade through the internet, standardizes the cross-border foreign exchange payment services provided by payment institutions, and prevents the risk of cross-border capital flows through the internet channel.

The Measures and the subsequent circulars will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Measures 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 filling with, the relevant PRC authorities.

Capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital account item payments including proceeds from liquidation, transfer of shares, reduction of capital and principal repayment under foreign debt to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 3 December 2013, the MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM RMB FDI Circular**") which became effective on 1 January 2014. Pursuant to the MOFCOM RMB FDI Circular, the proceeds from foreign direct investment in Renminbi may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investment in PRC domestic listed companies under the PRC strategic investment regime with the approval of the MOFCOM pursuant to the Administrative Measures for Strategic Investment by Foreign Investors in Listed Companies (外國投資者對上市公司戰略投資管理辦法).

On 3 June 2011, the PBOC promulgated the Circular on Clarifying Issues concerning Cross-border Renminbi Settlement (中國人民銀行關於明確跨境人民幣業務相關問題的通知) (the "**PBOC Circular**"). The PBOC Circular provides instructions to local PBOC authorities on procedures for the approval of settlement activities for non-financial Renminbi foreign direct investment into the PRC. The PBOC Circular applies to all non-financial Renminbi foreign direct investment into the PRC, and includes investment by way of establishing a new enterprise, acquiring an onshore enterprise, transferring the shares, increasing the registered capital of an existing enterprise, or providing loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications to the relevant local PBOC authorities which include, *inter alia*, requisite approval letters issued by the relevant MOFCOM authorities.

On 13 October 2011, the PBOC issued the Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the "**PBOC RMB FDI Measures**") and amended it on 29 May 2015, to commence the PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular is no longer necessary. On 14 June 2012, the PBOC further issued the implementing rules for the PBOC RMB FDI Measures.

On 19 November 2012, the SAFE promulgated the Circular on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) (the "**SAFE Circular on DI**"), which became effective on 17 December 2012 and was amended on 4 May 2015, 10 October 2018 and 30 December 2019. According to the SAFE Circular on DI, the SAFE removes or adjusts certain administrative licensing items with regard to foreign exchange administration over direct investments to promote investment, including, but not limited to, the abrogation of SAFE approval for opening of and payment into foreign exchange accounts under direct investment accounts, the abrogation of SAFE approval for reinvestment with legal income generated within China of foreign investors, the simplification of the administration of foreign exchange reinvestments by foreign investment companies, and the abrogation of SAFE approval for purchase and external payment of foreign exchange under direct investment accounts.

The 2013 PBOC Circular promulgated by the PBOC on 5 July 2013 also simplifies the operating procedures on provision of Renminbi outbound loans and Renminbi cross-border security in favour of offshore entities by onshore non-financial institutions, and further published policies with respect to bank card related cross-border Renminbi clearing and issuance of offshore Renminbi bonds by onshore non-financial institutions. The 2013 PBOC Circular intends to improve the efficiency of cross-border Renminbi settlement and facilitate the use of cross-border Renminbi settlement by banks and enterprises.

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.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor (the "**RQFII**") regime and the China Interbank Bond Market (the "**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between mainland and Hong Kong to allow eligible investors to invest in CIBM and has also expanded the list of foreign investors eligible to directly invest 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 2018, the China Foreign Exchange Trade System further relaxed qualifications, application materials and the procedures 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.

There is no assurance that the PRC government will continue to gradually liberalise controls over cross-border Renminbi remittance in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, the Bank will need to source Renminbi offshore to finance its obligations under the Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

SUBSCRIPTION AND SALE

Dealer Agreement

Subject to the terms and on the conditions contained in the dealer agreement dated 28 October 2021 (such Dealer Agreement as modified and/or supplemented and/or restated from time to time, the "**Dealer Agreement**") made between the Bank, the Hong Kong Branch, the Arranger and the permanent Dealers, the Notes may be offered from time to time by the Issuer to the permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer will reimburse the Arranger for certain of their expenses incurred in connection with the establishment 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 will be stated in the relevant subscription agreement.

The Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in the relevant Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot Notes or effect transactions with a view to supporting the price of the Notes of the Series at a level higher than that which might otherwise prevail for a limited period after the Issue Date of the relevant Tranche of Notes, but in so doing, the Stabilisation Manager(s) or any person acting on behalf of the Stabilisation Manager(s) shall act as principal and not as agent of the Issuer. However, there is no obligation of such Stabilisation Manager(s) to do this. Any loss or profit sustained as a consequence of any such overallotment or stabilisation shall be for the account of the relevant Dealers.

The Arranger, the Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Arranger, the Dealers or any of their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with or for the Issuer and/or its affiliates for which they have received, or will receive, fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of the Issuer's or their business.

In the ordinary course of their various business activities, the Arranger, the Dealers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Bank or the Hong Kong Branch, including the Notes and could adversely affect the trading price and liquidity of the relevant Notes. The Arranger, the Dealers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Bank or the Hong Kong Branch and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Bank or the Hong Kong Branch.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates or affiliates of the Bank or the Hong Kong Branch may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers and/or their respective affiliates or affiliates of the Bank or the Hong Kong Branch may act as investors and place orders, receive allocations and purchase and trade Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations and/or trades of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering. Accordingly, references herein to the Notes being "offered" should be read as including any offering of the Notes to the Bank, the Hong Kong Branch, the Arranger, the Dealers and/or their respective affiliates, or affiliates of the Issuer as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. If such transactions occur, the trading price and liquidity of such Notes may be impacted.

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

United States

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement ("**Category 1 Regulation S Notes**"), the Category 1 Regulation S Notes have not been and will not be registered under the Securities Act and the Category 1 Regulation S Notes may not be offered or sold within the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement ("**Category 2 Regulation S Notes**"), the Category 2 Regulation S Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered, sold and delivered, and shall offer and sell, such Category 2 Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Category 2 Regulation S Notes are a part, as determined and certified to the Issuer and each relevant Dealer, by the Fiscal Agent or, the Lead Manager, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Category 2 Regulation S Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. In addition, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, to notify the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Category 2 Regulation S Notes of any identifiable tranche so that the Fiscal Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Category 2 Regulation S Notes of that tranche and notify the other Relevant Dealers of the end of the distribution compliance period. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the U.S. or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. The Notes in bearer form will be issued in accordance with the provisions of U.S. Treasury Regulation or section 1.163 - 5(c)(2)(i)(D), unless the relevant Pricing Supplement specifies that Notes will be issued in accordance with the provision of U.S. Treasury Regulation or section 1.163 - 5(c)(2)(i)(C). Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

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

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the Relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each Relevant Dealer agrees that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

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 EEA. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

    (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, 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 the Prospectus Regulation; and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restrictions under the Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA (each, a "**Relevant State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant State except that it may make an offer of such Notes to the public in that Relevant State:

(a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Relevant State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129, as amended.

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 the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the 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; 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; and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restrictions under the UK Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

(a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or the Pricing Supplement, as applicable, and the 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 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(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) shall require the Issuer or any Dealer to publish a prospectus pursuant to Section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression "**FSMA**" means the Financial Services and Markets Act 2000 and the expression an "**offer of Notes to the public**" in relation to any Notes in the United Kingdom means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

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

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where 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 interests (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.

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

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines 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.

People's Republic of China

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong Special Administrative Region and Macau Special Administrative Region of the People's Republic of China or Taiwan), except as permitted by the securities laws of the People's Republic of China.

General

Each Dealer has agreed and each further Dealers appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer and any other Dealer shall have any responsibility therefor.

None of the Issuer and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction that would permit a public offering of any of the Notes, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer and set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

1. Pursuant to the resolutions of the board of directors of the Bank dated 29 March 2021, the resolutions of the shareholders of the Bank dated 17 May 2021 and the minutes of president's office meeting of the Bank dated 23 June 2021, the establishment of the Programme has been duly authorised.

2. The Issuers have agreed to obtain from time to time all necessary internal consents, approvals and authorisations for the issue of Notes under the Programme. The Issuers shall obtain (to the extent as required) approvals from the NDRC, the PBOC, the SAFE and the CBIRC in connection with their issuance of the Notes as issuers and the repayment of the principal and/or interest of the Notes by the Issuers may be adversely affected in the event any required registration is not obtained.

Listing

3. Application has been made to the Hong Kong Stock Exchange for the listing of the Programme during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange under which Notes may be issued by way of debt issues to Professional Investors only. Separate application will be made for the listing of the Notes on the Hong Kong Stock Exchange. The issue price of listed Notes on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. 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 listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

NDRC Approval

4. Where applicable for a relevant Tranche of Notes, pursuant to the NDRC Circular, the Bank will make a pre-issuance registration with the NDRC, followed by a post-issuance filing with the NDRC within the prescribed time following issuance of the Notes.

Clearing Systems

5. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

6. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of the CMU is 55th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

Legal Entity Identifier

7. The legal entity identifier of the Bank is 549300YB2ARX5DQT4F62.

No Material Adverse Change

8. Save as disclosed in this Offering Circular, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in or affecting the financial or trading position or prospectus of the Bank or of the Group since 30 June 2021.

Litigation

9. Save as disclosed in this Offering Circular, neither the Issuer nor any member of the Group is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a material impact in the context of issuance of the Notes.

Independent Auditors

10. The independent auditor of the Bank is KPMG. is KPMG, which is a Certified Public Accountant under The Hong Kong Institute of Certified Public Accountants.

11. The 2020 Audited Financial Statements, which are included elsewhere in this Offering Circular, have been audited by KPMG, independent auditor, as stated in their reports included in this Offering Circular.

12. The 2021 Interim Financial Statements, which are included elsewhere in this Offering Circular, have been reviewed by KPMG, independent auditor, as stated in their report included in this Offering Circular. Consequently, such unaudited reviewed financial statements may not provide the same quality of information associated with information that has been subject to an audit.

13. KPMG has provided an opinion in the accountants' report on the audited financial information of the Bank as at and for the year ended 31 December 2019 which can be found in "Appendix I — Accountants' Report" to the prospectus dated 30 June 2020 in relation to the Bank's global offering of its shares on the Hong Kong Stock Exchange on https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0630/2020063000079.pdf for reference purposes.

14. The Bank adopted IFRS 16 as issued by IASB with a date of initial application on 1 January 2019. The impact of the adoption of IFRS 16 is disclosed in the Bank's audited financial statements as at and for the year ended 31 December 2019. According to the requirements of IFRS 16, the Bank would not reassess the contracts that had already existed prior to the date of initial application. The Bank recognised the cumulative effect of initially applying the standard as an adjustment to the opening balances of relevant line items in the financial statements in 2019. IFRS 16 primarily affected the Bank's accounting as a lessee of the lease for certain office premises which were previously classified as operating leases. As permitted by the transitional provisions of IFRS 16, the Bank elected not to restate comparative figures.

Documents

15. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the specified office of the Fiscal Agent for the time being at 20th Floor Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong:

    (a) the constitutional documents of the Bank;

    (b) the audited financial statements of the Bank in respect of the financial year ended 31 December 2020 (together with the audit report in connection therewith). The Bank currently prepares audited accounts on an annual basis;

    (c) the unaudited but reviewed financial statements of the Bank in respect of the six months ended 30 June 2021 (together with the review report in connection therewith);

    (d) the most recent annual audited financial statements of the Bank and the most recently published unaudited interim financial statements of the Bank (if any);

    (e) the Fiscal Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

    (f) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein; and

    (g) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

INDEX TO FINANCIAL STATEMENTS

Notes:

(1) The independent auditor's report on the Bank's financial statements for the year ended 31 December 2020 set out herein is reproduced from the Bank's annual report for the year ended 31 December 2020. Page references referred to in the abovenamed reports refer to pages set out in such annual report. The independent auditor's report and the financial statements have not been specifically prepared for inclusion in this Offering Circular.

(2) The report on review of interim financial statements for the six months ended 30 June 2021 set out herein is reproduced from the Bank's half-year report for the six months ended 30 June 2021. Page references referred to in the abovenamed report refer to pages set out in such half-year report. This independent auditor's report and the financial statements have not been specifically prepared for inclusion in this Offering Circular.

Independent Auditor's Report

Independent Auditor's Report To the Shareholders of CHINA BOHAI BANK CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the financial statements of CHINA BOHAI BANK CO., LTD. (the "Bank") set out on pages 138 to 275, which comprise the statement of financial position as at 31 December 2020 and related statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statement including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and its 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 Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the HKICPA's code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters *(continued)*

Loss allowances of loans and advances to customers and financial investments measured at amortised cost	
Refer to the accounting policies in "Note 3 (5) to the Financial Statements: Financial instruments", "Note 4 to the Financial Statements: Significant accounting estimates and judgements", "Note 22 to the Financial Statements: LOANS AND ADVANCES TO CUSTOMERS" and "Note 23 to the Financial Statements: FINANCIAL INVESTMENTS".	
The key audit matter	**How the matter was addressed in our audit**
The Bank's loans and advances to customers and financial investments measured at amortised cost as at 31 December 2020 amounted to RMB1,143,381 million, with loss allowances amounted to RMB34,872 million as at 31 December 2020. The Bank uses the expected credit loss ("ECL") model to calculate the loss allowance in accordance with International Financial Reporting Standard 9, Financial instruments ("IFRS 9"). The Bank classifies loans and advances to customers and financial investments measured at amortised cost into three stages. A financial asset is classified as stage one when its credit risk has not increased significantly since its initial recognition; otherwise it is classified as stage two. Stage three applies when a financial asset is credit-impaired. The loss allowance for stage one financial assets is measured at an amount equal to a 12-month ECL. The loss allowance for stage two and stage three financial assets is measured at an amount equal to a lifetime ECL. The loss allowance for loans and advances to customers and financial investments measured at amortised cost, other than those that are credit-impaired, is measured based on probability of default (PD), LGD and exposure at default (EAD), which take into account the historical overdue data, historical loss ratios, internal credit gradings and other adjustment factors.	Our audit procedures to assess the loss allowances of loans and advances to customers and financial investments measured at amortised cost included the following: • evaluating the effectiveness of internal controls related to ECL allowance: – assessing the key design, implementation and operational effectiveness of internal controls of the credit risk management process. In particular, we assessed the design, implementation and operating effectiveness of the key internal controls over the stage classification of loans and advances to customers and financial investments measured at amortised cost; – assessing the operating effectiveness of information system controls, including general information technology control, completeness of key internal historical data, data transmission between systems, mapping of parameters of the ECL model, and system calculation of the ECL allowance with the assistance of our IT audit professionals. • with the assistance of our financial model specialists, assessing the appropriateness of the ECL model, including the reasonableness of probability of default, loss given default, exposure at default, discount rate, forward-looking adjustments and other parameters and key assumptions;

Key audit matters *(continued)*

Loss allowances of loans and advances to customers and financial investments measured at amortised cost *(continued)*	
Refer to the accounting policies in "Note 3 (5) to the Financial Statements: Financial instruments", "Note 4 to the Financial Statements: Significant accounting estimates and judgements", "Note 22 to the Financial Statements: LOANS AND ADVANCES TO CUSTOMERS" and "Note 23 to the Financial Statements: FINANCIAL INVESTMENTS".	
The key audit matter *(continued)*	**How the matter was addressed in our audit** *(continued)*
The loss allowance for credit-impaired loans and advances and financial investments measured at amortised cost are measured using the discounted cash flow method. Management exercises judgement in determining recoverable cash flows based on a range of factors. These factors include available remedies for recovery, the financial situation of the borrowers, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors. ECLs for loans and advances to customers and financial investments measured at amortised cost is a subjective area due to the degree of judgement applied by management in determining loss allowances. From the Bank's perspective, the determination of the loss allowances for loans and advances to customers and financial investments measured at amortised cost is heavily dependent on the external macro economy and the Bank's internal credit risk management strategy. We identified the assessment for the ECL allowance as a key audit matter because of the inherent uncertainty and management judgements involved, and because the loss allowance is significant to the financial results and capital of the Bank.	• selecting items to assess the appropriateness of the stage classification. We also focused on loans and investments with perceived higher risks and selected items from non-performing loans, overdue but performing loans and borrowers with negative warning signs or adverse press coverage; • assessing the appropriateness of the forecast of recoverable cash flows based on financial information of borrowers and guarantors, latest collateral valuations and other available information for the selected credit-impaired corporate loans and advances and financial investments measured at amortised cost; • recalculating the amount of credit loss allowance based on the above parameters and assumptions for selected loans and advances to customers and financial investments measured at amortised cost; and • evaluating whether the credit risk related disclosures comply with the prevailing accounting standards.

Key audit matters *(continued)*

Fair value of financial instruments

Refer to the accounting policies in "Note 3 (5) to the Financial Statements: Financial instruments", "Note 4 to the Financial Statements: Significant accounting estimates and judgements" and "Note 46 to the Financial Statements: FAIR VALUE".

The key audit matter	How the matter was addressed in our audit
Financial instruments carried at fair value account for a significant part of the Bank's assets and liabilities. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income. The Bank mainly holds level 2 and level 3 financial instruments measured at fair value. As at 31 December 2020, the carrying amount of the Bank's financial assets and liabilities measured at fair value totalled RMB164,906 million and RMB533 million, respectively. The valuation of the Bank's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use observable inputs. Where one or more significant inputs are unobservable in the valuation techniques, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement. The Bank has developed its own models to value certain level 2 and level 3 financial instruments, which also involve significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and the degree of judgement exercised by management in determining the inputs used in the valuation models.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the valuation for financial instruments; • for level 2 financial instruments , assessing the reasonableness of the fair values by comparing the observable inputs against external market data on a sample basis • for level 2 and level 3 fair values, involving our internal valuation specialists, on a sample basis, evaluating the reasonableness of the valuation methods inputs and assumptions adopted by the management, analysing the sensitivities of valuation results to key inputs and assumptions; • assessing whether the disclosures in the financial statements comply with the prevailing accounting standards.

Independent Auditor's Report

Key audit matters *(continued)*

Recognition of interests in and consolidation of structured entities	
Refer to the accounting policies in "Note 3 (1) to the Financial Statements: Subsidiary and non-controlling interests", "Note 4 to the Financial Statements: Significant accounting estimates and judgements" and "Note 40 to the Financial Statements: INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES".	
The key audit matter	**How the matter was addressed in our audit**
Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Bank may acquire an ownership interest in, or act as a sponsor to, a structured entity, through initiating, investing or retaining shares in a wealth management product, an investment fund, an asset management plan, a trust plan, a structured lease or an asset-backed security. The Bank may also retain partial interests in derecognised assets due to guarantees or securitisation structures. In determining whether the Bank should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Bank is able to exercise over the activities of the entity and its ability to influence the Bank's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions. We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and the judgement exercised by management in the qualitative assessment of the terms and the nature of each entity.	Our audit procedures to assess the recognition of interests in and consolidation of structured entities included the following: • understanding and assessing the design and implementation of key internal controls of financial reporting over consolidation of structured entities. • selecting significant structured entities of each key product type: – inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Bank has with the structured entity and to assess management's judgement over whether the Bank has the ability to exercise power over the structured entity; – inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, or rights, to variable returns from the Bank's involvement in such an entity; – assessing management's judgement over whether the structured entity should be consolidated or not; and • evaluating the disclosures in the financial statements in relation to the recognition of interests in and consolidation of structured entities with reference to the requirements of the prevailing accounting standards.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by IASB 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank'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 either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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. This 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 HKSAs 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 financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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.

Auditor's responsibilities for the audit of the financial statements *(continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Siu Tung.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2021

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Note	**2020**	2019
Interest income		**59,907,209**	51,598,169
Interest expense		**(31,430,173)**	(28,576,886)
Net interest income	6	**28,477,036**	23,021,283
Fee and commission income		**5,196,988**	5,323,397
Fee and commission expense		**(2,294,532)**	(1,208,526)
Net fee and commission income	7	**2,902,456**	4,114,871
Net trading gains	8	**44,600**	196,392
Net gains arising from investment securities	9	**997,253**	961,857
Other operating income	10	**70,825**	83,991
Operating income		**32,492,170**	28,378,394
Operating expenses	11	**(9,182,900)**	(8,856,860)
Impairment losses on assets	14	**(13,224,178)**	(9,566,913)
Share of losses of associate		**–**	(52,771)
Profit before taxation		**10,085,092**	9,901,850
Income tax	15	**(1,640,521)**	(1,709,094)
Net profit		**8,444,571**	8,192,756
Earnings per share			
– Basic and diluted (RMB yuan)	16	**0.47**	0.57

The notes on pages 145 to 275 form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2020	2019
Net profit		**8,444,571**	8,192,756
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of financial assets measured at fair value through other comprehensive income	37	**(435,997)**	73,247
Credit losses of financial assets measured at fair value through other comprehensive income	37	**(495,258)**	612,834
Reserve from cash flow hedging instruments	37	**(160)**	–
Other comprehensive income, net of tax		**(931,415)**	686,081
Total comprehensive income		**7,513,156**	8,878,837

The notes on pages 145 to 275 form part of these financial statements.

Statement of Financial Position

As at 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2020	31 December 2019
Assets			
Cash and deposits with the central bank	17	**96,548,417**	93,013,699
Deposits with banks and other financial institutions	18	**27,805,363**	14,051,627
Placements with banks and other financial institutions	19	**6,063,668**	4,410,809
Derivative financial assets	20	**232,498**	158,709
Financial assets held under resale agreements	21	**–**	1,850,258
Loans and advances to customers	22	**867,120,217**	687,279,098
Financial investments:	23		
– Financial investments measured at fair value through profit or loss		**72,597,497**	36,238,313
– Financial investments measured at fair value through other comprehensive income		**61,813,595**	64,967,327
– Financial investments measured at amortised cost		**241,515,654**	199,101,251
Property and equipment	25	**3,630,154**	3,804,211
Deferred tax assets	26	**8,664,618**	6,365,091
Other assets	27	**7,531,444**	5,689,632
Total assets		**1,393,523,125**	1,116,930,025
Liabilities and equity			
Liabilities			
Borrowing from the central bank	28	**71,592,485**	46,905,557
Deposits from banks and other financial institutions	29	**130,273,359**	78,547,430
Placements from banks and other financial institutions	30	**31,920,614**	21,500,177
Derivative financial liabilities	20	**533,164**	171,758
Financial assets sold under repurchase agreements	31	**52,406,083**	23,069,093
Deposits from customers	32	**758,235,794**	647,764,551
Income tax payable		**2,485,405**	1,887,990
Debt securities issued	33	**225,154,090**	196,603,843
Other liabilities	34	**17,676,301**	17,841,029
Total liabilities		**1,290,277,295**	1,034,291,428

The notes on pages 145 to 275 form part of these financial statements.

Statement of Financial Position

As at 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

		31 December	
	Note	**2020**	2019
Equity			
Share capital	35	**17,762,000**	14,450,000
Other equity instruments	36	**19,961,604**	19,961,604
Other comprehensive income	37	**38,078**	969,493
Capital reserve	38	**10,732,077**	–
Surplus reserve	38	**5,868,637**	5,009,612
General reserve	38	**17,664,811**	14,081,733
Retained earnings	39	**31,218,623**	28,166,155
Total equity		**103,245,830**	82,638,597
Total liabilities and equity		**1,393,523,125**	1,116,930,025

Li Fu'an	**Qu Hongzhi**	**Du Gang**	**Wang Fenglei**	**(Company stamp)**
Legal Representative Chairman of the Board of Directors	*President Executive Director*	*The person in charge of accounting affairs*	*The person in charge of accounting department*	

The notes on pages 145 to 275 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Other equity instruments	Other comprehensive income	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2019		**14,450,000**	**19,961,604**	**969,493**	**–**	**5,009,612**	**14,081,733**	**28,166,155**	**82,638,597**
Changes in equity for the year:									
Net profit		**–**	**–**	**–**	**–**	**–**	**–**	**8,444,571**	**8,444,571**
Other comprehensive income	37	**–**	**–**	**(931,415)**	**–**	**–**	**–**	**–**	**(931,415)**
Total comprehensive income		**–**	**–**	**(931,415)**	**–**	**–**	**–**	**8,444,571**	**7,513,156**
Issue of H shares	35/38	**3,312,000**	**–**	**–**	**10,732,077**	**–**	**–**	**–**	**14,044,077**
Appropriation of profit									
– Appropriation to surplus reserve	38	**–**	**–**	**–**	**–**	**859,025**	**–**	**(859,025)**	**–**
– Appropriation to general reserve	38	**–**	**–**	**–**	**–**	**–**	**3,583,078**	**(3,583,078)**	**–**
– Dividend distribution to other equity instruments holders	39	**–**	**–**	**–**	**–**	**–**	**–**	**(950,000)**	**(950,000)**
Balance at 31 December 2020		**17,762,000**	**19,961,604**	**38,078**	**10,732,077**	**5,868,637**	**17,664,811**	**31,218,623**	**103,245,830**

	Note	Share capital	Other equity instruments	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2018		14,450,000	–	283,412	4,176,059	12,641,306	24,308,344	55,859,121
Changes in equity for the year:								
Net profit		–	–	–	–	–	8,192,756	8,192,756
Other comprehensive income	37	–	–	686,081	–	–	–	686,081
Total comprehensive income		–	–	686,081	–	–	8,192,756	8,878,837
Capital contribution by other equity instruments holders	36	–	19,961,604	–	–	–	–	19,961,604
Appropriation of profit								
– Appropriation to surplus reserve	38	–	–	–	833,553	–	(833,553)	–
– Appropriation to general reserve	38	–	–	–	–	1,440,427	(1,440,427)	–
– Cash dividends paid to shareholders	39	–	–	–	–	–	(2,060,965)	(2,060,965)
Balance at 31 December 2019		14,450,000	19,961,604	969,493	5,009,612	14,081,733	28,166,155	82,638,597

The notes on pages 145 to 275 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2020
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2020	2019
Cash flows from operating activities			
Profit before taxation		**10,085,092**	9,901,850
Adjustments for:			
Impairment losses on assets		**13,224,178**	9,566,913
Depreciation and amortisation		**1,428,134**	1,398,794
Net gains arising from investment securities		**(997,253)**	(961,857)
Interest expense on debts securities issued		**6,551,656**	7,207,783
Net trading gains		**(44,600)**	(196,392)
Interest income arising from financial investments		**(11,461,869)**	(12,286,730)
Interest expense on lease liabilities		**165,020**	174,000
Net (gains)/losses on disposal of property and equipment		**(178)**	548
Share of losses of associate		**–**	52,771
		18,950,180	14,857,680
Changes in operating assets			
Net decrease in deposits with banks and other financial institutions with maturity over 3 months		**1,110,000**	16,971,253
Net decrease in deposits with the central bank		**1,514,616**	7,828,687
Net decrease/(increase) in placement with banks and other institutions		**2,250,725**	(2,750,725)
Net (increase)/decrease in financial assets held for trading		**(7,075,939)**	319,211
Net increase in loans and advances to customers		**(185,577,707)**	(148,709,951)
Net increase in other operating assets		**(287,685)**	(2,112,268)
		(188,065,990)	(128,453,793)
Changes in operating liabilities			
Net increase in borrowings from the central bank		**24,300,000**	18,300,000
Net increase in deposits from banks and other financial institutions		**51,723,701**	8,981,866
Net increase in placements from banks and other financial institutions		**10,511,690**	1,905,478
Net decrease in financial assets sold under repurchase agreements		**29,291,107**	705,156
Net increase in deposits from customers		**108,790,884**	39,768,209
Net (decrease)/increase in other operating liabilities		**(384,003)**	4,002,529
		224,233,379	73,663,238
Net cash flows generated from/(used in) operating activities before taxation		**55,117,569**	(39,932,875)
Income tax paid		**(3,032,162)**	(1,746,643)
Net cash flows generated from/(used in) operating activities		**52,085,407**	(41,679,518)

The notes on pages 145 to 275 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2020

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2020	2019
Cash flows from investing activities			
Proceeds from disposal sale and redemption of investments		**314,521,017**	248,534,220
Proceeds received from investment activities		**10,876,973**	12,319,374
Proceeds from disposal of property and equipment and other assets		**751**	195
Payments on acquisition of investments		**(388,583,782)**	(233,337,060)
Payments on acquisition of property and equipment, intangible assets and other assets		**(395,394)**	(309,240)
Net cash flows (used in)/generated from investing activities		**(63,580,435)**	27,207,489
Cash flows from financing activities			
Proceeds from issuance of H shares		**14,044,077**	–
Proceeds from capital contribution by other equity instruments holders		**–**	19,961,604
Proceeds from debt securities issued		**368,425,934**	370,681,993
Repayment of debt securities issued		**(341,414,057)**	(392,380,779)
Interest paid on debt securities issued		**(5,013,286)**	(7,584,147)
Dividends payments to equity and other equity instruments holders		**(950,000)**	(2,060,965)
Interest paid on lease liabilities		**(165,020)**	(174,000)
Repayment of capital element of lease liabilities		**(581,005)**	(516,717)
Net cash flows generated from/(used in) financing activities		**34,346,643**	(12,073,011)
Effect of foreign exchange rate changes on cash and cash equivalents		**(791,350)**	387,554
Net increase/(decrease) in cash and cash equivalents	42(a)	**22,060,265**	(26,157,486)
Cash and cash equivalents as at 1 January		**42,694,864**	68,852,350
Cash and cash equivalents as at 31 December	42(b)	**64,755,129**	42,694,864
Interest received		**60,357,929**	50,008,073
Interest paid (excluding interest expense on debt securities issued)		**(27,165,019)**	(22,737,276)

The notes on pages 145 to 275 form part of these financial statements.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 Background information

CHINA BOHAI BANK CO., LTD. (the "Bank") is a national joint-stock commercial bank established in Tianjin on 30 December 2005.

The Bank has been approved by the former China Banking Regulatory Commission (the "CBRC") to hold financial business permit (No. B0017H112000001) and approved by the Tianjin Administration for Market Regulation for the business license (No. 911200007109339563).

On 16 July 2020, the Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 9668).

The Bank commenced its operation on 16 February 2006. As at 31 December 2020, the Bank has established 34 tier-one branches (including Suzhou, Qingdao and Ningbo Branches under direct management of the Head Office and and 1 overseas branch), 31 tier-two branches, and 134 sub-branches in 61 major cities and a Special Administrative Region including Tianjin, Beijing, Hangzhou, Taiyuan, Chengdu, Jinan, Shanghai, Shenzhen, Nanjing, Dalian, Guangzhou, Changsha, Shijiazhuang, Wuhan, Hohhot, Fuzhou, Hefei, Zhengzhou, Xi'an, Changchun, Chongqing, Shenyang, Xiamen, Haikou, Qingdao, Ningbo, Nanning, Nanchang and Hong Kong. The total number of outlets reached 239, including 199 branches and sub-branches, and 40 small and micro community sub-branches.

The principal activities of the Bank include absorbing public deposits; offering short-term,medium term and long-term loans; arranging settlement of domestic and international accounts; handling accept and discount of bill; issuing financial bonds; acting as agent to issue, settle and underwrite government bonds and proprietary trading bonds issued by financial institutions and government; inter-bank borrowing and lending; trading of foreign currencies on behalf of its customers; selling and purchasing foreign exchange, bank card business; letters of credit and financial guarantees; acting as agent on inward and outward payments; acting as an insurance agent, safe-deposit facilities, derivative trading, securities investment custody, insurance fund custody, selling securities investment fund and other business approved by the banking regulatory institutions of the State Council.

2 Basis of preparation

(1) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (the "IAS") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2 Basis of preparation *(Continued)*

(2) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and financial liabilities measured at fair value through profit or loss ("FVTPL") and financial assets measured at fair value through other comprehensive income ("FVOCI"), as further explained in the respective accounting policies below.

The preparation of financial statements in conformity with IFRSs 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 may differ from these estimates. Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 4.

(3) Change in accounting policies

Except as described below, the accounting policies adopted in the preparation of these financial statements are consist with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2019.

The IASB has issued the following amendments to IFRSs (including IASs) that are first effective for the current accounting period of the Bank.

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendment to IFRS 16	Covid-19-Related Rent Concessions

The adoption of the amendments has no material impact on the financial position and the financial performance of the Bank.

3 Significant accounting policies

(1) Subsidiary and non-controlling interests

Subsidiary are entities controlled by the Bank. The Bank 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. When assessing whether the Bank has power, only substantive rights (held by the Bank and other parties) are considered.

3 Significant accounting policies *(Continued)*

(2) Associates and joint ventures

An associate is an entity in which the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Bank's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Bank's share of the investee's net assets and any impairment loss relating to the investment (see Note 3(14)). Any acquisition-date excess over cost, the Bank's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the statement of profit or loss, whereas the Bank's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the combined statement of profit or loss and other comprehensive income.

When the Bank's share of losses exceeds its interest in the associate or the joint venture, the Bank's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Bank's interest is the carrying amount of the investment under the equity method together with the Bank's long-term interests that in substance form part of the Bank's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Bank and its associates and joint venture are eliminated to the extent of the Bank's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Bank ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

3 Significant accounting policies *(Continued)*

(3) Translation of foreign currencies

When the Bank receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB 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 are translated to RMB at the spot exchange rate at the date of the statement of financial position.

Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rate at the date on which the fair value is determined.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income (Note 3(5)) recognised in other comprehensive income.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Bank at the exchange rates ruling at the end of the reporting period. All items within equity except for retained profits are translated at the exchange rates ruling at the dates of the initial transactions. Income and expenses in the statement of profit or loss are translated at the weighted average exchange rates for the year. The exchange differences arising on the above translation are taken to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements 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.

(5) Financial instruments

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

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

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

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(b) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirement to be measured at amortised cost or at FVOCI as a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Bank manages its financial assets in order to generate cash flows. That is, the Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Bank determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Bank's key management personnel.

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(b) Classification of financial assets (Continued)

The Bank assesses the characteristics of contractual cash flow of financial assets to determine whether the contractual cash flows generated by the relevant financial assets on a particular date are only payments for principal and interest based on the outstanding principal amount. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and 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 Bank also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(c) Subsequent measurement of financial assets

– ***Financial assets at FVTPL***

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

– ***Financial assets at amortised cost***

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

– ***Debt instruments at FVOCI***

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

– ***Equity investments at FVOCI***

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(d) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL and other financial liabilities.

– ***Financial liabilities measured at FVTPL***

A financial liability is classified as measured at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses (including any interest expense) are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

– ***Other financial liabilities***

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(e) Impairment of financial instruments

The Bank recognises loss allowances for expected credit loss (ECL) on:

– financial assets measured at amortised cost;

– debt instruments measured at FVOCI;

– Credit commitments other than the financial liabilities at fair value through profit or loss.

Financial assets measured at fair value, including financial assets at FVTPL, equity investments designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).

The Bank’s method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the Bank is exposed to credit risk.

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(e) Impairment of financial instruments (Continued)

***Measurement of ECLs** (Continued)*

Lifetime ECL is the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL is the portion of ECL that result from default events that are possible within the 12 months after the date of the statement of financial position (or a shorter period if the expected life of the instrument is less than 12 months).

The Bank classifies financial instruments into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance. Refer to Note 45 (a) credit risk for the description of how the Bank determines when a significant increase in credit risk has occurred.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

ECLs on these financial assets are estimated based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the date of the statement of financial position.

Please refer to Note 45(a) for the measurement of expected credit losses of the Bank.

Presentation of allowance for ECL

ECLs are re-measured at each date of statement of financial position to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Bank recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(e) *Impairment of financial instruments (Continued)*

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(f) *Determination of fair value of financial assets and financial liabilities*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. The quoted price in the active market should be readily and regularly available from independent sources (e.g. the exchange, broker, industry group or pricing service agency) with prudent utilisation of purchase price, selling price and middle price. The Bank should use market valuation method for fair value assessment as much as is feasible, which represents the prices in actual and regularly market transactions on an arm's length basis.

If there is no active market for a financial instrument, appropriate valuation techniques will be used to establish the fair value. Valuation techniques include referencing the price of recent market transactions between well-informed voluntary parties; reference to the current fair value of other instruments that are substantially the same; discounted cash flow model and referencing the valuation results of the third-party valuation agencies. The Bank selects appropriate models based on the risk characteristics, liquidity, counterparty risk and pricing basis of specific financial instruments or trading strategies to ensure that their fair value are truly and effectively reflected. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each of the reporting periods. When referring to the valuation results of third-party valuation agencies, the authority, independence and professionalism of the agencies should be assessed. Where other pricing models are used, inputs are based on market data at the end of each of the reporting periods.

In estimating the fair value of a financial asset and financial liability, the Bank considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, which are likely to affect the fair value of the financial asset and financial liability.

3 Significant accounting policies *(Continued)*

(5) Financial instruments *(Continued)*

(f) Determination of fair value of financial assets and financial liabilities (Continued)

The Bank uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Bank makes use of all factors that market participants would consider in setting a price as much as possible, and incorporates these into its chosen valuation technique and tests for validity using prices from any observable current market transactions in the same instruments. Observable data is given priority to unobservable data unless it is unpractical or unavailable.

(g) Derecognition of financial assets and financial liabilities

Financial asset of the Bank is derecognised when one of the following conditions is met:

– the contractual rights to the cash flows from the financial asset expire;

– the financial asset has been transferred and the Bank transfers substantially all of the risks and rewards of ownership of the financial asset; or

– the financial asset has been transferred, although the Bank neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

– the carrying amount of the financial asset transferred measured at the date of derecognition;

– the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Bank derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(h) Offsetting

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

– The Bank currently has a legally enforceable right to set off the recognised amounts.

– The Bank intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

3 Significant accounting policies *(Continued)*

(6) Perpetual Bonds

At initial recognition, the Bank classifies the perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

(7) Derivatives and hedge accounting

Derivatives

A derivative is a financial instrument or financial contract that meets the following criteria:

– its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;

– it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in those market factors; and

– it is settled at a future date.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives with a positive fair value are reflected in the balance sheet as derivative financial instrument assets and those with a negative fair value as derivative financial instrument liabilities. The gains or losses from the valuation of the financial instruments as a result of the fluctuation of their fair value are recorded in the statement of profit or loss.

Hedge accounting

At the inception of a hedging relationship, the Bank formally designates the hedge instruments and the hedged items, and documents the hedging relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to meet the hedge effectiveness in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to analyse the sources of hedge ineffectiveness which are expected to affect the hedging relationship in remaining hedging period. 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 Bank would rebalance the hedging relationship.

3 Significant accounting policies *(Continued)*

(7) Derivatives and hedge accounting *(Continued)*

Hedge accounting (Continued)

Certain derivative transactions, while providing effective economic hedges under the Bank's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains or losses recognised in profit or loss. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Bank's accounting policy as set out below.

Cash flow hedges

Cash flow hedges are hedges of the Bank's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction or a component of any such item, and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss.

When the hedged cash flow affects profit or loss, the gain or loss on the hedging instrument recognised directly in other comprehensive income is recycled in the corresponding income or expense line of the statement of profit or loss. When the hedging relationship ceases to meet the qualifying criteria after taking into account any rebalancing of the hedging relationship, including the hedging instrument has expired or has been sold, terminated or exercised, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the hedged forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

(8) Financial assets held under resale and repurchase agreements

Financial assets purchased under resale agreements are bonds, loans and bills purchased by the Bank at certain prices from the sellers under agreements with the commitment to resell these instruments to the original sellers in the future at predetermined prices. Financial assets sold under repurchase agreements refer to bonds, loans and bills sold by the Bank at certain prices under agreements with the commitment to buy back these instruments in the future at predetermined prices.

The assets purchased under resale agreements are not recognised, and the payments (including accrued interest) are recognised as receivables on the statement of financial position and are carried at amortised cost. Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds (including accrued interest) from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

3 Significant accounting policies *(Continued)*

(9) Property and equipment and construction in progress

Property and equipment are assets held by the Bank for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (see Note 3(14)). Construction in progress is stated in the statements of financial position at cost less impairment loss (see Note 3(14)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Bank in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property 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 and equipment are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	5.00%	4.75%
Leasehold improvements	Shorter of useful life or remaining lease term	–	–
Operating equipment	5 years	–	20.00%
Vehicle	5 years	5.00%	19.00%

Useful lives, residual values and depreciation methods of the Bank are reviewed at least at each year-end.

3 Significant accounting policies *(Continued)*

(10) Leases

At inception of a contract, the Bank assesses whether a 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.

(a) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

– fix payment, including in substance fix payments;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable under a residual value guarantee; and

– the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

3 Significant accounting policies *(Continued)*

(10) Leases *(Continued)*

(a) As a lessee (Continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'other assets' and lease liabilities in 'other liabilities' in the statements of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

3 Significant accounting policies *(Continued)*

(11) Land use rights

Land use rights are initially recognised at costs and amortised using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 3(14).

(12) Intangible assets

The intangible assets of the Bank have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment loss (see Note 3(14)). The cost of intangible assets less residual value and impairment loss is amortised on the straight-line method over the estimated useful lives.

The respective amortisation periods for intangible assets of the Bank are as follows:

Computer software and system	3-5 years

(13) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Bank from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(14) Provision for impairment losses on non-financial assets

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

– Property and equipment

– Construction in progress

– Land use rights

– Intangible assets

– Long-term equity investments

Non-financial assets of the Bank that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

3 Significant accounting policies *(Continued)*

(14) Provision for impairment losses on non-financial assets *(Continued)*

A cash-generating unit ("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 Bank also considers how management monitors the Bank's operations and how management makes decisions about continuing or disposing of the Bank's assets.

The recoverable amount of an asset or 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 Bank determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. 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 in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(15) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. Short-term employee benefits are recognised as liabilities in the accounting period in which the service is rendered by the employees based on the amounts paid or the statutory provisioning basis or ratio, with corresponding amounts charged to the profit or loss.

3 Significant accounting policies *(Continued)*

(15) Employee benefits *(Continued)*

The Bank's post-employment benefit plans are defined contribution plans. Defined contribution plans are post-employment benefit plans under which the bank pays fixed contributions into a separate fund and will have no obligation to pay further contributions. During the reporting period, the Bank's post-employment benefits mainly include the social pension schemes, unemployment insurance and annuity plan, all of which are defined contribution plans. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with corresponding amounts charged to the profit or loss.

(16) Income tax

Income tax for the reporting period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiary to the extent that, in the case of taxable differences, the Bank controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

3 Significant accounting policies *(Continued)*

(16) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(17) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee ("holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

In terms of off-balance sheet credit commitment, the Bank applies expected credit loss model to measure the loss caused by particular debtors incapable of paying due debts, which is present in provisions. See Note 3(5)(e) for the description of expected credit loss model.

3 Significant accounting policies *(Continued)*

(17) Financial guarantees, provisions and contingent liabilities *(Continued)*

(ii) Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best 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 Bank acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Bank 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 Bank enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Bank, and the Bank grants loans to third parties ("entrusted loans") under instructions of the customers. As the Bank 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) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Bank's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders.

Income is recognised when the Bank satisfies the performance obligation in the contract which by transferring the control over relevant goods or services to the customers.

3 Significant accounting policies *(Continued)*

(19) Income recognition *(Continued)*

The following is the description of accounting policies regarding income from the Bank's principal activities:

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

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Bank reflects the amount of consideration to which the Bank expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

The Bank recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- The customer controls the service provided by the Bank in the course of performance or;
- The Bank does not provide service with an alternative use to the Bank, and the Bank has an enforceable right to payment for performance completed to date.

In other cases, the Bank recognises revenue at a point in time at which a customer obtains control of the promised services.

3 Significant accounting policies *(Continued)*

(19) Income recognition *(Continued)*

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Bank will comply with the conditions attaching to them. Grants that compensate the Bank for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are initially recognised as deferred income and subsequently are recognised in profit or loss over the useful life of the asset.

(iv) Other income

Other income is recognised on an accrual basis.

(20) Expenses recognition

(i) Interest expense

Interest expense from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(21) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each of the reporting periods are not recognised as a liability at the end of the reporting periods but disclosed separately in the notes to the financial statements.

(22) Related parties

(a) A person, or a close member of that person's family, is related to the Bank if that person:

- (i) has control or joint control over the Bank;
- (ii) has significant influence over the Bank; or
- (iii) is a member of the key management personnel of the Bank or the Bank's parent.

3 Significant accounting policies *(Continued)*

(22) Related parties *(Continued)*

(b) An entity is related to the Bank if any of the following conditions applies:

(i) The entity and the Bank are members of the same Bank (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Bank of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);

(viii) The entity, or any member of a Bank of which it is a part, provides key management personnel services to the Bank or to the Bank’s parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(23) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Bank’s most senior executive management for the purposes of allocating resources to, and assessing the performance of the Bank’s various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

4 Significant accounting judgements and estimates

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.

(1) Measurement of expected credit loss

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 45 (a).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

– Determining criteria for significant increase in credit risk;

– Choosing appropriate models and assumptions for the measurement of expected credit losses;

– Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in Note 45 (a) credit risk.

(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. Valuation models established by the Bank make maximum use of market input and rely as little as possible on the Bank'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 Bank reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(3) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Bank 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 utilized, 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 Significant accounting judgements and estimates *(Continued)*

(4) Impairment of non-financial assets

Non-financial assets of the Bank 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) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(5) Depreciation and amortisation

Investment properties, property and equipment and intangible assets of the Bank 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 each of 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) Determination of control over investees

The Bank applies its judgement to determine whether the control indicators set out Note 3(1) indicate that the Bank controls a non-principal guaranteed wealth management product and an asset management plan.

The Bank acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Bank controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Bank in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Bank, the Bank's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Bank has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

5 Impact of issued but not yet effective international financial reporting standards

The revised and new accounting standards and interpretations but not yet effective for the year ended 31 December 2020, are set out below:

	Effective for accounting period beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform — Phase 2*	1 January 2021
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37, *Onerous Contracts-Cost of Fulfilling a Contract*	1 January 2022
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
IFRS 17, *Insurance contracts*	1 January 2023
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined
Amendments to IFRS 4, *Extension of the temporary exemption from applying IFRS 9*	To be determined

The Bank has not adopted any new standard, amendment or interpretation that is not yet effective for the current accounting period.

The Bank has assessed the impact of these amendments which is expected to be in the period of initial application. So far it has concluded that the adoptions of them are unlikely to have significant impacts on the Bank's result of operations and financial position and financial performance.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

6 Net interest income

	Years ended 31 December	
	2020	2019
Interest income arising from		
Deposits with the central bank	**1,047,020**	1,152,852
Deposits with banks and other financial institutions	**208,053**	822,305
Placements with banks and other financial institutions	**272,487**	331,144
Loans and advances to customers		
– Corporate loans and advances	**27,082,088**	23,679,813
– Personal loans	**18,758,719**	12,639,918
– Discounted bills	**849,023**	449,895
Financial assets held under resale agreements	**227,950**	235,512
Financial investments	**11,461,869**	12,286,730
Sub-total	**59,907,209**	51,598,169
Interest expense arising from		
Borrowing from the central bank	**(1,908,327)**	(941,840)
Deposits from banks and other financial institutions	**(2,508,869)**	(2,302,108)
Placements from banks and other financial institutions	**(502,793)**	(652,526)
Deposits from customers	**(19,327,768)**	(16,789,672)
Financial assets sold under repurchase agreements	**(630,760)**	(682,957)
Debt securities issued	**(6,551,656)**	(7,207,783)
Sub-total	**(31,430,173)**	(28,576,886)
Net interest income	**28,477,036**	23,021,283

Interest income arising from impaired loan for the years ended 31 December 2020 and 2019 amounted to RMB320 million and RMB166 million, respectively.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net fee and commission income

(a) Income and expense streams:

	Years ended 31 December	
	2020	2019
Fee and commission income		
Agency service fees	**3,075,667**	2,455,269
Custodian service fees	**770,970**	1,090,351
Settlement and clearing fees	**591,198**	486,237
Credit commitments and asset management fees	**367,637**	279,897
Consulting service fees	**284,057**	678,372
Bank card fees	**47,851**	42,997
Others	**59,608**	290,274
Sub-total	**5,196,988**	5,323,397
Fee and commission expense		
Information service fees	**(2,023,435)**	(936,113)
Agency service fees	**(106,269)**	(72,591)
Consulting service fees	**(74,475)**	(32,916)
Settlement and clearing fees	**(39,289)**	(37,272)
Bank card fees	**(33,212)**	(115,467)
Others	**(17,852)**	(14,167)
Sub-total	**(2,294,532)**	(1,208,526)
Net fee and commission income	**2,902,456**	4,114,871

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Net fee and commission income

(b) Disaggregation of income:

	Years ended 31 December			
	2020		2019	
	At a point in time	**Over time**	At a point in time	Over time
Agency service fees	**649,750**	**2,425,917**	551,769	1,903,500
Custodian service fees	**–**	**770,970**	–	1,090,351
Settlement and clearing fees	**1,563**	**589,635**	1,630	484,607
Credit commitments and asset management fees	**98,979**	**268,658**	63,744	216,153
Consulting service fees	**–**	**284,057**	–	678,372
Bank card fees	**47,851**	**–**	42,997	–
Others	**15,877**	**43,731**	219,213	71,061
Total	**814,020**	**4,382,968**	879,353	4,444,044

8 Net trading gains

	Years ended 31 December	
	2020	2019
Net gains from equity investment	**323,030**	–
Net losses from derivative instruments	**(279,145)**	(264,087)
Exchange (losses)/gains	**(145,076)**	391,877
Net gains from debt securities	**67,488**	26,872
Net gains from trading of precious metals	**55,157**	11
Net gains from loans and advances at fair value through profit or loss	**23,146**	41,719
Total	**44,600**	196,392

9 Net gains arising from investment securities

	Years ended 31 December	
	2020	2019
Net gains of financial investments at fair value through profit or loss	**951,210**	840,534
Net gains of financial investments at fair value through other comprehensive income	**8,618**	39,139
Dividend income	**10,800**	9,000
Net gains on disposal of financial investments at amortised cost	**26,625**	73,184
Total	**997,253**	961,857

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

10 Other operating income

	Years ended 31 December	
	2020	2019
Government grants	**39,012**	55,698
Rental income	**14,024**	14,109
Long-term unwithdrawn items income	**2,546**	2,293
Net gains on disposal of property and equipment	**216**	194
Others	**15,027**	11,697
Total	**70,825**	83,991

11 Operating expenses

	Years ended 31 December	
	2020	2019
Staff costs		
– Salaries, bonuses and allowances	**4,027,368**	3,783,027
– Social insurance and annuity	**451,533**	605,324
– Housing allowances	**426,637**	367,633
– Staff welfares	**178,798**	171,031
– Employee education expenses and labour union expenses	**104,671**	122,602
– Others	**258,377**	301,246
Sub-total	**5,447,384**	5,350,863
Depreciation and amortisation	**1,428,134**	1,398,794
Taxes and surcharges	**437,697**	354,167
Interest expense on lease liabilities	**165,020**	174,000
Auditors' remuneration	**5,000**	2,600
Other general and administrative expenses	**1,699,665**	1,576,436
Total	**9,182,900**	8,856,860

Expenses relating to short-term leases and leases of low-value assets are RMB20 million and RMB12 million for the year ended 31 December 2020 and 2019, respectively.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Directors' and supervisors' emoluments

The emoluments paid before individual income tax in respect of the directors and supervisors who held office during the year are as follows:

		Year ended 31 December 2020						
	Notes	Fees	Salaries	Discretionary bonus	Housing funds And social insurances	Annuities	Others	Total
Executive directors								
Li Fu'an		–	218	991	71	84	–	1,364
Qu Hongzhi	(e)	–	526	400	153	84	–	1,163
Li Yi		–	421	532	69	84	–	1,106
Du Gang	(e)	–	421	359	60	25	–	865
Non-executive directors								
Fung Joi Lun Alan		242	–	–	–	–	–	242
Zhang Bingjun		242	–	–	–	–	–	242
Cui Xuesong	(e)	–	–	–	–	–	–	–
Yuan Wei	(a)	–	–	–	–	–	–	–
Ye Baishou		–	–	–	–	–	–	–
Hu Aimin		242	–	–	–	–	–	242
Zhang Xifang	(c)	–	–	–	–	–	–	–
Zhang Yunji		242	–	–	–	–	–	242
Independent non-executive directors								
Mao Zhenhua		259	–	–	–	–	–	259
Chi Guotai		242	–	–	–	–	–	242
Mu Binrui		259	–	–	–	–	–	259
Tse Yat Hong	(e)	–	–	–	–	–	–	–
Wang Ren	(e)	–	–	–	–	–	–	–
Zhu Ning	(e)	–	–	–	–	–	–	–
Supervisors								
Wang Chunfeng	(b)	–	218	611	144	53	–	1,026
Feng Jiankuan	(d)	–	421	532	119	70	–	1,142
Fan Zhigui	(f)	–	1,116	3,076	443	84	–	4,719
Qi Ershi		259	–	–	–	–	–	259
Diao Qinyi		259	–	–	–	–	–	259
Hui Yung Chris	(g)	–	–	–	–	–	–	–
Total		2,246	3,341	6,501	1,059	484	–	13,631

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Directors' and supervisors' emoluments *(Continued)*

	Notes	Fees	Salaries	Discretionary bonus	Housing funds And social insurances	Annuities	Others	Total
				Year ended 31 December 2019				
Executive directors								
Li Fu'an		–	212	1,445	123	24	–	1,804
Fu Gang	(i)	–	68	718	61	8	–	855
Li Yi		–	191	1,367	119	21	–	1,698
Wang Jinhong	(k)	–	–	–	–	–	–	–
Qu Hongzhi	(e)	–	–	–	–	–	–	–
Du Gang	(e)	–	127	23	82	27	–	259
Non-executive directors								
Fung Joi Lun Alan		–	–	–	–	–	–	–
Zhang Bingjun		–	–	–	–	–	–	–
Shen Xiaolin	(k)	–	–	–	–	–	–	–
Wan Min	(h)	–	–	–	–	–	–	–
Ye Baishou		–	–	–	–	–	–	–
Hu Aimin		–	–	–	–	–	–	–
Zhang Yunji		–	–	–	–	–	–	–
Cui Xuesong	(e)	–	–	–	–	–	–	–
Yuan Wei	(a)	–	–	–	–	–	–	–
Zhang Xifang	(c)	–	–	–	–	–	–	–
Independent non-executive directors								
Zhang Junxi	(k)	–	–	–	–	–	–	–
Mao Zhenhua		–	–	–	–	–	–	–
Chi Guotai		–	–	–	–	–	–	–
Mu Binrui		–	–	–	–	–	–	–
Tse Yat Hong	(e)	–	–	–	–	–	–	–
Wang Ren	(e)	–	–	–	–	–	–	–
Zhu Ning	(e)	–	–	–	–	–	–	–
Supervisors								
Wang Chunfeng	(b)	–	110	25	94	43	–	272
Wang Wei	(j)	–	732	3,364	139	78	–	4,313
Feng Jiankuan	(d)	–	191	1,380	177	22	–	1,770
Fan Zhigui	(f)	–	34	–	45	7	–	86
Qi Ershi		–	–	–	–	–	–	–
Diao Qinyi		–	–	–	–	–	–	–
Hui Yung Chris	(g)	–	–	–	–	–	–	–
Bai Jie	(l)	–	–	–	–	–	–	–
Total		–	1,665	8,322	840	230	–	11,057

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

12 Directors' and supervisors' emoluments *(Continued)*

There was no amount paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Bank, or inducement to join the Bank. For the year ended 31 December 2020, Ye Baishou, non-executive directors, waived the fee of RMB0.24 million.

Notes:

(a) In the Annual General Meeting held on 6 March 2019, Yuan Wei was appointed as non-executive director of the Bank. On 25 December 2019, qualification of the director have been approved by the China Banking and Insurance Regulatory Commission ("CBIRC").

(b) On 26 July 2019, Wang Chunfeng was appointed as employee's representative supervisor of the Bank.

(c) In the Annual General Meeting held on 14 November 2019, Zhang Xifang was appointed as non-executive director of the Bank, The resolution took into effect on 9 December 2019. On 15 January 2020, the appointment was approved by the CBIRC.

(d) On 19 November 2019, Feng Jiankuan was appointed as employee's representative supervisor of the Bank.

(e) In the Annual General Meeting held on 16 December 2019, Qu Hongzhi and Du Gang were appointed as executive directors of the Bank, Cui Xuesong was appointed as non-executive director of the Bank, Tse Yat Hong, Wang Ren and Zhu Ning were appointed as independent non-executive directors of the Bank. On 23 January 2020, the appointment of Qu Hongzhi, Du Gang and Cui Xuesong were approved by the CBIRC. On 11 June 2020, the appointment of Tse Yat Hong, Wang Ren and Zhu Ning were approved by the CBIRC.

(f) On 16 December 2019, Fan Zhigui was appointed as employee's representative supervisor of the Bank.

(g) On 16 December 2019, Hui Yung Chris was appointed as external supervisor of the Bank.

(h) On 6 March 2019, Wan Min resigned as non-executive director of the Bank.

(i) On 24 April 2019, Fu Gang resigned as executive director of the Bank.

(j) On 19 November 2019, Wang Wei resigned as employee's representative supervisor of the Bank.

(k) On 16 December 2019, Wang Jinhong resigned as executive director of the Bank, Shen Xiaolin resigned as non-executive director of the Bank, Zhang Junxi resigned as independent non-executive director of the Bank.

(l) On 16 December 2019, Bai Jie resigned as shareholders' representative Supervisor of the Bank.

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Individuals with highest emoluments

For the years ended 31 December 2020, the five individuals with highest emoluments paid did not include any directors and supervisors of the Bank.

The emoluments paid to the five highest paid individuals for the years ended 31 December 2020 are as follows:

	Years ended 31 December	
	2020	2019
Salaries and other emoluments	**5,726**	6,914
Discretionary bonuses	**23,780**	22,044
Housing funds and social insurances	**431**	494
Annuities	**422**	261
Others	**25**	29
Total	**30,384**	29,742

The number of these individuals whose emoluments are within the following bands is set out below:

	Years ended 31 December	
	2020	2019
HKD5,500,001-6,000,000	**–**	2
HKD6,000,001-6,500,000	**2**	–
HKD6,500,001-7,000,000	**2**	1
HKD7,000,001-7,500,000	**–**	1
HKD7,500,001-8,000,000	**–**	1
HKD9,000,001-9,500,000	**1**	–

None of these individuals received any inducement to join or upon joining the Bank or compensation for loss of office, or waived any emoluments during the year.

14 Impairment losses on assets

	Years ended 31 December	
	2020	2019
Deposits with banks and other financial institutions	**17,702**	139,697
Placements with banks and other financial institutions	**65,334**	4,658
Financial assets held under resale agreements	**(406)**	(1,876)
Loans and advances to customers	**6,784,184**	8,789,229
Financial investments	**6,117,972**	807,096
Credit commitments	**239,392**	(171,891)
Total	**13,224,178**	9,566,913

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

15 Income tax expense

(a) Income tax expense:

		Years ended 31 December	
	Note	**2020**	2019
Current tax		**3,629,578**	3,236,957
Deferred tax	26(b)	**(1,989,057)**	(1,527,863)
Total		**1,640,521**	1,709,094

(b) Reconciliations between income tax and accounting profit are as follows:

		Years ended 31 December	
	Note	**2020**	2019
Profit before taxation		**10,085,092**	9,901,850
Statutory tax rate		**25%**	25%
Income tax calculated at statutory tax rate		**2,521,273**	2,475,463
Non-deductible expenses		**254,518**	94,409
Non-taxable income	(i)	**(900,194)**	(868,858)
Deductible undated capital bonds interest expense		**(237,500)**	–
Others		**2,424**	8,080
Income tax		**1,640,521**	1,709,094

(i) The non-taxable income mainly represents the interest income arising from the the People's Republic of China ("PRC") government bonds, municipal debts, and dividend income from funds.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

16 Basic and diluted earnings per share

	Note	Years ended 31 December 2020	2019
Profit attributable to equity holders of the Bank		**8,444,571**	8,192,756
Less: interest on undated capital bonds declared		**(950,000)**	–
Profit attributable to ordinary equity holders of the Bank		**7,494,571**	8,192,756
Weighted average number of ordinary shares in issue (in thousands)	(a)	**15,947,443**	14,450,000
Basic and diluted earnings per share (in RMB)		**0.47**	0.57

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years.

(a) Weighted average number of ordinary shares (in thousands)

	Years ended 31 December 2020	2019
Number of ordinary shares at the beginning of the year	**14,450,000**	14,450,000
Weighted average number of ordinary shares issued during the year	**1,497,443**	–
Weighted average number of ordinary shares	**15,947,443**	14,450,000

On 16 July 2020, the Bank issued 2,880 million H-shares with a par value of RMB1 at an offering price of HKD4.80 per share. On 12 August 2020, the Bank exercised the over-allotment option and issued 432 million H-shares with a par value of RMB1 at HKD4.80 per share.

Basic earnings per share have been computed by taking into account of the aforesaid shares subscribed by the investors during the year.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Cash and deposits with the central bank

		31 December	
	Note	2020	2019
Cash on hand		**433,044**	429,952
Deposits with the central bank			
– Statutory deposit reserves	(a)	**62,256,838**	64,105,857
– Surplus deposit reserves	(b)	**33,092,724**	28,043,847
– Fiscal deposits		**735,285**	400,882
Sub-total		**96,084,847**	92,550,586
Interests accrued		**30,526**	33,161
Total		**96,548,417**	93,013,699

(a) The Bank places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	Years ended 31 December	
	2020	2019
Reserve ratio for RMB deposits	**9.0%**	10.5%
Reserve ratio for foreign currency deposits	**5.0%**	5.0%

The statutory deposit reserves are not available for the Bank's daily business.

(b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

18 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December	
	2020	2019
Deposits in Mainland China		
– Banks	**12,223,057**	10,931,354
Sub-total	**12,223,057**	10,931,354
Deposits outside Mainland China		
– Banks	**15,771,096**	3,257,458
Sub-total	**15,771,096**	3,257,458
Interests accrued	**9,428**	43,440
Less: Provision for impairment losses	**(198,218)**	(180,625)
Total	**27,805,363**	14,051,627

19 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December	
	2020	2019
Placements in Mainland China		
– Banks	**2,150,000**	4,400,725
– Other financial institutions	**1,000,000**	–
Sub-total	**3,150,000**	4,400,725
Placements outside Mainland China		
– Banks	**2,942,955**	–
Sub-total	**2,942,955**	–
Interests accrued	**44,832**	18,952
Less: Provision for impairment losses	**(74,119)**	(8,868)
Total	**6,063,668**	4,410,809

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Derivative financial instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Bank uses derivative financial instruments mainly including forwards,swaps and option contracts.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Bank but does not reflect the risk.

The notional amount and fair value of unexpired derivative financial instruments held by the Bank are set out in the following tables:

	31 December 2020		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	**130,258,400**	**82,861**	**(73,125)**
Exchange rate swaps	**25,338,865**	**16,575**	**(255,739)**
Exchange rate forwards	**6,921,165**	**123,941**	**(115,620)**
Precious metal derivatives	**2,739,600**	**–**	**(82,149)**
Option contracts	**1,725,576**	**9,121**	**(6,531)**
Total	**166,983,606**	**232,498**	**(533,164)**

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	149,834,098	79,267	(68,938)
Exchange rate swaps	15,694,803	47,843	(75,839)
Option contracts	1,837,080	20,637	(18,047)
Exchange rate forwards	660,085	10,962	(8,934)
Total	168,026,066	158,709	(171,758)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Derivative financial instruments *(Continued)*

Cash flow hedges

The Bank's cash flow hedges consist of interest rate swap contracts that are used to protect against exposures to variability of future cash flows.

Among the above derivative financial instruments, those designated as hedging instruments in cash flow hedges are set out below.

	31 December 2020						
	Notional amounts with remaining life of					Fair Values	
	Within a month	Over a month but within three months	Over three months but within a year	Over a year but within five years	Over five years	Assets	Liabilities
Interest rate swap	–	–	–	200,000	–	–	(245)
Total	–	–	–	200,000	–	–	(245)

Details of the Bank's hedged risk exposures in cash flow hedges and the corresponding effect on equities are as follows:

	31 December 2020				
	Carrying amount of hedged items		Effect of hedging instruments on other comprehensive income during the current year	Accumulated effect of hedging instruments on other comprehensive income	Line items in the statement of financial position
	Assets	Liabilities			
Loans	200,000	–	(160)	(160)	Loans and advances to customers
Total	200,000	–	(160)	(160)	

The gain and loss arising from the ineffective portion of cash flow hedges were immaterial for the year ended 31 December 2020 and 2019.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December	
	2020	2019
In Mainland China		
– Banks	–	1,850,000
Sub-total	–	1,850,000
Interests accrued	–	664
Less: Provision for impairment losses	–	(406)
Total	–	1,850,258

(b) Analysed by type of collateral held

	31 December	
	2020	2019
Debt securities		
– Commercial Banks and other financial institutions	–	1,850,000
Sub-total	–	1,850,000
Interests accrued	–	664
Less: Provision for impairment losses	–	(406)
Total	–	1,850,258

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers

(a) Analysed by nature

	31 December	
	2020	2019
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	**546,044,790**	464,465,437
Personal loans		
– Residential and commercial housing loans	**167,701,283**	127,816,279
– Personal consumption loans	**112,697,982**	95,605,758
– Personal business loans	**25,665,459**	6,711,807
– Credit cards	**4,307,303**	3,286,066
Sub-total	**310,372,027**	233,419,910
Interests accrued	**4,408,520**	2,822,439
Less: Provision for loans and advances to customers measured at amortised cost	**(24,825,848)**	(23,600,871)
Sub-total	**835,999,489**	677,106,915
Loans and advances to customers measured at fair value through other comprehensive income:		
Discounted bills	**31,046,668**	9,413,518
Loans and advances to customers measured at fair value through profit or loss:		
Corporate loans and advances	**74,060**	758,665
Net loans and advances to customers	**867,120,217**	687,279,098

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluded interests accrued) analysed by industry sector

	31 December 2020		
	Amount	Percentage	Loans and advances secured by collaterals
Lease and business services	171,383,263	19.31%	32,869,421
Real estate	111,774,970	12.59%	77,024,629
Manufacturing	78,572,827	8.85%	45,626,723
Water conservancy, environment and public facilities management	57,281,338	6.45%	7,199,664
Wholesale and retail	46,695,083	5.26%	20,873,159
Construction	25,998,522	2.93%	13,916,968
Transportations and communications, storage and post	15,266,620	1.72%	6,549,398
Mining	10,576,481	1.19%	18,644
Production and supply of electricity, heat, gas and water	8,434,143	0.95%	589,878
Finance	5,220,010	0.59%	1,038,896
Education	2,712,058	0.31%	1,089,600
Public utilities, social security and social organizations	2,588,730	0.29%	564,100
Agriculture, forestry, animal husbandry and fishery	2,381,667	0.27%	337,210
Others	7,233,138	0.82%	2,945,755
Sub-total of corporate loans and advances	546,118,850	61.53%	210,644,045
Personal loans	310,372,027	34.97%	178,515,317
Discounted bills	31,046,668	3.50%	31,046,668
Gross loans and advances to customers	887,537,545	100.00%	420,206,030

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluded interests accrued) analysed by industry sector *(Continued)*

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Lease and business services	137,274,963	19.39%	22,875,794
Real estate	109,253,881	15.43%	75,891,752
Manufacturing	60,302,305	8.52%	26,801,152
Water conservancy, environment and public facilities management	50,870,045	7.18%	6,972,536
Wholesale and retail	37,309,397	5.27%	19,409,665
Construction	19,738,814	2.79%	10,661,925
Transportations and communications, storage and post	14,567,757	2.06%	5,942,711
Mining	7,737,664	1.09%	38,744
Production and supply of electricity, heat, gas and water	6,880,007	0.97%	378,207
Finance	5,628,543	0.79%	637,750
Public utilities, social security and social organizations	5,287,000	0.75%	690,000
Education	2,246,370	0.32%	439,302
Agriculture, forestry, animal husbandry and fishery	1,070,480	0.15%	198,500
Others	7,056,876	0.99%	1,992,782
Sub-total of corporate loans and advances	465,224,102	65.70%	172,930,820
Personal loans	233,419,910	32.97%	134,785,925
Discounted bills	9,413,518	1.33%	9,413,518
Gross loans and advances to customers	708,057,530	100.00%	317,130,263

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluded interests accrued) analysed by industry sector *(Continued)*

As at the end of the reporting period and during the year, detailed information of the credit-impaired loans and advances to customers (exclusive interests accrued) as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	31 December 2020					
	Credit-impaired loans and advances	Expected credit losses over the next 12 months	Expected credit loss that assessed for loans and advances that are not credit-impaired	Expected credit loss that assessed for loans and advances that are credit-impaired	Impairment losses charged during the year	Written-off during the year
Lease and business services	**3,135,737**	**(1,783,856)**	**(244,876)**	**(464,229)**	**(385,308)**	**–**
Real estate	**2,385,067**	**(2,482,659)**	**(798,483)**	**(760,810)**	**(425,021)**	**–**

	31 December 2019					
	Credit-impaired loans and advances	Expected credit losses over the next 12 months	Expected credit loss that assessed for loans and advances that are not credit-impaired	Expected credit loss that assessed for loans and advances that are credit-impaired	Impairment losses charged during the year	Written-off during the year
Lease and business services	647,630	(1,601,013)	(58,120)	(441,222)	(192,739)	–
Real estate	150,701	(3,004,753)	(558,987)	(53,191)	(239,765)	–

(c) Analysed by geographical sector (exclusive interests accrued)

	31 December 2020		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeast China	**389,592,957**	**43.89%**	**159,788,724**
Eastern China	**211,867,272**	**23.87%**	**97,939,390**
Central and Southern China	**209,862,150**	**23.65%**	**131,484,717**
Western China	**76,215,166**	**8.59%**	**30,993,199**
Gross loans and advances to customers	**887,537,545**	**100.00%**	**420,206,030**

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(c) Analysed by geographical sector (exclusive interests accrued) *(Continued)*

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeast China	326,296,386	46.08%	131,447,343
Eastern China	159,014,593	22.46%	73,894,821
Central and Southern China	167,258,342	23.62%	96,079,705
Western China	55,488,209	7.84%	15,708,394
Gross loans and advances to customers	708,057,530	100.00%	317,130,263

The geographical areas are categorized as follows:

Northern and Northeastern China includes Head Office, Beijing Branch, Tianjin Branch, Binhai Branch, Tianjin Pilot Free Trade Zone Branch, Dalian Branch, Hohhot Branch, Taiyuan Branch, Shijiazhuang Branch, Changchun Branch and Shenyang Branch.

Eastern China includes Nanjing Branch, Hangzhou Branch, Jinan Branch, Shanghai Branch, Shanghai Pilot Free Trade Zone Branch, Hefei Branch, Suzhou Branch, Qingdao Branch, Ningbo Branch and Nanchang Branch.

Central and Southern China includes Guangzhou Branch, Shenzhen Branch, Shenzhen Qianhai Branch, Hong Kong Branch, Changsha Branch, Wuhan Branch, Fuzhou Branch,Zhengzhou Branch, Xiamen Pilot Free Trade Zone Branch, Haikou Branch and Nanning Branch.

Western China includes Chengdu Branch, Xi'an Branch and Chongqing Branch.

(d) Analysed by type of collateral (exclusive interests accrued)

	31 December	
	2020	2019
Unsecured loans	**191,402,509**	142,638,360
Guaranteed loans	**275,929,006**	248,288,907
Collateralised loans	**294,096,608**	236,573,764
Pledged loans	**95,062,754**	71,142,981
Bank acceptance discounted bills	**24,189,841**	7,111,743
Commercial acceptance discounted bills	**6,856,827**	2,301,775
Gross loans and advances to customers	**887,537,545**	708,057,530

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(e) Overdue loans (exclusive interests accrued) analysed by overdue period

	31 December 2020				
	Overdue within three months (inclusive)	**Overdue more than three months to one year (inclusive)**	**Overdue more than one year to three years (inclusive)**	**Overdue more than three years**	**Total**
Unsecured loans	**1,178,365**	**1,593,322**	**514,860**	**55,566**	**3,342,113**
Guaranteed loans	**3,632,195**	**1,702,760**	**2,782,758**	**994,111**	**9,111,824**
Collateralised loans	**3,438,574**	**1,891,123**	**771,826**	**606,273**	**6,707,796**
Pledged loans	**2,357,456**	**3,083,464**	**–**	**47,559**	**5,488,479**
Total	**10,606,590**	**8,270,669**	**4,069,444**	**1,703,509**	**24,650,212**
As a percentage of gross loans and advances to customers	**1.20%**	**0.93%**	**0.46%**	**0.19%**	**2.78%**

	31 December 2019				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	573,505	414,157	764,449	48,862	1,800,973
Guaranteed loans	4,466,777	1,921,151	3,096,220	1,740,023	11,224,171
Collateralised loans	1,853,140	480,096	766,281	1,744,538	4,844,055
Pledged loans	3,759,890	–	18,993	29,538	3,808,421
Total	10,653,312	2,815,404	4,645,943	3,562,961	21,677,620
As a percentage of gross loans and advances to customers	1.50%	0.40%	0.66%	0.50%	3.06%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(f) Loans and advances (exclusive interests accrued) and provision for impairment losses

	31 December 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	**815,010,509**	**25,692,529**	**15,713,779**	**856,416,817**
Less: Provision for impairment losses	**(9,664,387)**	**(7,228,243)**	**(7,933,218)**	**(24,825,848)**
Carrying amount of loans and advances to customers measured at amortised cost	**805,346,122**	**18,464,286**	**7,780,561**	**831,590,969**
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	**31,046,668**	**–**	**–**	**31,046,668**

	31 December 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	664,530,049	20,763,849	12,591,449	697,885,347
Less: Provision for impairment losses	(9,281,200)	(6,213,635)	(8,106,036)	(23,600,871)
Carrying amount of loans and advances to customers measured at amortised cost	655,248,849	14,550,214	4,485,413	674,284,476
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	9,413,518	–	–	9,413,518

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(g) Movements of provision for impairment losses

(i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost:

	Year ended 31 December 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	9,281,200	6,213,635	8,106,036	23,600,871
Transferred:				
– to lifetime expected credit losses:				
not credit-impaired loans	(447,970)	466,896	(18,926)	–
– to lifetime expected credit losses:				
credit-impaired loans	(357,064)	(642,457)	999,521	–
Charge for the year	1,191,933	1,190,169	4,312,113	6,694,215
Transfer out	–	–	(2,623,253)	(2,623,253)
Recoveries	–	–	114,136	114,136
Write-offs	–	–	(2,949,112)	(2,949,112)
Exchange differences and other	(3,712)	–	(7,297)	(11,009)
As at 31 December	9,664,387	7,228,243	7,933,218	24,825,848

	Year ended 31 December 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	7,920,917	5,531,574	5,997,343	19,449,834
Transferred:				
– to expected credit losses over				
the next 12 months	65,446	(65,446)	–	–
– to lifetime expected credit losses:				
not credit-impaired loans	(196,612)	251,232	(54,620)	–
– to lifetime expected credit losses:				
credit-impaired loans	(14,999)	(435,949)	450,948	–
Charge for the year	1,505,226	3,935,281	3,336,740	8,777,247
Transfer out	–	(3,003,057)	(674,403)	(3,677,460)
Recoveries	–	–	89,534	89,534
Write-offs	–	–	(1,040,889)	(1,040,889)
Exchange differences and other	1,222	–	1,383	2,605
As at 31 December	9,281,200	6,213,635	8,106,036	23,600,871

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Loans and advances to customers *(Continued)*

(g) Movements of provision for impairment losses *(Continued)*

(ii) Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	Year ended 31 December 2020			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	**37,215**	**–**	**–**	**37,215**
Charge for the year	**89,969**	**–**	**–**	**89,969**
As at 31 December	**127,184**	**–**	**–**	**127,184**

	Year ended 31 December 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	7,856	–	17,377	25,233
Charge/(Reversal) for the year	29,359	–	(17,377)	11,982
As at 31 December	37,215	–	–	37,215

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(h) Disposal of loans and advances to customers

During the years ended 31 December 2020 and 2019, the Bank transferred loans and advances with gross amount of RMB1,524 million and RMB668 million to independent third parties, and the transfer price was RMB290 million and RMB133 million.

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments

		31 December	
	Note	**2020**	2019
Financial investments measured at fair value through profit or loss	(a)	**72,597,497**	36,238,313
Financial investments measured at fair value through other comprehensive income	(b)	**61,813,595**	64,967,327
Financial investments measured at amortised cost	(c)	**241,515,654**	199,101,251
Total		**375,926,746**	300,306,891

(a) Financial investments measured at fair value through profit or loss

	31 December	
	2020	2019
Debt securities issued by the following institutions in Mainland China		
– Government	**377,181**	100,969
– Policy banks	**855,306**	555,612
– Corporates	**7,204,039**	148,390
Unlisted	**8,436,526**	804,971
Investment funds		
– Unlisted	**44,178,765**	25,480,840
Equity investments		
– Listed outside Hong Kong	**298,175**	145,274
– Unlisted	**1,832,738**	1,696,017
Trust plans and asset management plans		
– Unlisted	**17,851,293**	8,111,211
Total	**72,597,497**	36,238,313

Note:

As at 31 December 2020 and 2019, there were no investments subject to material restrictions in the realization.

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments *(Continued)*

(b) Financial investments measured at fair value through other comprehensive income

	31 December	
	2020	2019
Debt securities issued by the following institutions in Mainland China		
– Government	**35,500,988**	25,149,120
– Policy banks	**22,955,615**	29,266,780
– Banks and other financial institutions	**1,285,751**	300,770
– Corporate	**49,612**	158,246
Interests accrued	**858,658**	886,305
Unlisted	**60,650,624**	55,761,221
Trust plans and asset management plans	**962,971**	8,979,719
Interests accrued	**–**	26,387
Unlisted	**962,971**	9,006,106
Equity investments		
Unlisted	**200,000**	200,000
Total	**61,813,595**	64,967,327

Note:

(i) As at 31 December 2020 and 2019, certain debt securities were pledged for borrowings from the central bank (Note 48(e)).

(ii) The Bank irrevocably designate parts of equity investments that are not held for trading as fair value through other comprehensive income ("FVOCI") with the fair value of RMB200 million. Dividends income from such equity investments during the year ended 31 December 2020 and 2019 was RMB10.8 million and RMB9.0 million, respectively, which was included in the profit or loss. The Bank did not dispose such equity investments during the reporting period, and there was no cumulative gain or loss transferred from other comprehensive income to retained earnings.

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments *(Continued)*

(b) Financial investments measured at fair value through other comprehensive income *(Continued)*

Note: *(Continued)*

(iii) Movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income is as follows:

	Year ended 31 December 2020			
	Expected credit losses over the next 12 months	**Lifetime expected credit losses not credit-impaired**	**Lifetime expected credit losses credit-impaired**	**Total**
Balance at 1 January	**809,442**	**–**	**13,371**	**822,813**
(Reversal)/Charge for the year	**(766,941)**	**–**	**16,629**	**(750,312)**
Balance at 31 December	**42,501**	**–**	**30,000**	**72,501**

	Year ended 31 December 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	17,684	–	–	17,684
Transfers				
– to lifetime expected credit losses credit-impaired	(240)	–	240	–
Charge for the year	791,998	–	13,131	805,129
Balance at 31 December	809,442	–	13,371	822,813

Provision for impairment on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments *(Continued)*

(c) Financial investments measured at amortised cost

	Note	31 December 2020	31 December 2019
Debt securities issued by the following institutions in Mainland China	(i)		
– Government		**72,995,069**	73,493,360
– Policy banks		**47,850,949**	29,549,180
– Banks and other financial institutions		**2,900,000**	1,200,000
– Corporate		**11,269,315**	7,543,502
Interests accrued		**2,089,849**	1,882,964
Unlisted		**137,105,182**	113,669,006
Trust plans and asset management plans		**111,855,622**	87,813,402
Interests accrued		**2,474,099**	823,151
Unlisted		**114,329,721**	88,636,553
Less: Provision for impairment losses	(ii)	**(9,919,249)**	(3,204,308)
Total		**241,515,654**	199,101,251

(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial investments *(Continued)*

(c) Financial investments measured at amortised cost *(Continued)*

Note:

(i) As at 31 December 2020 and 2019, certain debt securities were pledged for borrowings from the central bank (Note 48(e)).

(ii) Movements of provision for impairment losses of financial investments measured at amortised cost is as follows:

	Year ended 31 December 2020			
	Expected credit losses over the next 12 months	**Lifetime expected credit losses not credit-impaired**	**Lifetime expected credit losses credit-impaired**	**Total**
Balance at 1 January	**1,313,800**	**406,945**	**1,483,563**	**3,204,308**
Transfers:				
– to lifetime expected credit losses not credit-impaired	**(324,820)**	**324,820**	**–**	**–**
– to lifetime expected credit losses credit-impaired	**–**	**(243,157)**	**243,157**	**–**
Charge for the year	**261,798**	**3,237,281**	**3,369,205**	**6,868,284**
Transfer out	**–**	**–**	**(150,186)**	**(150,186)**
Exchange differences and other	**(3,157)**	**–**	**–**	**(3,157)**
Balance at 31 December	**1,247,621**	**3,725,889**	**4,945,739**	**9,919,249**

	Year ended 31 December 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	2,066,212	22,583	1,749,942	3,838,737
Transfers:				
– to lifetime expected credit losses not credit-impaired	(89,660)	89,660	–	–
– to lifetime expected credit losses credit-impaired	(43,544)	(22,583)	66,127	–
(Reversal)/Charge for the year	(619,314)	317,285	303,996	1,967
Transfer out	–	–	(636,502)	(636,502)
Exchange differences and other	106	–	–	106
Balance at 31 December	1,313,800	406,945	1,483,563	3,204,308

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

24 Interest in associate

		31 December	
	Note	**2020**	2019
Interest in associate	(a)	**–**	–

Notes:

(a) The following list contains the Bank's associate, which is immaterial to the Bank and is unlisted corporate entity whose quoted market price is not available:

Name	Percentages of Equity/ voting rights		Place of incorporation/ registration	Business sector
	31 December 2020	31 December 2019		
Hawtai Motor Finance Co., Ltd. ("Hawtai Motor Finance")	**10%**	10%	Tianjin, China	Motor Finance

The following tables illustrate the information of the Bank's associate that is not material:

	31 December	
	2020	2019
Carrying amount of immaterial associate in the statements of financial position of the Bank	**–**	–
Amounts of the Bank's share of results of this associate		
– Losses from continuing operations	**–**	(52,771)
– Total comprehensive losses	**–**	(52,771)

(b) As at 31 December 2020 and 2019, the Bank has not recognised share of losses totalling RMB81 million and RMB13 million in relation to its interest in the associate, because the Bank has no obligation in respect of this losses.

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Property and equipment

	Premises	Leasehold improvements	Operating equipment	Motor vehicles	Construction in progress	Total
Cost						
As at 1 January 2019	3,724,155	616,017	1,190,889	76,638	373,722	5,981,421
Additions	151,829	147,297	178,395	7,476	15,693	500,690
Transfers	–	–	26,538	–	(26,538)	–
Disposals	–	(82,347)	(147,699)	(3,643)	–	(233,689)
As at 31 December 2019	3,875,984	680,967	1,248,123	80,471	362,877	6,248,422
As at 1 January 2020	**3,875,984**	**680,967**	**1,248,123**	**80,471**	**362,877**	**6,248,422**
Additions	**–**	**73,459**	**147,150**	**4,468**	**98,235**	**323,312**
Transfers	**–**	**–**	**97,299**	**–**	**(97,299)**	**–**
Disposals	**–**	**(21,960)**	**(24,795)**	**(2,784)**	**–**	**(49,539)**
As at 31 December 2020	**3,875,984**	**732,466**	**1,467,777**	**82,155**	**363,813**	**6,522,195**
Accumulated depreciation						
As at 1 January 2019	(799,735)	(392,137)	(818,033)	(54,258)	–	(2,064,163)
Charge for the year	(184,469)	(151,911)	(164,367)	(7,999)	–	(508,746)
Disposals	–	17,904	109,134	1,660	–	128,698
As at 31 December 2019	(984,204)	(526,144)	(873,266)	(60,597)	–	(2,444,211)
As at 1 January 2020	**(984,204)**	**(526,144)**	**(873,266)**	**(60,597)**	**–**	**(2,444,211)**
Charge for the year	**(185,892)**	**(108,503)**	**(178,605)**	**(6,652)**	**–**	**(479,652)**
Disposals	**–**	**4,550**	**24,627**	**2,645**	**–**	**31,822**
As at 31 December 2020	**(1,170,096)**	**(630,097)**	**(1,027,244)**	**(64,604)**	**–**	**(2,892,041)**
Net book value						
As at 31 December 2019	2,891,780	154,823	374,857	19,874	362,877	3,804,211
As at 31 December 2020	**2,705,888**	**102,369**	**440,533**	**17,551**	**363,813**	**3,630,154**

The net book values of premises as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

	31 December	
	2020	2019
Held in Mainland China – Medium-term leases (10-50 years)	**2,705,888**	2,891,780

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred tax assets

(a) Analysed by nature

	31 December 2020		31 December 2019	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
– Allowance for impairment losses	**30,931,922**	**7,732,980**	22,676,053	5,669,013
– Accrued salary cost	**4,061,016**	**1,015,254**	3,615,307	903,827
– Provisions	**1,048,631**	**262,158**	810,624	202,656
– Fair value changes	**688,360**	**172,090**	171,758	42,940
– Others	**145,175**	**36,294**	107,727	26,932
	36,875,104	**9,218,776**	27,381,469	6,845,368
Deferred income tax liability				
– Fair value changes	**(1,879,299)**	**(469,825)**	(1,723,057)	(430,764)
– Others	**(337,333)**	**(84,333)**	(198,050)	(49,513)
	(2,216,632)	**(554,158)**	(1,921,107)	(480,277)
Net balances	**34,658,472**	**8,664,618**	25,460,362	6,365,091

(b) Movements of deferred tax

	Allowance for impairment losses Note (i)	Fair value changes Note (ii)	Others	Net balance of deferred tax assets
As at 1 January 2019	4,373,584	(297,664)	990,002	5,065,922
Recognised in profit or loss	1,295,429	(65,743)	93,900	1,323,586
Recognised in other comprehensive income	–	(24,417)	–	(24,417)
As at 31 December 2019	5,669,013	(387,824)	1,083,902	6,365,091
Recognised in profit or loss	2,063,967	(55,296)	145,471	2,154,142
Recognised in other comprehensive income	–	145,385	–	145,385
As at 31 December 2020	**7,732,980**	**(297,735)**	**1,229,373**	**8,664,618**

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred tax assets *(Continued)*

(b) Movements of deferred tax *(Continued)*

Notes:

(i) The Bank made provision for impairment losses on loans and advances to customers and other assets. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at 31 December 2020 and 2019, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Net gains or losses on fair value changes of financial instruments are subject to income tax when realized.

27 Other assets

		31 December	
	Note	**2020**	2019
Right-of-use assets	(a)	**3,976,754**	3,920,944
Interest receivable	(b)	**1,370,954**	197,778
Land use rights	(c)	**429,437**	444,162
Amount pending for settlement		**410,712**	117,425
Fees and commission receivable		**317,244**	242,718
Prepayments		**156,789**	217,199
Intangible assets	(d)	**147,017**	135,478
Guarantee deposits		**129,844**	116,838
Long-term deferred expenses		**1,860**	5,085
Others		**590,833**	292,005
Sub-total		**7,531,444**	5,689,632
Less: Allowances for impairment losses		**–**	–
Total		**7,531,444**	5,689,632

(a) Right-of-use assets

	Year ended 31 December	
	2020	2019
Balance at 1 January	**3,920,944**	4,315,913
Additions	**926,043**	424,931
Depreciation charge for the year	**(870,233)**	(819,900)
Balance at 31 December	**3,976,754**	3,920,944

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Other assets *(Continued)*

(b) Interest receivable

	31 December	
	2020	2019
Interests receivables arising from:		
Financial investments	**1,110,311**	64,567
Loans and advances to customers	**260,643**	133,211
Total	**1,370,954**	197,778

As at 31 December 2020 and 2019, interest receivable only includes interest that has been due for the relevant financial instruments but not yet received. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(c) Land use rights

	31 December	
	2020	2019
Located in Mainland China:		
10-50 years	**429,437**	444,162

(d) Intangible assets

	Year ended 31 December	
	2020	2019
Cost		
As at 1 January	**450,246**	387,293
Additions for the year	**65,575**	62,953
Disposals for the year	**(545)**	–
As at 31 December	**515,276**	450,246
Accumulated amortisation		
As at 1 January	**(314,768)**	(264,239)
Charge for the year	**(53,591)**	(50,529)
Disposals for the year	**100**	–
As at 31 December	**(368,259)**	(314,768)
Book value		
As at 1 January	**135,478**	123,054
As at 31 December	**147,017**	135,478

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Borrowings from the central bank

	31 December	
	2020	2019
Medium-term Lending Facility	**70,600,000**	46,300,000
Interests accrued	**992,485**	605,557
Total	**71,592,485**	46,905,557

29 Deposits from banks and other financial institutions

Analysed by type of and location of counterparty

	31 December	
	2020	2019
Deposits in Mainland China		
– Banks	**95,899,927**	55,244,035
– Other financial institutions	**33,762,362**	22,694,553
Sub-total	**129,662,289**	77,938,588
Interests accrued	**611,070**	608,842
Total	**130,273,359**	78,547,430

30 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December	
	2020	2019
Placements in Mainland China		
– Banks	**11,113,200**	5,377,485
Placements outside Mainland China		
– Banks	**20,618,686**	15,842,711
Interests accrued	**188,728**	279,981
Total	**31,920,614**	21,500,177

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

31 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December	
	2020	2019
In Mainland China		
– Banks	**52,337,687**	23,046,580
Interests accrued	**68,396**	22,513
Total	**52,406,083**	23,069,093

(b) Analysed by type of collateral held

	31 December	
	2020	2019
Debt securities	**41,103,700**	20,789,270
Acceptance	**11,233,987**	2,257,310
Sub-total	**52,337,687**	23,046,580
Interests accrued	**68,396**	22,513
Total	**52,406,083**	23,069,093

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Deposits from customers

	31 December	
	2020	2019
Demand deposits		
– Corporate customers	**187,615,249**	170,847,236
– Individual customers	**20,467,078**	18,912,350
Sub-total	**208,082,327**	189,759,586
Time deposits		
– Corporate customers	**288,674,152**	244,102,265
– Individual customers	**81,475,122**	33,234,311
Sub-total	**370,149,274**	277,336,576
Pledged deposits		
– Acceptances	**96,075,072**	109,236,107
– Letters of credit and guarantees	**32,303,279**	35,327,807
– Letters of guarantees	**5,788,720**	4,429,925
– Others	**34,122,644**	21,532,578
Sub-total	**168,289,715**	170,526,417
Fiscal deposits	**119,136**	258,723
Inward and outward remittances	**85,331**	53,597
Interests accrued	**11,510,011**	9,829,652
Total	**758,235,794**	647,764,551

33 Debt securities issued

		31 December	
	Note	**2020**	2019
Interbank deposits issued	(a)	**165,340,725**	149,008,758
Financial bonds issued	(b)	**57,951,340**	36,954,100
Tier-two capital debts issued	(c)	**–**	8,990,470
Subordinate bonds issued	(d)	**947,004**	946,747
Sub-total		**224,239,069**	195,900,075
Interests accrued		**915,021**	703,768
Total		**225,154,090**	196,603,843

33 Debt securities issued *(Continued)*

Notes:

(a) Interbank deposit issued

(i) For the year ended 31 December 2020, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB344,600 million and duration between 1 to 12 months. The effective interest rates ranged from 1.20% to 3.50% per annum.

(ii) For the year ended 31 December 2019, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB375,410 million and duration between 1 to 12 months. The effective interest rates ranged from 2.40% to 3.42% per annum.

(iii) As at 31 December 2020 and 2019, the fair value of interbank deposits issued was RMB164,185 million and RMB147,575 million, respectively.

(b) Financial bonds issued

(i) On 20 August 2020, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 3.55%.

(ii) On 17 February 2020, the Bank issued three-year financial bonds with face value of RMB8,000 million. The coupon interest rate per annum is 3.24%.

(iii) On 13 January 2020, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 3.47%.

(iv) On 5 November 2018, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 4.07%.

(v) On 26 October 2018, the Bank issued three-year financial bonds with face value of RMB20,000 million. The coupon interest rate per annum is 4.09%.

(vi) On 21 March 2018, the Bank issued two-year financial bonds with face value of RMB5,000 million. The coupon interest rate per annum is 5.15%. The bank has redeemed all of the bonds at face value on 23 March 2020.

(vii) On 28 July 2015, the Bank issued five-year financial bonds with a face value of RMB2,000 million. The coupon interest rates per annum is 4.25%. The bank has redeemed all of the bonds at face value on 29 July 2020.

(viii) As at 31 December 2020 and 2019, the fair value of financial bonds issued was RMB58,083 million and RMB37,314 million, respectively.

(c) Tier-two capital debts issued

(i) On 19 June 2015, the Bank issued ten-year fixed interest rate tier-two capital debts with face value of RMB9,000 million. The coupon interest rate per annum is 5.15%.

(ii) On 24 June, 2020, the Bank exercised redemption right to redeem the 10-year tier-two capital debts issued in 2015 with face value of RMB9,000 million.

(iii) As at 31 December 2020 and 2019, the fair value of tier-two capital debts issued was nil and RMB9,054 million, respectively.

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Debt securities issued *(Continued)*

Notes: *(Continued)*

(d) Subordinated bonds issued

(i) On 20 July 2012, the Bank issued fifteen-year fixed interest rate subordinated bonds with face value of RMB950 million. The coupon interest rate per annum is 5.68%.

(ii) As at 31 December 2020 and 2019, the fair value of subordinated bonds issued was RMB975 million and RMB991 million, respectively.

According to the issuance terms, for 10-year tier-two capital bonds, the Bank has the option to redeem all the bonds at face value on the last day of the fifth year. For 15-year subordinated bonds, the Bank has the option to redeem all the bonds at face value on the last day of the tenth year.

As at 31 December 2020 and 2019, there were no defaults of principal and interest or other breaches with respect to these bonds. None of the above bonds were secured.

34 Other liabilities

		31 December	
	Note	**2020**	2019
Payment and collection clearance accounts		**5,645,377**	7,167,805
Accrued staff cost	(a)	**4,257,490**	3,828,407
Lease liabilities		**4,136,314**	3,956,296
Provisions	(b)	**1,048,631**	810,624
Other taxes payable		**879,618**	746,449
Amount to be settled and cleared		**471,656**	568,867
Contract liabilities	(c)	**140,479**	106,481
Others		**1,096,736**	656,100
Total		**17,676,301**	17,841,029

(a) Accrued staff cost

	31 December	
	2020	2019
Salary, bonuses and allowances payable	**3,883,565**	3,543,415
Pension and annuity payable	**15,149**	13,346
Other social insurance payable	**11,045**	6,081
Housing fund payable	**39,031**	4,945
Others	**308,700**	260,620
Total	**4,257,490**	3,828,407

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities *(Continued)*

(b) Provisions

		31 December	
	Note	**2020**	2019
Provision for credit commitment losses	(i)	**1,006,387**	768,380
Expected litigation losses		**42,244**	42,244
Total		**1,048,631**	810,624

(i) Movements of provisions for credit commitment losses is as follows:

	Year ended 31 December 2020			
	Expected credit losses over the next 12 months	**Lifetime expected credit losses not credit-impaired**	**Lifetime expected credit losses credit-impaired**	**Total**
Balance at 1 January 2020	**730,049**	**36,935**	**1,396**	**768,380**
Charge/(reversal) for the year	**132,801**	**107,329**	**(738)**	**239,392**
Exchange differences and other	**(1,385)**	**–**	**–**	**(1,385)**
Balance at 31 December 2020	**861,465**	**144,264**	**658**	**1,006,387**

	Year ended 31 December 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January 2019	885,490	43,015	11,332	939,837
Transfers				
– to lifetime expected credit losses credit-impaired	–	(90)	90	–
Reversal for the year	(155,875)	(5,990)	(10,026)	(171,891)
Exchange differences and other	434	–	–	434
Balance at 31 December 2019	730,049	36,935	1,396	768,380

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Other liabilities *(Continued)*

(c) Contract liabilities

As at 31 December 2020 and 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Bank's existing contracts are approximately RMB140 million and RMB106 million, respectively. This amount represents income expected to be recognised in the future from agency, custody, guarantee and acceptance services. The Bank will recognise the expected income in future as the services are provided.

35 Share capital

Issued share capital

Share capital of the Bank as at 31 December 2020 and 2019 represented share capital of the Bank, which is fully paid.

	31 December	
	2020	2019
Number of shares issued and fully paid at par value of RMB1 each (in thousand)	**17,762,000**	14,450,000

On 16 July 2020, the Bank issued 2,880 million H-shares with a par value of RMB1 at an offering price of HKD4.80 per share on the Hong Kong Stock Exchange. On 7 August 2020, the over-allotment option was fully exercised, and on 12 August 2020, the Bank issued 432 million H-shares with a par value of RMB1 at HKD4.80 per share. The capital contribution was verified by KPMG Huazhen LLP.

36 Other equity instruments

Undated capital bonds

(a) Outstanding undated capital bonds at 31 December 2020

Financial Instrument outstanding	Issue date	Accounting classification	Distribution rate	Issue price	Amount (million shares)	In RMB	Maturity	Conversion condition	Conversion
Undated Capital Bonds	11 September 2019	Equity	4.75%	100RMB/Share	200	20,000,000	None	No	No
Total						20,000,000			
Less: Issue fees						(38,396)			
Book value						19,961,604			

36 Other equity instruments *(Continued)*

Undated capital bonds *(Continued)*

(b) Main Clauses

(i) Principal Amount

RMB20 billion.

(ii) Maturity Date

The Bonds will continue to be outstanding so long as the Issuer's business continues to operate.

(iii) Distribution Rate

The distribution rate of the Bonds will be adjusted at defined intervals, with a distribution rate adjustment period every 5 years since the payment settlement date. In any distribution rate adjusted period, the Distribution Payments on the Bonds will be paid at a prescribed fixed distribution rate. The distribution rate at the time of issuance is determined by way of book building running and centralised allocation.

The distribution rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity of 5 trading days prior to the Announcement Date of the Subscription Agreement, as indicated by the yield to maturity curve of applicable 5-year China government Notes (rounded up to 0.01%) published on www.ChinaBond.com.cn (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the distribution rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

The Bonds will not have any distribution rate step up nor any other incentive to redeem.

(iv) Conditional Redemption Rights of the Issuer

The Bonds Issuance sets conditional redemption rights for the Issuer. From the fifth anniversary since the Issuance of the Bonds, the Issuer may redeem the Bonds in whole or in part on each distribution payment date (including the fifth distribution payment date since the Issuance). If, after the Issuance, the Bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Issuer may redeem all but not some only of the Bonds.

(v) Subordination

The claims in respect of the Bonds, in the event of the liquidation of the Issuer, will be subordinated to claims of depositors, general creditors, and subordinated indebtedness; shall rank in priority to all classes of shares held by the Issuer's shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Issuer that rank pari passu with the Bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable, such relevant laws and regulations shall prevail.

36 Other equity instruments *(Continued)*

Undated capital bonds *(Continued)*

(b) Main Clauses (Continued)

(vi) Distribution Payment

The distribution of the Bonds will be payable annually. The distribution payment date of the Bonds shall be 16 September of each year. If any distribution payment date falls on a day which is an official holiday or non-business day in the PRC, it shall be postponed to the subsequent business day. Such postponed distributions shall not bear interest. The Issuer shall have the right to cancel, in whole or in part, distributions on the Bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Issuer will take into full consideration the interest of the Bonds' holders. The Issuer may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the Bonds, no matter in whole or in part, will not impose any other restriction on the Issuer, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the Notes, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting. And the Issuer shall give notice to the investors on such cancellation in a timely manner.

(vii) Put Option

The holder of the Bonds do not have any put option to sell back the Bonds to the Issuer.

(viii) Write-down/write-off Clauses

Upon the occurrence of an Additional Tier 1 Capital Trigger Event, namely, the Issuer's Core Tier 1 Capital Adequacy Ratio having fallen to 5.125% (or below), the Issuer has the right, subject to the approval of the China Banking and Insurance Regulatory Commission ("CBIRC") but without the need for the consent of the Bond holders, to write down all or part of the aggregate amount of the Bonds then issued and outstanding, in order to restore the Core Tier 1 Capital Adequacy Ratio to above 5.125%.In the case of a partial write-down, all of the Bonds then issued and outstanding shall be written down on a prorate basis, according to the outstanding par value, with all other Additional Tier 1 Capital instruments with equivalent write-down clauses of the Issuer. The Bonds may be subject to write-down more than once, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Issuer to above 5.125%.

Upon the occurrence of a Tier 2 Capital Trigger Event, the Issuer has the right to write off in whole, without the need for the consent of Bond holders, the aggregate principal amount of the Bonds then issued and outstanding according to the outstanding par value. A Tier 2 Capital Trigger Event refers to the earlier of the following events: (a) CBIRC having decided that the Issuer would become non-viable without a write-off; (b) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable. Upon write-off of the Bonds, such Bonds are to be permanently cancelled and will not be restored under any circumstances.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

37 Other comprehensive income

	Year ended 31 December	
	2020	2019
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at FVOCI		
As at 1 January	**324,471**	251,224
Changes in fair value recognised in other comprehensive income	**(712,756)**	149,344
Transfer to profit or loss upon disposal	**131,427**	(51,680)
Less: deferred tax	**145,332**	(24,417)
As at 31 December	**(111,526)**	324,471
Credit losses of financial assets measured at fair value through other comprehensive income		
As at 1 January	**645,022**	32,188
Impairment losses recognised in other comprehensive income	**(660,343)**	817,111
Less: deferred tax	**165,085**	(204,277)
As at 31 December	**149,764**	645,022
Reserve from cash flow hedging instruments		
As at 1 January	**–**	–
Gains during the year recognised in other comprehensive income	**(213)**	–
Less: deferred tax	**53**	–
As at 31 December	**(160)**	–

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Reserves

(a) Capital reserve

	31 December	
	2020	2019
Share premium	**10,732,077**	–

As stated in Note 35, the Bank issued H shares with a par value of RMB1.00 at an offering price of HKD4.80 per share in 2020. The premium arising from the issuance of new shares amounting to RMB10,732.08 million was recorded in capital reserve.

(b) Surplus reserve

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank appropriated an amount of approximately RMB859 million and RMB834 million to the surplus reserve for 2020 and 2019, respectively.

(c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of the Bank amounted to approximately RMB17,665 million and RMB14,082 million as at 31 December 2020 and 2019, respectively.

39 Retained earnings

Appropriation of profits

On 29 March 2021, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2020:

– Appropriation of statutory surplus reserve base on 10% of the net profit under the PRC GAAP;

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB3,583 million; and

– Declaration of cash dividend in an aggregation amount of approximately RMB1,510 million to all existing ordinary equity holders.

Above proposed profit distribution scheme is subject to the approval of the shareholders in the annual general Meeting.

In accordance with the resolution at the Bank's Annual General Meeting on 27 March 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019:

– Appropriation of statutory surplus reserve base on 10% of the net profit under the PRC GAAP; and

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB1,440 million.

In accordance with the resolution at the Bank's 44th meeting of the fourth Board of Directors on 27 September 2019, the Board of Directors approved the declaration of remaining special dividends in an aggregation amount of approximately RMB2,061 million to non-trust shareholders who have completed the contribution obligation under the second capital injection in 2011 with the authorisation by the General Meeting of shareholders.

Interests for Undated Capital Bonds

The Bank declared and distributed the interest on the 2019 Undated Capital Bonds amounting to RMB950 million on 16 September 2020.

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Bank holds an interest:

The Bank holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include the investment management products under trust schemes, wealth management products under trust schemes issued by financial institutions and investment funds. 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 of interests held by the Bank in unconsolidated structured entities, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised as at 31 December 2020 and 2019:

	31 December 2020		31 December 2019	
	Carrying amount	**Maximum exposure**	Carrying amount	Maximum exposure
Financial investments measured at fair value through profit or loss	**62,030,058**	**62,030,058**	33,592,051	33,592,051
Financial investments measured at fair value through other comprehensive income	**962,971**	**962,971**	9,006,106	9,006,106
Financial investments measured at amortised cost	**104,608,861**	**105,714,077**	85,510,600	85,571,429
Total	**167,601,890**	**168,707,106**	128,108,757	128,169,586

(b) Structured entities sponsored by the Bank which the Bank does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Bank 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 Bank includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2020 and 2019, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material to the Bank's financial positions.

For the years ended 31 December 2020 and 2019, the amount of fee and commission income from the abovementioned structured entities by the Bank amounted to RMB2,414 million and RMB1,850 million, respectively.

As at 31 December 2020 and 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Bank, were RMB213,174 million and RMB234,734 million, respectively.

40 Involvement with unconsolidated structured entities *(Continued)*

(c) Unconsolidated structure entities sponsored by the Bank during the year which the Bank does not have an interest in as at 31 December 2020 and 2019:

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2020 but matured before 31 December 2020 was RMB163,492 million and the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2019 but matured before 31 December 2019 was RMB175,086 million.

41 Capital management

The Bank implements a comprehensive capital management framework, covering the management of the regulated capital, economic capital and book capital, particularly the capital compliance management, capital planning, allocation and evaluation.

In setting its capital adequacy objective, the Bank considers regulatory requirements, external rating objective and its own risk preference, so as to protect the interest of its customers and creditors, maximize the value of shareholders and meet all regulatory requirements on capital management.

The Bank calculates capital adequacy ratios in accordance with the "Regulation Governing Capital of Commercial Banks (Provisional)" promulgated by the former CBRC and related regulatory requirements. In calculating its capital adequacy ratios, the Bank considers all its domestic and overseas branches and sub-branches and financial institution subsidiaries (excluding insurance companies).

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 credit risk weighted assets of counterparties in over-the-counter derivatives transactions are the sum of default risk weighted assets of counterparties and credit-adjusted risk-weighted assets. Market risk-weighted assets are calculated using the standardized approach. Operational risk-weighted assets are calculated using basic indicator approach.

The former CBRC 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 domestic systemically important banks, minimum core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should reach 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. During the year, the Bank has complied in full with all its externally imposed capital requirements.

The Bank calculates its core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with the former CBRC's "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements. The capital adequacy ratios and related components of the Bank illustrated below are computed based on the Bank's statutory financial statements prepared in accordance with PRC GAAP.

(Expressed in thousands of Renminbi, unless otherwise stated)

41 Capital management *(Continued)*

The Bank's capital adequacy ratios at 31 December 2020 and 2019 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	31 December	
	2020	2019
Total core tier-one capital		
– Share capital	**17,762,000**	14,450,000
– Qualifying portion of capital reserve	**10,752,077**	20,000
– Surplus reserve	**5,868,637**	5,009,612
– General reserve	**17,664,811**	14,081,733
– Other comprehensive income	**38,078**	969,493
– Retained earnings	**31,487,086**	28,288,936
Core tier-one capital	**83,572,689**	62,819,774
Core tier-one capital deductions	**(468,892)**	(232,140)
Net core tier-one capital	**83,103,797**	62,587,634
Other tier-one capital	**19,961,604**	19,961,604
Net tier-one capital	**103,065,401**	82,549,238
Tier-two capital		
– Instruments issued and share premium	**817,124**	9,937,217
– Surplus provision for loan impairment	**9,239,253**	8,977,265
Tier-two capital deductions	**–**	–
Tier-two capital	**10,056,377**	18,914,482
Net capital base	**113,121,778**	101,463,720
Total risk weighted assets	**936,106,790**	776,353,540
Core tier-one capital adequacy ratio	**8.88%**	8.06%
Tier-one capital adequacy ratio	**11.01%**	10.63%
Capital adequacy ratio	**12.08%**	13.07%

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Notes to the cash flow statement

(a) Net increase/(decrease) in cash and cash equivalents

	31 December	
	2020	2019
Cash and cash equivalents as at 31 December	**64,755,129**	42,694,864
Less: Cash and cash equivalents as at 1 January	**42,694,864**	68,852,350
Net increase/(decrease) in cash and cash equivalents	**22,060,265**	(26,157,486)

(b) Cash and cash equivalents

	31 December	
	2020	2019
Cash on hand	**433,044**	429,952
Deposits with central bank other than restricted deposits	**33,092,724**	28,043,847
Deposits with banks and other financial institutions	**27,286,406**	12,371,065
Placements with banks and other financial institutions	**3,942,955**	–
Financial assets held under resale agreements	**–**	1,850,000
Total	**64,755,129**	42,694,864

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Notes to the cash flow statement *(Continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Bank's cash flow statement as cash flows from financing activities.

	Debt securities issued (Note 33)	Interest accrued arising from debt securities issued (Note 33)	Dividends payable (Note 39)	Lease Liabilities (Note 34)	Total
As at 1 January 2020	195,900,075	703,768	–	3,956,296	200,560,139
Changes from financing cash flows					
Net proceeds from new debt securities issued	368,425,934	–	–	–	368,425,934
Repayment of debt securities issued	(341,414,057)	–	–	–	(341,414,057)
Interest paid on debt securities issued	(2,889,456)	(2,123,830)	–	–	(5,013,286)
Dividends paid	–	–	(950,000)	–	(950,000)
Payment of lease liabilities interest	–	–	–	(165,020)	(165,020)
Repayment of lease liabilities	–	–	–	(581,005)	(581,005)
Total changes from financing cash flows	24,122,421	(2,123,830)	(950,000)	(746,025)	20,302,566
Other changes					
Interest expense (Note 6)	4,216,573	2,335,083	–	–	6,551,656
Dividend distribution to other equity instruments holders	–	–	950,000	–	950,000
Addition of lease liabilities	–	–	–	926,043	926,043
Total other changes	4,216,573	2,335,083	950,000	926,043	8,427,699
As at 31 December 2020	224,239,069	915,021	–	4,136,314	229,290,404

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

42 Notes to the cash flow statement *(Continued)*

(c) Reconciliation of liabilities arising from financing activities *(Continued)*

	Debt securities issued (Note 33)	Interest accrued arising from debt securities issued (Note 33)	Dividends payable (Note 39)	Lease Liabilities (Note 34)	Total
As at 1 January 2019	217,910,994	767,999	–	4,222,082	222,901,075
Changes from financing cash flows					
Net proceeds from new debt securities issued	370,681,993	–	–	–	370,681,993
Repayment of debt securities issued	(392,380,779)	–	–	–	(392,380,779)
Interest paid on debt securities issued	(4,721,379)	(2,862,768)	–	–	(7,584,147)
Dividends paid	–	–	(2,060,965)	–	(2,060,965)
Payment of lease liabilities interest	–	–	–	(174,000)	(174,000)
Repayment of lease liabilities	–	–	–	(516,717)	(516,717)
Total changes from financing cash flows	(26,420,165)	(2,862,768)	(2,060,965)	(690,717)	(32,034,615)
Other changes					
Interest expense (Note 6)	4,409,246	2,798,537	–	–	7,207,783
Cash dividends paid to shareholders	–	–	2,060,965	–	2,060,965
Addition of lease liabilities	–	–	–	424,931	424,931
Total other changes	4,409,246	2,798,537	2,060,965	424,931	9,693,679
As at 31 December 2019	195,900,075	703,768	–	3,956,296	200,560,139

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related parties

Related parties of the Bank

(a) The Bank's major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	31 December	
	2020	2019
TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司)	**20.34%**	25.00%
Standard Chartered Bank (Hong Kong) Co., Ltd. (渣打銀行（香港）有限公司)	**16.26%**	19.99%
China Shipping Investment Co., Ltd. (中海集團投資有限公司)	**11.12%**	13.67%
State Development & Investment Corp., Ltd. (國家開發投資集團有限公司)	**9.49%**	11.67%
China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)	**9.49%**	11.67%
Oceanwide Industry Co., Ltd. (泛海實業股份有限公司)	**7.72%**	9.49%
Tianjin Shanghui Investment Holding Company Limited (天津商匯投資（控股）有限公司)	**6.51%**	8.00%

(b) Associate of the Bank

The detailed information of the Bank's associate is set out in Note 24.

(c) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiary) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 43(a) or their controlling shareholders.

Related party transactions

(a) Pricing policy

Transactions between the Bank and related parties are conducted in the normal course of its business and under normal commercial terms. The pricing policies are no more favourable than those offered to independent third parties.

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related parties *(Continued)*

Related party transactions *(Continued)*

(b) Transactions with related parties other than key management personnel

(i) Transactions between the Bank and major shareholders

	Years ended 31 December	
	2020	2019
Transactions during the year		
Interest income	**217,972**	187,296
Interest expense	**175**	13,000
Operating expense	**4,094**	2,899

	31 December	
	2020	2019
Balances at end of the year		
Deposits with banks and other financial institutions	**1,184,885**	–
Loans and advances to customers	**3,442,824**	3,442,041
Deposits from customers	**1,084**	1,303
Other liabilities	**38,454**	63,037

(ii) Transactions between the Bank and associate

	Years ended 31 December	
	2020	2019
Transactions during the year		
Interest expense	**17**	31

	31 December	
	2020	2019
Balances at end of the year		
Deposits from banks and other financial institutions	**4,078**	731

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related parties *(Continued)*

Related party transactions *(Continued)*

(b) Transactions with related parties other than key management personnel *(Continued)*

(iii) Transactions between the Bank and other related parties

	Years ended 31 December	
	2020	2019
Transactions during the year		
Interest income	**419,843**	478,324
Fee and commission income	**57,374**	70,916
Net gains of investment securities	**619**	1,211
Other operating income	**–**	5,529
Interest expense	**39,416**	35,506
Operating expense	**21,298**	13,408

	31 December	
	2020	2019
Balances at end of the year		
Deposits with banks and other financial institutions	**7,566,578**	1,335,781
Financial assets held under resale agreements	**–**	1,850,664
Loans and advances to customers	**3,941,371**	5,398,335
Financial investment	**2,650,279**	2,539,524
Deposits from banks and other financial institutions	**1,863,776**	367,030
Deposits from customers	**1,119,803**	1,447,754
Debt securities issued	**374,041**	750,000
Other liabilities	**259,826**	290,824
Derivative financial instruments-notional amount	**4,123,088**	1,881,000
Bank acceptances	**236,942**	269,860
Letters of guarantees	**243**	1,599
Letters of credit	**31,920**	91,046

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Related parties *(Continued)*

Related party transactions *(Continued)*

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	Years ended 31 December	
	2020	2019
Transactions during the year		
Interest income	**136**	266
Interest expense	**8**	6

	31 December	
	2020	2019
Balances at end of the year		
Loans and advances to customers	**3,310**	3,695
Deposits from customers	**3,402**	1,108

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	Years ended 31 December	
	2020	2019
Key management personnel compensation	**20,266**	23,352

(iii) Loans and advances to directors, supervisors and officers

	31 December	
	2020	2019
Aggregate amount of relevant loans outstanding at the end of the year	**3,302**	3,687
Maximum aggregate amount of relevant loans outstanding during the year	**3,302**	3,687

There were no amount due but unpaid as at 31 December 2020 and 2019.

44 Segment reporting

(a) Business segment

The Bank manages its business by business lines. Consistent with the way in which information is reported internally to the Bank's most senior executive management for the purposes of resource allocation and performance assessment, the Bank 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, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, 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, personal wealth management services and remittance services.

Financial market business

This segment covers the Bank's treasury business operations. The financial markets business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The financial markets business segment also covers management of the Bank's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Bank'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/expense". 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. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the years ended 31 December 2020 and 2019 to acquire property and equipment, intangible assets and other long-term assets.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Segment reporting *(Continued)*

(a) Business segment *(Continued)*

	Year ended 31 December 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,099,431	16,547,818	829,787	–	28,477,036
Internal net interest income/(expense)	914,345	(6,456,216)	5,541,871	–	–
Net interest income	12,013,776	10,091,602	6,371,658	–	28,477,036
Net fee and commission income/(expense)	1,816,181	(1,478,327)	2,574,660	(10,058)	2,902,456
Net trading gains/(losses)	74,199	2,700	(355,329)	323,030	44,600
Net gains arising from investment securities	26,772	1,161	958,520	10,800	997,253
Other operating income	5,243	27	–	65,555	70,825
Operating income	13,936,171	8,617,163	9,549,509	389,327	32,492,170
Operating expenses	(4,669,474)	(3,531,800)	(809,145)	(172,481)	(9,182,900)
Provision for impairment losses on assets	(3,604,300)	(2,734,614)	(6,885,264)	–	(13,224,178)
Profit before taxation	5,662,397	2,350,749	1,855,100	216,846	10,085,092
Other segment information					
– Depreciation and amortisation	599,482	588,197	67,863	172,592	1,428,134
– Capital expenditure	192,736	189,107	21,818	55,489	459,150

	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	715,344,215	319,709,044	343,074,136	6,731,112	1,384,858,507
Deferred tax assets					8,664,618
Total assets					1,393,523,125
Segment liabilities	719,432,756	108,632,435	454,120,233	8,091,871	1,290,277,295
Total liabilities					1,290,277,295
Credit commitment	274,389,863	7,491,816	–	–	281,881,679

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Segment reporting *(Continued)*

(a) Business segment *(Continued)*

	Year ended 31 December 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	8,909,016	11,666,382	2,445,885	–	23,021,283
Internal net interest income/(expense)	1,694,902	(5,803,622)	4,108,720	–	–
Net interest income	10,603,918	5,862,760	6,554,605	–	23,021,283
Net fee and commission income/(expense)	1,727,815	(395,458)	2,803,333	(20,819)	4,114,871
Net trading gains	39,848	–	156,544	–	196,392
Net gains arising from investment securities	73,184	2,369	842,087	44,217	961,857
Other operating income	11,051	8,962	4,856	59,122	83,991
Operating income	12,455,816	5,478,633	10,361,425	82,520	28,378,394
Operating expenses	(4,508,384)	(3,242,565)	(877,827)	(228,084)	(8,856,860)
Provision for impairment losses on assets	(7,060,775)	(1,556,563)	(949,575)	–	(9,566,913)
Share of losses of associate	–	–	–	(52,771)	(52,771)
Profit/(loss) before taxation	886,657	679,505	8,534,023	(198,335)	9,901,850
Other segment information					
– Depreciation and amortisation	503,894	495,087	54,425	345,388	1,398,794
– Capital expenditure	192,759	189,391	20,820	132,125	535,095

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	602,476,375	240,761,177	262,303,470	5,023,912	1,110,564,934
Deferred tax assets					6,365,091
Total assets					1,116,930,025
Segment liabilities	636,100,588	56,746,341	330,281,394	11,163,105	1,034,291,428
Total liabilities					1,034,291,428
Credit commitment	256,350,410	5,069,857	–	–	261,420,267

(b) Geographical segment

Geographically, the Bank mainly conducts its business in the four areas listed below in Mainland China.

Northern and Northeast China includes Head Office, Beijing Branch, Tianjin Branch, Binhai Branch, Tianjin Pilot Free Trade Zone Branch, Dalian Branch, Hohhot Branch, Taiyuan Branch, Shijiazhuang Branch, Changchun Branch and Shenyang Branch.

Eastern China includes Nanjing Branch, Hangzhou Branch, Jinan Branch, Shanghai Branch, Shanghai Pilot Free Trade Zone Branch, Hefei Branch, Suzhou Branch, Qingdao Branch, Ningbo Branch and Nanchang Branch.

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Segment reporting *(Continued)*

(b) Geographical segment *(Continued)*

Central and Southern China includes Guangzhou Branch, Shenzhen Branch, Shenzhen Qianhai Branch, Hong Kong Branch, Changsha Branch, Wuhan Branch, Fuzhou Branch, Zhengzhou Branch, Xiamen Pilot Free Trade Zone Branch, Haikou Branch and Nanning Branch.

Western China includes Chengdu Branch, Xi'an Branch and Chongqing Branch.

	Year ended 31 December 2020					
	Northern and Northeast China	Eastern China	Central and Southern China	Western China	Elimination	Total
Operating income						
External net interest income	14,843,231	5,037,509	5,687,260	2,909,036	–	28,477,036
Internal net interest income/(expense)	2,741,648	(351,929)	(1,296,515)	(1,093,204)	–	–
Net interest income	17,584,879	4,685,580	4,390,745	1,815,832	–	28,477,036
Net fee and commission income	1,735,122	620,126	435,362	111,846	–	2,902,456
Net trading gains	19,016	4,042	6,198	15,344	–	44,600
Net gains arising from investment securities	997,253	–	–	–	–	997,253
Other operating income	22,472	23,371	23,521	1,461	–	70,825
Operating income	20,358,742	5,333,119	4,855,826	1,944,483	–	32,492,170
Operating expenses	(5,129,788)	(1,944,461)	(1,675,965)	(432,686)	–	(9,182,900)
Provision for impairment losses on assets	(7,916,777)	(2,703,047)	(2,257,829)	(346,525)	–	(13,224,178)
Profit before taxation	7,312,177	685,611	922,032	1,165,272	–	10,085,092
Other segment information						
– Depreciation and amortisation	716,225	334,739	311,248	65,922	–	1,428,134
– Capital expenditure	340,090	58,387	52,018	8,655	–	459,150

	31 December 2020					
	Northern and Northeast China	Eastern China	Central and Southern China	Western China	Elimination	Total
Segment assets	955,390,518	238,987,434	239,133,495	80,361,129	(129,014,069)	1,384,858,507
Deferred tax assets						8,664,618
Total assets						1,393,523,125
Segment liabilities	867,760,377	236,527,621	236,076,796	78,926,570	(129,014,069)	1,290,277,295
Total liabilities						1,290,277,295
Credit commitment	105,193,962	91,598,391	69,339,973	15,749,353	–	281,881,679

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

44 Segment reporting *(Continued)*

(b) Geographical segment *(Continued)*

	Year ended 31 December 2019					
	Northern and Northeast China	Eastern China	Central and Southern China	Western China	Elimination	Total
Operating income						
External net interest income	10,980,532	3,528,513	5,765,278	2,746,960	–	23,021,283
Internal net interest income/(expense)	2,729,117	(146,116)	(1,317,924)	(1,265,077)	–	–
Net interest income	13,709,649	3,382,397	4,447,354	1,481,883	–	23,021,283
Net fee and commission income	2,474,284	716,313	721,208	203,066	–	4,114,871
Net trading gains/(losses)	170,450	3,690	(26)	22,278	–	196,392
Net gains arising from investment securities	961,857	–	–	–	–	961,857
Other operating income	45,931	28,085	8,742	1,233	–	83,991
Operating income	17,362,171	4,130,485	5,177,278	1,708,460	–	28,378,394
Operating expenses	(4,852,571)	(1,864,761)	(1,722,679)	(416,849)	–	(8,856,860)
Provision for/(reversal of) impairment losses on assets	(6,000,431)	(2,606,464)	(987,713)	27,695	–	(9,566,913)
Share of losses of associate	(52,771)	–	–	–	–	(52,771)
Profit/(loss) before taxation	6,456,398	(340,740)	2,466,886	1,319,306	–	9,901,850
Other segment information						
– Depreciation and amortisation	675,817	338,915	316,655	67,407	–	1,398,794
– Capital expenditure	216,301	102,222	59,589	156,983	–	535,095

	Year ended 31 December 2019					
	Northern and Northeast China	Eastern China	Central and Southern China	Western China	Elimination	Total
Segment assets	808,734,648	186,775,559	172,577,161	56,413,851	(113,936,285)	1,110,564,934
Deferred tax assets						6,365,091
Total assets						1,116,930,025
Segment liabilities	739,053,099	184,695,473	169,305,078	55,174,063	(113,936,285)	1,034,291,428
Total liabilities						1,034,291,428
Credit commitment	89,180,118	83,612,681	67,257,590	21,369,878	–	261,420,267

45 Risk management

The Bank has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

The Bank develops and continually improves risk management policies, limit system, control procedures and IT systems based on the latest changes in regulatory policies, market conditions and business development to analyze, identify, monitor and report various risks.

This note presents information about the Bank's exposure to each of the above risks and their sources, and the Bank's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The backbones of the Bank's organizational structure to manage its risks are the Board of Directors, the Risk Management Committee of the Board of Directors, (Related Party Transactions Control Committee), the Audit and Consumer Rights Protection Committee of the Board of Directors, Development Strategy and Inclusive Finance Committee of the Board of Directors, the Board of Supervisors, senior management and its Risk Control Committee, Assets and Liabilities Management Committee,Information Technology Committee, Data Management Committee, Financial Review and Approval Committee, and relevant functional departments at Head Office, including Risk Management Department, Credit Review Department and Regional Approval Center, Credit Monitoring Department, Retail Risk Management Department, Assets and Liabilities Management Department, Internal Control and Compliance Department, Legal Affairs Department, and other departments responsible for operational risks, Information Technology Department, the General Office (Public Relations Department), Office of Strategic Development and Investment Management, Audit Department and Regional Audit Center, and risk management functional departments of the subsidiaries and branches.

The Board of Directors of the Bank is responsible for the ultimate responsibility for comprehensive risk management and is responsible for fulfilling the establishment of risk culture, formulating risk management strategies, setting risk preferences and ensuring the establishment of risk limits, reviewing and approving major risk management policies and procedures, and supervising senior management to conduct comprehensive risk management, reviewing comprehensive risk management reports, approval of the disclosure of comprehensive risks and various significant risk information, hiring the chief risk management officer, and taking the lead in comprehensive risk management and other responsibilities related to risk management.

The Board of Supervisors of the Bank is responsible for the supervision of comprehensive risk management and is responsible for supervising the performance of the Board of Directors and senior management in risk management and the rectification.

45 Risk management *(Continued)*

Risk management system *(Continued)*

The senior management shall assume the responsibilities for implementing comprehensive risk management, implementing the resolutions of the Board of Directors and fulfilling the following duties: establishing an operational management structure applicable to the comprehensive risk management; clarifying the division of risk management responsibilities of the comprehensive risk management department, business department and other departments; building an operational mechanism featuring mutual coordination and effective checks and balances among departments; formulating a clear implementation and accountability mechanism to ensure that the risk management strategies, risk appetites and risk limits are fully conveyed and effectively implemented; setting risk limits according to the risk appetites set by the Board of Directors for various dimensions including, but not limited to, industries, regions, customers and products; formulating risk management policies and procedures, and conducting periodic assessments and making adjustments when necessary; evaluating the management for comprehensive risks and various key risks and reporting to the Board of Directors; establishing a sound management information system and data quality control mechanism; supervising the breach of risk appetites and risk limits and violations of risk management policies and procedures, and handling such cases according to the authorization of the Board of Directors; and other risk management responsibilities

The Bank has established a risk prevention system consisting of three lines of defense against each main risk to which it is exposed. The first line of defense is formed by various business departments at the head office, branches, and sub-branches of the Bank, who are directly responsible for the prevention of various types of risks. The second line of defense is business management departments of risk management line, Assets and Liabilities Management Department and Internal Control and Compliance Departments of the Bank, who take the lead in formulating the requisite policies and procedures, and supervising bank-wide risk management measures. The third line of defense is the Audit departments of the Bank, which are responsible for conducting independent valuation of risk management system and its implementation, and monitoring the effectiveness of 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 Bank. It arises primarily from credit and bond investment portfolios and guarantees granted. Credit risk is one of the most important risks facing the business operations of the Bank. The Bank may be exposed to significant risks when all counterparties are concentrated in a single industry or region. This is mainly because the counterparties’ abilities to repay their loans are subject to the same impact by the economic development of the region or industry in which they operate.

The Bank insists on a comprehensive, vertical and independent management model of risk management, continuously improving the posting mechanism of risk management personnel. At the head office level, Risk Management Department, Credit Review Department, Credit Monitoring Department, Retail Risk Management Department and Regional Approval Centers of Beijing, Shanghai and Guangzhou are established. At the branch level, all tier-one branches appoint a Risk Director to report to the Chief Risk Officer.

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

The Bank balances the benefits and risks through active controls, so that each type of business could achieve benefits matching its risk level at least and the capital could achieve optimal allocation. The Bank controls credit risks by formulating policies, limit control, conducting pre-lending investigation, pre-repayment monitoring, post-lending management, risk classification and recovery of bad loans. The Bank has set up a kind of credit decision-making mechanism of "three in one", with the independent responsibility examination, risk review and accountability approval as the core, to improve the expertise and independence of credit approval.

By attaching high importance to credit risk management, the Bank assiduously complies with different requirements of Board of Directors and regulatory bodies, which include persistently building a defense line of risk and strictly observing the systemic risk bottom line, combined with the current economic environment, adjusting credit policies in a timely manner, strengthening management on credit admission and approval processes, as well as lending and post-lending processes, and putting into production information system tools relating to risk warning through research & development, reinforcing risk warning of key areas, checking out disposal of non-performing assets and continuing to optimize asset structure according to changes in external environment, to maintain asset stability and ensure that the general credit risk is controllable. By considering changes in economic environment, the Bank reasonably makes provision for impairment loss and enhances the ability to resist risk on a continuous basis.

Measurement of credit risk

Loans and advances to customers and off-balance sheet credit commitments

The Risk Management Department, Credit Review Department, Credit Monitoring Department and Retail Risk Management Department are jointly responsible for management of credit risks in various credit exposures, and the credit risk management for financial investments. For corporate credit, the Bank keeps itself closely informed of the clients' credit ratings through credit rating assessment using its client credit rating models and facility rating models, and applies the ratings in its loan reviews. Together with the early warning system which monitors the risk of a customer in real time, they are the basis of credit extension. The Bank uses facility rating to determine the loss given default for each credit facility and help its credit officers to balance the risks and rewards. With respect to retail credit business, the Bank analyses business characteristics and customer structure by the fintech, continuously improving credit scoring models and data mining and risk analysis of the historical performance of the borrowers, so as to gradually improve the effectiveness and efficiency of credit access, asset management, asset classification and impairment provisioning.

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Measurement of credit risk (Continued)

Deposits and placements with banks and other financial institutions and financial assets purchased under resale agreements

The Bank adopts a centralized underwriting process in relation to approving credit limits for financial institution counterparties engaged in interbank placements, investment securities and securities under repurchase and resale agreements. The Bank assesses the credit risk of these counterparties adopting a quantitative and qualitative approach which collectively involves the assessment and review of their credit rating in the banking industry, customer base and profiles, management capabilities, business prospects, industry position, external environment, cooperation with the Bank and financial standing and performance etc.

Debt investments and derivative financial instruments

Before making investment in bonds issued by financial institutions or corporate bonds or before any dealing in financial derivatives with clients, the Bank conducts credit assessment on the issuers and the potential clients for dealing in derivative financial instruments. The Bank is also appropriately using external credit rating in assessing risk.

The credit risks in derivatives engaged by the Bank are mitigated mainly through margin deposits and credit facilities from banks.

Prior to approval, the Asset and Liability Management Department assess the potential future exposure ratio for settlement of foreign exchange on behalf of customers which is guaranteed by margin. The authorized approver is responsible for approving credit limits. The Credit Monitor Department is responsible for reviewing the specific business, specific operations are carried out in accordance with the business administrative measures.

Credit risk limit management

Loans and advances to customers and off-balance sheet credit commitments

The Bank establishes credit limit for the customers in accordance with the approval opinions. Meanwhile, the Bank reviews the approved conditions for the credit line, and monitors the use of the credit limit. Where clients provide collateral, credit limits shall be frozen or adjusted in a timely manner in responding to the change in value of the collateral in order to meet the approved conditions for the credit lines.

Debt investment and derivative trading

In monitoring the limits of debt investments and derivative instruments to other bank clients or non-banking clients with respect to debt investments and derivative trading, the Bank considers all relevant information, including credit approval and risk exposure.

Establishment of credit limits for financial institutions and the monitoring of the limits for debt investments and derivative trading are charged by the Credit Monitoring Department of the head office.

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures

Collateral

The credit policies of the Bank provide specific requirements on the acceptable collaterals and pledges, and set different rates for different collaterals and pledges based on their nature and extent of realization. The Bank sets out specific requirements for the qualifications of professional evaluation agencies. In addition, through credit risk management system, the Bank implements strict management on the collaterals and pledges and their ownership certificates to prevent the occurrence of operational risks.

If the decrease in value or quantity of collateral makes it insufficient for the actual value of the collateral to meet collateral rate, the Bank shall freeze the underlying credit lines, require the client to provide additional collateral or security deposit or return the corresponding credit lines.

In respect of real estate development loans, the Bank, by complying with relevant regulatory requirements, assesses the value of collateralized real estate properties based on their progress of construction, cost to resume and complete construction, expected time of completion, selling prices and reasonable discount rates to prevent over extension of credit. For real estate properties accepted for pledge, the Bank sets the minimum requirements on their completion.

The acceptable collateral includes financial collateral, real estate properties, accounts receivable and other collateral, mainly consisting of the following types:

- Cash and it equivalent
- Bills
- Stock
- State-owned construction land use right
- Residential real estate
- Commercial real estate
- Accounts receivable
- Vehicle
- Mechanical equipment
- Inventory
- Resource assets
- Intellectual property

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Master netting arrangements

The Bank and its counterparties enter into master netting arrangements for derivatives transactions to further reduce credit risk. Master netting arrangements may not lead to the offsetting between assets and liabilities on the statement of financial position, because the transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts are terminated and settled on a net basis.

The derivatives are mainly settled in accordance with the provisions of the International Swaps and Derivatives Association and the features of the products, using, in principle, the method that involves the lowest settlement risk.

Credit commitments

The main objective of credit commitments is to ensure that clients obtain the funds they need. The Bank makes irrevocable guarantee when it issues letters of guarantee, letters of credit and bank's acceptance bill, i.e., the Bank shall make repayments on behalf of the client if the client cannot meet its repayment obligations to a third party, and the Bank assumes the same credit risks as those of a loan, review should be done in strict compliance with the Bank's relevant requirements in conducting such business.

The Bank defines margin deposit as one of the risk mitigations and receives certain margin deposits when conducting relevant credit extension business, with the exception of certain creditworthy clients, to reduce the credit risk involved in providing this service. The margin deposit is collected at a certain percentage of the committed amount based on the credibility of the client.

Impairment and provisioning policies

Stages of risks in financial instrument

The financial assets are categorized by the Bank into the following stages to manage its financial assets' credit risk:

Stage 1: Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2: Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3: Financial assets that are in default and considered credit-impaired.

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures (Continued)

***Impairment and provisioning policies** (Continued)*

Significant increase in credit risk

The Bank evaluates the whether the credit risk of related financial instruments at least on each date of statement of financial position has increased significantly since initial recognition. The Bank makes full use of all reasonable and supportable information, including forward-looking information, to reflect the significant changes in its credit risk when it conducts the classification of losses of financial instruments. Criteria include regulation and operation environment, internal and external credit ratings, solvency, ability to continue as a going concern, provisions of loan contract, and repayment activities etc. Based on a single financial instrument or a combination of financial instruments with similar credit risk characteristics, the Bank compares the risk of default of financial instruments on the date of statement of financial position to determine the change in default risk during the expected duration of financial instruments. The Bank judges whether the credit risk of a financial instrument has significantly increased since initial confirmation from the risk classification, risk overdue days, internal and external ratings, probability of default, and market price etc.

Definition of "default" and "credit-impaired assets"

When a financial asset is impaired, the Bank identifies the financial asset as a default. Generally speaking, if the financial asset is overdue for more than 90 days, it is considered as a default.

At each date of the statement of financial position, the Bank assesses whether financial assets carried at amortised cost and debt instruments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– for economic or contractual reasons relating to the borrower's financial difficulty, the Bank having granted to the borrower a concession that would not otherwise consider;

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Impairment and provisioning policies *(Continued)*

Definition of "default" and "credit-impaired assets" *(Continued)*

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

– the disappearance of an active market for that financial asset because of financial difficulties;

– purchase or source a financial asset at significant discount, which reflects that the financial asset is credit-impaired; or

– overdue more than 90 days.

The above criteria apply to all financial assets of the Bank and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of expected credit losses ("ECL")

The Bank adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

– PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;

– EAD is the amount that the Bank should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;

– LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Bank. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Impairment and provisioning policies *(Continued)*

Measurement of expected credit losses ("ECL") *(Continued)*

The Bank determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Bank multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). For the purpose of calculating the lifetime ECL, the Bank calculated the ECL of each period, and the results of calculation are then discounted to the date of statement of financial position and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

– In respect of the financial assets with instalment repayments and bullet repayment, the Bank determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.

– As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the date of statement of financial position by the credit conversion factor (CCF).

– The Bank determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

– As to financial assets classified as guarantees, the Bank determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.

– As to credit-based financial assets, the Bank usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Impairment and provisioning policies *(Continued)*

Measurement of expected credit losses ("ECL") *(Continued)*

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Bank quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

Forward-looking information included in the expected credit loss model is as follows:

The calculation of expected credit losses involves forward-looking information. After the historical analysis, the Bank identified the key economic indicators related to expected credit loss, such as gross domestic product (GDP), consumer price index(CPI), Purchasing Managers' index (PMI), Broad money (M2), Industrial Added Value, and Real Estate Climate Index. The Bank carried out regression analysis to determine the relationship between these economic indicators and PD, so as to ascertain the impact of historical changes in these indicators on PD a. The Bank forecasts these economic indicators at least annually and provides the best estimates of the economic conditions for the coming year.

The important macroeconomic assumptions used by the Bank in various macroeconomic scenarios include M2, consumer price index, and fixed asset investment completion.

The Bank established measurement models to identify the three risk weights, i.e. positivity, neutrality and negativity. During the years ended 31 December 2020, the Bank's positivity scenario weight is 20%, neutrality scenario weight is 30%., and negativity scenario weight is 50%. The Bank measures allowance for credit losses for the first stage based on the weighted average of the credit losses in the three cases in the next 12 months; and measures allowance for credit losses for the second and third stages based on the weighted average of credit losses in the three cases within the lifetime.

During the years ended 31 December 2020, the Bank has fully considered the impact of the COVID-19 pandemic on the macro economy and banking industry when evaluating the forward-looking information used in the expected credit loss measurement model.

Management Overlay

Taking into account inherent limitations of ECL model and temporary systematic risk factors, the Bank has additionally accrued loss allowance in response to potential risk and improved its risk compensation capability.

During the years ended 31 December 2020, the COVID-19 pandemic have a greater impact on the macro economy. The Bank has considered the relevant impact in the expected credit loss model and additionally increase the loss provision, which further enhances the ability to offset risks.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(i) Maximum credit risk exposure

	31 December	
	2020	2019
Credit risk exposures relating to on-balance sheet items:		
Deposits with the central bank	**96,115,373**	92,583,747
Deposits with banks and other financial institutions	**27,805,363**	14,051,627
Placements with banks and other financial institutions	**6,063,668**	4,410,809
Derivative financial assets	**232,498**	158,709
Financial assets purchased under resale agreements	**–**	1,850,258
Loans and advances to customers	**867,120,217**	687,279,098
Financial investments		
– Financial investments at fair value through profit or loss	**72,597,497**	36,238,313
– Financial investments at fair value through other comprehensive income	**61,813,595**	64,967,327
– Financial investments at amortised cost	**241,515,654**	199,101,251
Other assets	**2,190,030**	659,912
Sub-total	**1,375,453,895**	1,101,301,051
Credit risk exposures relating to off-balance items:		
Acceptances	**194,625,498**	167,506,456
Letters of credit	**59,117,237**	67,528,818
Letters of guarantees	**20,647,128**	21,315,136
Credit card commitment	**7,491,816**	5,069,857
Sub-total	**281,881,679**	261,420,267
Total	**1,657,335,574**	1,362,721,318

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows:

	31 December 2020				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (*)	Others (**)
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	5,741,794	–	–	283,930	–
– Neither overdue nor credit-impaired	840,315,383	33,729,361	–	280,694,822	2,190,030
Sub-total	846,057,177	33,729,361	–	280,978,752	2,190,030
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	4,558,274	–	–	12,296,288	–
– Neither overdue nor credit-impaired	21,134,255	–	–	2,587,535	–
Sub-total	25,692,529	–	–	14,883,823	–
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	15,713,779	357,747	–	11,963,317	–
Sub-total	15,713,779	357,747	–	11,963,317	–
Interests accrued	4,408,520	54,260	–	5,422,606	–
Balance of financial assets at fair value through profit or loss	74,060	–	–	72,597,497	–
Less: Provision for impairment losses	(24,825,848)	(272,337)	–	(9,919,249)	–
Net value	867,120,217	33,869,031	–	375,926,746	2,190,030

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows: *(Continued)*

	31 December 2019				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments (*)	Others (**)
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	5,764,608	–	–	–	–
– Neither overdue nor credit-impaired	668,178,959	18,431,790	1,850,000	258,242,268	659,912
Sub-total	673,943,567	18,431,790	1,850,000	258,242,268	659,912
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	4,360,617	–	–	–	–
– Neither overdue nor credit-impaired	16,403,232	157,747	–	2,207,851	–
Sub-total	20,763,849	157,747	–	2,207,851	–
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	12,591,449	–	–	3,203,960	–
Sub-total	12,591,449	–	–	3,203,960	–
Interests accrued	2,822,439	62,392	664	3,618,807	–
Balance of financial assets at fair value through profit or loss	758,665	–	–	36,238,313	–
Less: Provision for impairment losses	(23,600,871)	(189,493)	(406)	(3,204,308)	–
Net value	687,279,098	18,462,436	1,850,258	300,306,891	659,912

* Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

** Other comprise interests receivable and other receivables in other assets.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows: *(Continued)*

Financial assets (excluded interests accrued) analysed by credit quality

	31 December 2020							
	Balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	96,517,891	-	-	96,517,891	-	-	-	-
Deposits with banks and other financial institutions	27,836,406	-	157,747	27,994,153	(40,471)	-	(157,747)	(198,218)
Placements with banks and other financial institutions	5,892,955	-	200,000	6,092,955	(14,119)	-	(60,000)	(74,119)
Loans and advances to customers	815,010,509	25,692,529	15,713,779	856,416,817	(9,664,387)	(7,228,243)	(7,933,218)	(24,825,848)
Financial investments	220,023,815	14,883,823	11,963,317	246,870,955	(1,247,621)	(3,725,889)	(4,945,739)	(9,919,249)
Other assets*	2,190,030	-	-	2,190,030	-	-	-	-
Total	1,167,471,606	40,576,352	28,034,843	1,236,082,801	(10,966,598)	(10,954,132)	(13,096,704)	(35,017,434)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	31,046,668	-	-	31,046,668	(127,184)	-	-	(127,184)
Financial investments	60,954,937	-	-	60,954,937	(42,501)	-	(30,000)	(72,501)
Total	92,001,605	-	-	92,001,605	(169,685)	-	(30,000)	(199,685)
Credit commitments	280,872,410	1,005,999	3,270	281,881,679	(861,465)	(144,264)	(658)	(1,006,387)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows: *(Continued)*

Financial assets (excluded interests accrued) analysed by credit quality *(Continued)*

	31 December 2019							
	Balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	92,980,538	–	–	92,980,538	–	–	–	–
Deposits with banks and other financial institutions	14,031,065	157,747	–	14,188,812	(150,274)	(30,351)	–	(180,625)
Placements with banks and other financial institutions	4,400,725	–	–	4,400,725	(8,868)	–	–	(8,868)
Financial assets held under resale agreements	1,850,000	–	–	1,850,000	(406)	–	–	(406)
Loans and advances to customers	664,530,049	20,763,849	12,591,449	697,885,347	(9,281,200)	(6,213,635)	(8,106,036)	(23,600,871)
Financial investments	194,201,266	2,207,851	3,190,327	199,599,444	(1,313,800)	(406,945)	(1,483,563)	(3,204,308)
Other assets*	659,912	–	–	659,912	–	–	–	–
Total	972,653,555	23,129,447	15,781,776	1,011,564,778	(10,754,548)	(6,650,931)	(9,589,599)	(26,995,078)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	9,413,518	–	–	9,413,518	(37,215)	–	–	(37,215)
Financial investments	64,041,002	–	13,633	64,054,635	(809,442)	–	(13,371)	(822,813)
Total	73,454,520	–	13,633	73,468,153	(846,657)	–	(13,371)	(860,028)
Credit commitments	260,916,685	496,700	6,882	261,420,267	(730,049)	(36,935)	(1,396)	(768,380)

* Other comprise interests receivable and other receivables in other assets.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows: *(Continued)*

The overall ECL rate for financial assets and credit commitments analysed by credit quality

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial assets measured at amortised cost	**0.94%**	**27.00%**	**46.72%**	**2.83%**
Financial assets at fair value through other comprehensive income	**0.18%**	**N/A**	**100.00%**	**0.22%**
Credit commitments	**0.31%**	**14.34%**	**20.12%**	**0.36%**

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	1.11%	28.76%	60.76%	2.67%
Financial assets at fair value through other comprehensive income	1.16%	N/A	44.57%	1.18%
Credit commitments	0.28%	7.44%	20.28%	0.29%

As at 31 December 2020 and 2019, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB12,424 million and RMB3,030 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB8,168 million and RMB5,435 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

Restructured loans refer to those loans that the financial status of the relevant borrowers deteriorate, or that borrowers are not capable of repaying and therefore certain clauses on the loan contract are adjusted. As at 31 December 2020 and 2019, the Bank's restructured loans amounted to RMB4,928 million and RMB6,511 million.

(iv) Credit rating

The Bank adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at 31 December 2020 and 2019 are as follows:

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(a) Credit risk *(Continued)*

(iv) Credit rating *(Continued)*

	31 December	
	2020	2019
Neither overdue nor impaired		
Ratings		
– AAA	**194,224,076**	160,913,737
– AA- to AA+	**8,105,742**	6,276,793
Sub-total	**202,329,818**	167,190,530
Overdue and credit-impaired		
Ratings		
– C	**–**	13,633
Unrated	**715,619**	183,410
Total	**203,045,437**	167,387,573

(b) Market risk (including the interest rate risk in the banking book)

Market risk refers to the risk of losses to the Bank's on-balance sheet and off-balance sheet activities arising from unfavorable changes in market prices, mainly including interest rates and exchange rates, commodity risk and equity risks. The interest rate risk in the banking book refers to the risk of losses on the economic value and the overall income of the banking book resulted from unfavorable changes in interest rate levels and the maturity structure. The Bank is exposed to market risks in its trading book and banking book. Financial instruments and commodity position recorded in the trading book are those held by the Bank for the purpose of trading or avoiding risks in other items of trading book and which can be traded freely. The assets and liabilities of long-term positions held for the purpose of managing the liquidity of the Bank, regulatory reserve or profit maximization are included in the banking book. Generally, the assets and liabilities recorded in the banking book are mainly held-to-maturity.

The Board is responsible for approving management strategies of market risk (including interest rate risks in the banking book, similarly hereinafter), policy and procedure, determining the level of market risk tolerance, urging senior management to undertake necessary measures to identify, measure, monitor and control market risk, obtaining periodic reports associated with nature and level of market risk, monitoring and evaluating the comprehensiveness, effectiveness of market risk management, and performance of senior management under market risk management. The Bank's senior management has set up the Asset and Liability Management Committee which is in charge of formulating, reviewing and supervising market risk policy and procedure, and process execution. The committee sets market risk limit according to the Board's risk appetite.

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

The Bank sets up the market risk management team under the Asset and Liability Management Department. The team is independent of trading department, and responsible for market risk identification, measurement, monitoring, and control, ensuring that the market risk of the Bank is in compliance with the requirements of internal limits and external supervision according to Bank's market risk management policies and procedures.

Trading book market risk

Limits management

In order to control trading book market risk, the Bank sets Value-at-Risk limits, Basis Point Value limits and stop loss limits.

Stress testing

Stress testing is used to assess the loss sustainability under extremely adverse conditions when significant market changes take place, including the extreme fluctuations of market risk elements, such as interest rates and exchange rates, unexpected political or economic events, or a combination of the above situations. The market risk of the Bank goes through stress testing on a regular basis.

Assessment of fair value

Assessment of the fair value of financial instruments is based on the quantitative analysis of the financial products that takes into consideration the specific characteristics of the financial products, market situation of trading strategy, risk factors and the quality and qualification of counterparties. The Bank assesses the fair value of its financial instruments on a regular basis.

Interest rate risk of banking book

Interest rate risk of the banking book are measured and managed mainly through gap management, sensitivity analysis and duration analysis to ensure the interest rate risk of the banking book are controlled within the scope set by the risk appetite.

The Bank calculates the interest rate sensitivity gap based on repricing cash flow of the interest-earning assets and interest-bearing liabilities, and conducts scenario analysis, to assess the impact on the Bank of changes in interest rates. The impact on the market value of assets or liabilities of one basis point movement in interest rate was assessed through calculation of Basic Point Value.

Interest rate risk of the Bank's banking book goes through stress testing on a regular basis. In such stress testing, basic interest rate and market rate is treated as a prime factor, and other factors such as political and economic contingency or several contingencies happened at the same time are included.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Interest rate risk

The Bank operates its business predominantly in Mainland China under the interest rate scheme regulated by PBoC.

The Bank manages its interest rate risks through gap analysis, duration analysis and sensitivity analysis of its assets and liabilities. The Bank has set limits to the rate gap, duration and interest rate sensitivity, and monitors regularly to ensure that the exposures are within the Bank's limit.

(i) The table below summarizes the Bank's exposures to interest rate risks. It presents the Bank's assets and liabilities on the statement of financial position at carrying amounts, by the earlier of the contractual re-pricing date or the maturity date.

	31 December 2020					
	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	96,548,417	463,570	96,084,847	-	-	-
Deposits with banks and other financial institutions	27,805,363	9,428	27,246,391	549,544	-	-
Placements with banks and other financial institutions	6,063,668	44,832	4,711,098	1,307,738	-	-
Derivative financial assets	232,498	232,498	-	-	-	-
Loans and advances to customers (Note (i))	867,120,217	4,415,017	415,846,854	323,592,494	107,513,563	15,752,289
Financial investments (Note (ii))	375,926,746	21,576,223	85,776,203	44,683,725	192,303,761	31,586,834
Other	19,826,216	19,826,216	-	-	-	-
Total assets	1,393,523,125	46,567,784	629,665,393	370,133,501	299,817,324	47,339,123
Liabilities						
Borrowing from the central bank	71,592,485	992,485	14,100,000	56,500,000	-	-
Deposits from banks and other financial Institutions	130,273,359	611,070	59,711,269	69,951,020	-	-
Placements from banks and other financial institutions	31,920,614	188,728	15,540,982	16,190,904	-	-
Derivative financial liabilities	533,164	533,164	-	-	-	-
Financial assets sold under repurchase agreements	52,406,083	68,396	51,621,739	715,948	-	-
Deposits from customers	758,235,794	11,664,700	348,839,868	160,388,452	233,895,774	3,447,000
Debt securities issued	225,154,090	915,021	76,559,617	118,759,098	28,920,354	-
Other	20,161,706	16,025,392	217,904	685,867	2,553,276	679,267
Total liabilities	1,290,277,295	30,998,956	566,591,379	423,191,289	265,369,404	4,126,267
Asset-liability gap	103,245,830	15,568,828	63,074,014	(53,057,788)	34,447,920	43,212,856

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Interest rate risk (Continued)

(i) *(Continued)*

	31 December 2019					
	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	93,013,699	463,113	92,550,586	–	–	–
Deposits with banks and other financial institutions	14,051,627	43,440	13,396,250	611,937	–	–
Placements with banks and other financial institutions	4,410,809	18,952	992,840	3,399,017	–	–
Derivative financial assets	158,709	158,709	–	–	–	–
Financial assets held under resale agreements	1,850,258	664	1,849,594	–	–	–
Loans and advances to customers (Note (i))	687,279,098	2,822,439	348,310,422	261,183,421	71,190,885	3,771,931
Financial investments (Note (ii))	300,306,891	16,285,810	44,817,935	63,062,043	154,003,340	22,137,763
Other	15,858,934	15,858,934	–	–	–	–
Total assets	1,116,930,025	35,652,061	501,917,627	328,256,418	225,194,225	25,909,694
Liabilities						
Borrowing from the central bank	46,905,557	605,557	5,000,000	41,300,000	–	–
Deposits from banks and other financial Institutions	78,547,430	608,842	42,009,283	35,929,305	–	–
Placements from banks and other financial institutions	21,500,177	279,980	7,358,081	13,862,116	–	–
Derivative financial liabilities	171,758	171,758	–	–	–	–
Financial assets sold under repurchase agreements	23,069,093	22,513	22,179,072	867,508	–	–
Deposits from customers	647,764,551	9,885,750	298,670,078	177,863,197	155,121,526	6,224,000
Debt securities issued	196,603,843	703,767	70,741,274	94,254,960	30,903,842	–
Other	19,729,019	19,729,019	–	–	–	–
Total liabilities	1,034,291,428	32,007,186	445,957,788	364,077,086	186,025,368	6,224,000
Asset-liability gap	82,638,597	3,644,875	55,959,839	(35,820,668)	39,168,857	19,685,694

Notes:

(i) As at 31 December 2020 and 2019, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB16,393 million and RMB12,471 million, respectively.

(ii) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis

The Bank uses sensitivity analysis to measure the potential impact of changes in interest rate on the Bank's net profit or loss and equity. The following table sets forth the results of the Bank's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	31 December	
	2020 (Decrease)/ Increase	2019 Increase/ (Decrease)
Change in net profit		
Up 100 bps parallel shift in yield curves	**(139,458)**	29,170
Down 100 bps parallel shift in yield curves	**139,458**	(29,170)

	31 December	
	2020 Increase/ (Decrease)	2019 Increase/ (Decrease)
Change in equity		
Up 100 bps parallel shift in yield curves	**232,807**	290,943
Down 100 bps parallel shift in yield curves	**(232,807)**	(290,943)

The sensitivity analysis above is based on a static interest rate risk profile of the Bank's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Bank's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at 31 December 2020 and 2019 apply to non-derivative financial instruments of the Bank;

– At 31 December 2020 and 2019, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next full year from the end of the period;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Bank'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.

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Foreign currency risk

Foreign exchange risk refers to the risk of losses arising from the negative changes in the rate of exchange. The Bank conducts the majority of its business in RMB, with certain foreign transactions in United States dollars ("USD"), Hong Kong dollars ("HKD") and, to a much lesser extent, other currencies.

The Bank's principle in controlling foreign exchange risk is to match its assets and liabilities by currency and to maintain foreign exchange risk within established limits. The Bank has set foreign exchange risk limits which are consistent with the guidelines established by the Asset and Liability Management Committee of the Bank and are in accordance with relevant regulatory requirements, and reflect management's assessment of current circumstances. The Bank also manages its sources and uses of foreign currencies to minimize potential mismatches.

The Bank monitors its foreign exchange risk. The Bank mainly uses the foreign exchange exposure analysis, scenario analysis and stress testing to measure and analyze the foreign exchange risk. Besides, the Bank monitors and controls the foreign exchange risk through the limit management. The Asset and Liability Management Department's market risk team performs independent monitoring, reporting, and management for the entire bank's foreign exchange risk. Meanwhile, the Bank managed the on-balance sheet foreign exchange risk exposures through derivative financial instruments such as foreign exchange swaps and foreign exchange futures, and kept the Bank's total exposures of on-balance sheet and off-balance sheet to a low level. Therefore, the foreign exchange exposure at the end of the period is not sensitive to exchange rate fluctuations, and the potential impact on the Bank's net profit and shareholders' equity is not significant.

The following table summarizes the Bank's exchange risk of assets and liabilities at reporting date. Included in the table are the carrying value of assets and liabilities, and the off-balance sheet credit commitments in RMB equivalent, categorized by the original currency.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Foreign currency risk (Continued)

The Bank's currency exposures as at 31 December 2020 and 2019 are as follows:

	31 December 2020			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	91,572,545	4,097,350	878,522	96,548,417
Deposits with banks and other financial institutions	10,435,710	15,019,529	2,350,124	27,805,363
Placements with banks and other financial institutions	3,123,130	2,940,538	–	6,063,668
Derivative financial assets	232,498	–	–	232,498
Loans and advances to customers	820,669,192	45,069,757	1,381,268	867,120,217
Financial investments (Note (i))	360,736,839	14,714,781	475,126	375,926,746
Other assets	19,766,818	47,427	11,971	19,826,216
Total assets	1,306,536,732	81,889,382	5,097,011	1,393,523,125
Liabilities				
Borrowing from the central bank	71,592,485	–	–	71,592,485
Deposits from banks and other financial Institutions	130,273,129	1	229	130,273,359
Placements from banks and other financial institutions	4,473,750	24,325,431	3,121,433	31,920,614
Derivative financial liabilities	528,552	4,612	–	533,164
Financial assets sold under repurchase agreements	52,406,083	–	–	52,406,083
Deposits from customers	674,607,125	82,860,830	767,839	758,235,794
Debt securities issued	225,154,090	–	–	225,154,090
Other liabilities	16,013,812	138,632	4,009,262	20,161,706
Total liabilities	1,175,049,026	107,329,506	7,898,763	1,290,277,295
Net position	131,487,706	(25,440,124)	(2,801,752)	103,245,830
Credit commitments	261,730,605	18,045,145	2,105,929	281,881,679

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Foreign currency risk (Continued)

	31 December 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	90,799,927	2,202,896	10,876	93,013,699
Deposits with banks and other financial institutions	5,121,261	7,800,023	1,130,343	14,051,627
Placements with banks and other financial institutions	3,052,200	1,358,609	–	4,410,809
Derivative financial assets	158,709	–	–	158,709
Financial assets held under resale agreements	1,850,258	–	–	1,850,258
Loans and advances to customers	660,182,784	26,012,154	1,084,160	687,279,098
Financial investments (Note (i))	293,876,406	6,311,027	119,458	300,306,891
Other assets	15,833,164	25,716	54	15,858,934
Total assets	1,070,874,709	43,710,425	2,344,891	1,116,930,025
Liabilities				
Borrowing from the central bank	46,905,557	–	–	46,905,557
Deposits from banks and other financial Institutions	78,547,199	1	230	78,547,430
Placements from banks and other financial institutions	4,129,413	17,370,764	–	21,500,177
Derivative financial liabilities	171,758	–	–	171,758
Financial assets sold under repurchase agreements	23,069,093	–	–	23,069,093
Deposits from customers	607,404,401	39,550,897	809,253	647,764,551
Debt securities issued	196,603,843	–	–	196,603,843
Other liabilities	18,094,517	134,161	1,500,341	19,729,019
Total liabilities	974,925,781	57,055,823	2,309,824	1,034,291,428
Net position	95,948,928	(13,345,398)	35,067	82,638,597
Credit commitments	247,232,602	11,469,456	2,718,209	261,420,267

(i) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost.

45 Risk management *(Continued)*

(c) Liquidity risk

The Bank adopts a centralized approach with respect to its liquidity risk management, in which the head office centrally manages overall liquidity risk across the Bank under the policies and guidance of the Board of Directors. Liquidity risk is managed on three levels from the Board of Directors, to senior management and down to individual departments, so that all the Bank is involved in the liquidity risk management. The Asset and Liability Management Department is the leading department in managing the liquidity risk, and is responsible for formulating liquidity risk management strategies, policies and procedures, and identifying, measuring, monitoring and controlling liquidity risk, and ensuring the Bank's overall liquidity risk is controlled within the Bank's risk tolerance based on cash flow gap analysis, with the help of intraday position management, early-warning indicators and limit control, among other means and methods, and by conducting stress testing and crisis response exercises, strengthening market prejudgement and implementing dynamic liquidity risk management when appropriate. The Bank reviews the above practices and means and methods at least once a year. The Corporate Banking Department, Retail Banking Department and Financial Market Department, among others at the head office, and the subsidiaries engage in their business activities in compliance with the liquidity risk management policies, appetite, processes, limits and other requirements as set down by the Board of Directors and senior management.

In addition to effectively managing intraday positions, the Bank managed cash flow, balancing liquidity and profitability and ensuring safety payment of the Bank and implementing integration management of local and foreign currency. For medium and long term liquidity risk management, the Bank strengthened management measures on regulatory ratios and internal limit, and timely monitored early warning indicators, implemented initiative supplementing of liabilities, stabilized the source of capital and improved future maturity structure of assets and liabilities. Regulatory indicators mainly including liquidity proportion, liquidity coverage ratio, net stable funding ratio and liquidity matching rate are set to guide business development. Internal limits, primarily on treasury loans, debt securities pledged as security and asset-liability maturity gap, are monitored to manage and adjust mismatches between the duration of assets and liabilities. Enforcing the establishment and analysis of customer behavior models, leveraging liquidity management models that use prudent assumptions on the Bank's cash inflows and outflows from its assets and liabilities, and by monitoring, analyzing and managing its compliance with regulatory indicators and internal limits, the Bank has been able to maintain a sound liquidity position.

In order to cope with its liquidity risks arising from fluctuation of capital market and changes of macro-economic environment, the Bank sticks to the practice of stress testing of them, including the test of cash flow gaps in the future 7 days,30 days and 90 days and implementation of shortest lifetime management of the Bank by introducing the results of customer behaviors analysis to test the Bank's tolerance of liquidity risks under different stress scenarios through stimulation of decline in the price of marketable securities and outflow of deposits. Also, in consideration of its business size, complexity, level of risk and organizational structure, the Bank has emergency plans in place and explicit internal labor division and emergency procedures to ensure its liquidity under a crisis situation.

To bolster the Bank's liquidity, the Bank formulates investment guidelines and regularly assesses and adjusts its investment strategies for debt securities in light of actual risk management needs, clearly defines the ceiling for collateral bonds through internal limits. This ensures the availability of sufficient quality liquid assets which are readily realizable, and structurally ensure the potential liquidity needs of the Bank are well taken care of. The bank focuses on the adjustment and optimization of asset structure, establishes a portfolio of liquidity reserve assets, and implements asset planning management, and pay attention to the stable return of funds when business is due. In addition, the Bank continues to expand its various debt channels, actively strengthens the degree of participation in the issuance of financial bonds, inter-bank customer relationship management and open market operations of the PBoC, attempts to expand the Bank's medium and long-term stable sources of liabilities, so as to improve the Bank's financing ability under high liquidity pressure.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Maturity analysis

The following tables provide an analysis of non-derivative assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at 31 December 2020 and 2019:

	31 December 2020							
	Indefinite Note (i)	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	63,018,716	33,529,701	-	-	-	-	-	96,548,417
Deposit with banks and other financial institutions	-	27,250,767	-	-	554,596	-	-	27,805,363
Placements with banks and other financial institutions	-	2,629,311	1,914,133	205,989	1,314,235	-	-	6,063,668
Loans and advances to customers	11,090,114	5,658,777	64,713,005	82,859,214	278,962,810	267,715,556	156,120,741	867,120,217
Financial investments (ii)	18,711,973	29,172,970	11,219,097	11,672,396	68,616,635	204,477,627	32,056,048	375,926,746
Other	19,826,216	-	-	-	-	-	-	19,826,216
Total assets	112,647,019	98,241,526	77,846,235	94,737,599	349,448,276	472,193,183	188,176,789	1,393,290,627
Liabilities								
Borrowing from the central bank	-	-	11,134,811	3,387,701	57,069,973	-	-	71,592,485
Deposits from banks and other financial Institutions	-	27,060,708	11,502,265	20,897,166	70,813,220	-	-	130,273,359
Placements from banks and other financial institutions	-	2,009,666	6,339,951	7,327,414	16,243,583	-	-	31,920,614
Financial assets sold under repurchase agreements	-	15,167,964	29,492,628	7,026,533	718,958	-	-	52,406,083
Deposit from customers	119,108	207,698,503	55,322,139	88,731,884	162,122,294	240,761,577	3,480,289	758,235,794
Debt securities issued	-	-	12,946,723	64,171,119	119,115,894	28,920,354	-	225,154,090
Other	16,025,392	-	72,030	145,874	685,867	2,553,276	679,267	20,161,706
Total liabilities	16,144,500	251,936,841	126,810,547	191,687,691	426,769,789	272,235,207	4,159,556	1,289,744,131
Net position	96,502,519	(153,695,315)	(48,964,312)	(96,950,092)	(77,321,513)	199,957,976	184,017,233	103,546,496

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Maturity analysis (Continued)

	31 December 2019							
	Indefinite Note (i)	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	64,534,750	28,478,949	–	–	–	–	–	93,013,699
Deposit with banks and other financial institutions	–	12,357,476	506,246	555,290	632,615	–	–	14,051,627
Placements with banks and other financial institutions	–	–	–	1,002,573	3,408,236	–	–	4,410,809
Financial assets held under resale agreements	–	–	1,850,258	–	–	–	–	1,850,258
Loans and advances to customers	7,718,389	2,517,674	50,460,530	54,213,485	230,715,509	224,557,388	117,096,123	687,279,098
Financial investments (ii)	4,782,757	16,790,675	9,856,670	10,588,916	66,970,562	166,993,333	24,323,978	300,306,891
Other	15,858,934	–	–	–	–	–	–	15,858,934
Total assets	92,894,830	60,144,774	62,673,704	66,360,264	301,726,922	391,550,721	141,420,101	1,116,771,316
Liabilities								
Borrowing from the central bank	–	–	5,150,063	–	41,755,494	–	–	46,905,557
Deposits from banks and other financial Institutions	–	18,477	24,164,236	18,151,387	35,761,330	452,000	–	78,547,430
Placements from banks and other financial institutions	–	–	4,074,591	3,524,298	13,901,288	–	–	21,500,177
Financial assets sold under repurchase agreements	–	–	22,025,336	173,467	870,290	–	–	23,069,093
Deposit from customers	258,777	185,303,287	62,388,941	52,474,341	181,369,406	159,719,112	6,250,687	647,764,551
Debt securities issued	–	–	9,028,586	61,912,497	85,768,448	30,903,842	8,990,470	196,603,843
Other	19,729,019	–	–	–	–	–	–	19,729,019
Total liabilities	19,987,796	185,321,764	126,831,753	136,235,990	359,426,256	191,074,954	15,241,157	1,034,119,670
Net position	72,907,034	(125,176,990)	(64,158,049)	(69,875,726)	(57,699,334)	200,475,767	126,178,944	82,651,646

Note:

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans and advances, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

(ii) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Bank at 31 December 2020 and 2019:

	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								
Borrowing from the central bank	71,592,485	71,592,485	-	11,134,811	3,387,701	57,069,973	-	-
Deposits from banks and other financial institutions	130,273,359	131,711,713	27,060,708	11,518,444	21,033,236	72,099,325	-	-
Placements from banks and other financial institutions	31,920,614	32,053,310	2,009,667	6,343,579	7,341,607	16,358,457	-	-
Financial assets sold under repurchase agreements	52,406,083	52,435,611	15,167,964	29,494,055	7,049,670	723,922	-	-
Deposits from customers	758,235,794	783,206,434	207,817,609	55,356,965	89,135,555	163,361,464	263,031,814	4,503,027
Debt securities issued	225,154,090	230,482,753	-	12,966,164	64,502,918	121,509,282	31,146,537	357,852
Other financial liabilities	20,161,706	20,525,450	16,025,392	73,803	149,421	701,827	2,761,307	813,700
– Lease liabilities	4,136,314	4,500,058	-	73,803	149,421	701,827	2,761,307	813,700
– Other	16,025,392	16,025,392	16,025,392	-	-	-	-	-
Total non-derivative financial liabilities	1,289,744,131	1,322,007,756	268,081,340	126,887,821	192,600,108	431,824,250	296,939,658	5,674,579
Credit commitments	281,881,679	281,881,679	9,763,231	29,058,670	75,137,793	161,443,707	5,798,278	680,000

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Analysis on contractual undiscounted cash flows of non-derivative financial liabilities (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								
Borrowing from the central bank	46,905,557	46,905,557	–	5,150,063	–	41,755,494	–	–
Deposits from banks and other financial institutions	78,547,430	78,613,281	18,476	24,176,963	18,168,889	35,796,953	452,000	–
Placements from banks and other financial institutions	21,500,177	21,773,652	–	4,092,753	3,604,688	14,076,211	–	–
Financial assets sold under repurchase agreements	23,069,093	23,085,395	–	22,034,038	174,039	877,318	–	–
Deposits from customers	647,764,551	672,176,102	185,562,064	62,440,450	52,706,101	184,776,187	178,826,161	7,865,139
Debt securities issued	196,603,843	203,764,241	–	9,052,273	62,265,633	87,282,517	33,186,076	11,977,742
Other financial liabilities	19,729,019	20,499,347	15,772,723	225,721	88,135	604,528	2,912,996	895,244
– Lease liabilities	3,956,296	4,726,624	–	225,721	88,135	604,528	2,912,996	895,244
– Other	15,772,723	15,772,723	15,772,723	–	–	–	–	–
Total non-derivative financial liabilities	1,034,119,670	1,066,817,575	201,353,263	127,172,261	137,007,485	365,169,208	215,377,233	20,738,125
Credit commitments	261,420,267	261,420,267	6,065,520	31,607,383	53,270,981	163,850,036	5,946,347	680,000

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Analysis on contractual undiscounted cash flow of derivative financial instruments

The Bank's derivative financial instruments that will be settled on a net basis include interest rate swaps and precious metals derivatives. The Bank's derivative financial instruments that will be settled on a gross basis are exchange rate swaps and exchange rate forwards.

The following table analyses the contractual undiscounted cash flow of financial derivatives that will be settled on net amounts and gross amounts basis held by the Bank at the year end. The amounts disclosed are the contractual undiscounted cash flows.

	31 December 2020				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	**913**	**88**	**598**	**11,343**	**12,942**
Precious metal swaps	**–**	**–**	**(113,527)**	**–**	**(113,527)**
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
– Cash inflow	**11,122,357**	**11,758,953**	**1,314,644**	**154,386**	**24,350,340**
– Cash outflow	**(11,151,098)**	**(11,947,989)**	**(1,330,065)**	**(160,678)**	**(24,589,830)**
Exchange rate forwards					
– Cash inflow	**–**	**–**	**862,430**	**–**	**862,430**
– Cash outflow	**–**	**–**	**(843,600)**	**–**	**(843,600)**
Total cash inflow	**11,122,357**	**11,758,953**	**2,177,074**	**154,386**	**25,212,770**
Total cash outflow	**(11,151,098)**	**(11,947,989)**	**(2,173,665)**	**(160,678)**	**(25,433,430)**

	31 December 2019				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	(113)	77	305	12,661	12,930
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
– Cash inflow	6,278,166	1,301,781	4,873,750	164,362	12,618,059
– Cash outflow	(6,307,286)	(1,306,058)	(4,926,405)	(156,168)	(12,695,917)
Exchange rate forwards					
– Cash inflow	–	–	115,856	–	115,856
– Cash outflow	–	–	(117,210)	–	(117,210)
Total cash inflow	6,278,166	1,301,781	4,989,606	164,362	12,733,915
Total cash outflow	(6,307,286)	(1,306,058)	(5,043,615)	(156,168)	(12,813,127)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Risk management *(Continued)*

(d) Operational risk

Operational risk is the risk of losses due to inadequate or flawed internal processes, staff and IT systems, and external events. It includes legal risk but excludes strategic risk and reputational risk.

The Bank minimizes losses from operational risk through a sound risk management system in internal controls that identifies, assesses, monitors, controls, mitigates and reports operational risk. The system covers all business lines-finance, credit, accounting, settlement, saving, treasury, intermediary business, application and management of IT systems, asset preservation and legal affairs. Key internal control measures include:

– Strengthening the operational risk management mechanism consisting of three lines of defence, complying with regulatory requirements, implementing related management policies to further standardise the methods and processes of operational risk management for effective risk management.

– Raising the control quality of the operational risk management tool and improving dynamic updates of Key Control Standards (KCS) and Key Control Self Assessment (KCSA); Monitoring Key Risk Indicators (KRI) with enhanced risk warning; continuously strengthening the development and application of internal control compliance management information platform, and improving its analysis and application, in order to strengthen the quality and effect of monitoring, early warning and supporting. Establish the database of operational risk cases, continue to carry out a series of trainings, and actively create a good operational risk management culture.

– Emphasise the combination of inspection and defence, enhance case risk investigation and major operational risk prevention and control management and investigation, and joint operation between head office and branches, implement special inspection targets; implementing the "Guidelines for the Management of Practitioners in Banking and Financial Institutions", Formulate the "Guidelines for the Investigation of Abnormal Behaviours" to strengthening the behaviour management of practitioners; strictly implementing the policy and regulation requirements of anti-money laundering, implementing the Policy No. 3 and the Guidelines for the Money Laundering and Terrorism Financing Risks Management for Legal Financial Institutions (Trial), improving the functions of the anti-money laundering system, continue to optimize indicators and model design, implementing investigation and rectification on customer identification, and prevent and control money laundering risks at the source.

– Organising call drills, improving emergency plans, and conducting on-site inspections on the preparations for resumption of outlets during the prevention and control of coronavirus outbreak, and strengthening business sustainability management.

In addition, the Bank continued to improve its operational risk management system to improve system operation efficiency and data quality, and provide informatisation support for effective identification, assessment, monitoring, control and reporting of operational risks. The operational management system has the functions of recording and storing operational risk event information, supporting operational risks self-assessment, monitoring key risk indicators and other functions.

46 Fair value

(a) Methods and assumptions for measurement of fair value

The Bank 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 reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, such as discounted cash flows model.

(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 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 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 reporting period.

(iv) Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards, swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and the Garman Kohlhagen model extended from Black Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

(b) Fair value measurement

(i) Financial assets

The Bank's financial assets mainly consist of cash and deposits with the central bank, deposit with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, and investments.

Deposits with the central bank, deposit 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.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values.

46 Fair value *(Continued)*

(b) Fair value measurement *(Continued)*

(i) Financial assets (Continued)

Derivative financial assets, financial investments measured at fair value through other comprehensive income ("FVOCI") and financial assets measured at fair value through profit or loss ("FVTPL") are stated at fair value. Financial investments measured at amortised cost are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) Financial liabilities

The Bank's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, derivative financial liabilities, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Derivative financial liabilities is stated at fair value. The book value and fair value of debt securities issued is presented in Note 33. The carrying amounts of other financial liabilities approximate their fair value.

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

– Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

– Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments that measured at fair value, the fair value of which is based on quoted market prices. When quoted prices on open market are not available, the Banks will determine the fair value of financial instruments by using appropriate valuation model, enquiry or by reference to the valuation results of third-party valuation institution. The Bank selects appropriate models based on the risk characteristics, liquidity, counterparty risk and pricing basis of specific financial instruments or trading strategies to ensure that their fair value are truly and effectively reflected. The Bank selects the quoted prices or refers to the valuation results of third-party valuation agencies for evaluation of the fair value of a financial instrument, and when referring to the valuation results of third-party valuation agencies, the authority, independence and professionalism of the agencies should be assessed.

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial assets	–	232,498	–	232,498
Loans and advances to customers measured at fair value through profit or loss				
– Corporate loans and advance	–	74,060	–	74,060
Loans and advances to customers measured at fair value through other comprehensive income				
– Discounted bills	–	31,046,668	–	31,046,668
Financial investments measured at fair value through profit or loss				
– Debt securities	–	7,869,297	567,229	8,436,526
– Investment funds	–	44,178,765	–	44,178,765
– Trust plans and asset management plans	–	16,175,017	1,676,276	17,851,293
– Equity investments	298,175	–	1,832,738	2,130,913
Financial investments measured at fair value through other comprehensive income				
– Debt securities (exclusive interests accrued)	–	59,791,966	–	59,791,966
– Equity investments	–	–	200,000	200,000
– Trust plans and asset management plans (exclusive interests accrued)	–	962,971	–	962,971
Total	298,175	160,331,242	4,276,243	164,905,660
Liabilities				
Derivative financial liabilities	–	(533,164)	–	(533,164)
Total	–	(533,164)	–	(533,164)

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial assets	–	158,709	–	158,709
Loans and advances to customers measured at fair value through profit or loss				
– Corporate loans and advance	–	758,665	–	758,665
Loans and advances to customers measured at fair value through other comprehensive income				
– Discounted bills	–	9,413,518	–	9,413,518
Financial investments measured at fair value through profit or loss				
– Debt securities	–	804,971	–	804,971
– Investment funds	–	25,480,840	–	25,480,840
– Trust plans and asset management plans	–	6,263,005	1,848,206	8,111,211
– Equity investments	145,274	–	1,696,017	1,841,291
Financial investments measured at fair value through other comprehensive income				
– Debt securities (exclusive interests accrued)	–	54,874,916	–	54,874,916
– Equity investments	–	–	200,000	200,000
– Trust plans and asset management plans (exclusive interests accrued)	–	8,979,719	–	8,979,719
Total	145,274	106,734,343	3,744,223	110,623,840
Liabilities				
Derivative financial liabilities	–	(171,758)	–	(171,758)
Total	–	(171,758)	–	(171,758)

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

The movement during the year ended 31 December 2020 in the balance of Level 3 fair value measurements is as follows:

	1 January 2020	Transfer into Level 3	Transfer out of Level 3	Total gains or losses of the year		Additions, issues, sales and settlements				31 December 2020	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Additions	Issues	Sales	Settlements		
Assets											
Financial assets measured at fair value through profit or loss											
– Debt securities	–	–	–	–	–	567,229	–	–	–	567,229	–
– Trust plans and asset management plans	1,848,206	–	–	(161,296)	–	–	–	–	(10,634)	1,676,276	(161,296)
– Equity investments	1,696,017	–	(104,625)	–	–	241,346	–	–	–	1,832,738	–
Sub-total	3,544,223	–	(104,625)	(161,296)	–	808,575	–	–	(10,634)	4,076,243	(161,296)
Financial assets measured at fair value through other comprehensive income											
– Equity investments	200,000	–	–	–	–	–	–	–	–	200,000	–
Total	3,744,223	–	(104,625)	(161,296)	–	808,575	–	–	(10,634)	4,276,243	(161,296)

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

The movement during the year ended 31 December 2019 in the balance of Level 3 fair value measurements is as follows:

	1 January 2019	Transfer into Level 3	Transfer out of Level 3	Total gains or losses of the year		Additions, issues, sales and settlements				31 December 2019	Unrealised gains or losses for the year included in profit or loss for assets held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Additions	Issues	Sales	Settlements		
Assets											
Financial assets at fair value through profit or loss											
– Trust plans and asset management plans	–	–	–	–	–	1,848,206	–	–	–	1,848,206	–
– Equity investments	322,369	–	–	–	–	1,373,648	–	–	–	1,696,017	–
Sub-total	322,369	–	–	–	–	3,221,854	–	–	–	3,544,223	–
Financial assets at fair value through other comprehensive income											
– Equity investments	200,000	–	–	–	–	–	–	–	–	200,000	–
Total	522,369	–	–	–	–	3,221,854	–	–	–	3,744,223	–

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorized within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at 31 December 2020	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– Debt securities	**567,229**	**Discounted cash flow**	**Risk-adjusted discount rate, cash flow**
– Trust plans and asset management plans	**1,676,276**	**Discounted cash flow**	**Risk-adjusted discount rate, cash flow**
– Equity investments	**1,832,738**	**Discounted cash flow**	**Risk-adjusted discount rate, cash flow**
Financial investments measured at fair value through other comprehensive income			
– Equity investments	**200,000**	**Discounted cash flow**	**Risk-adjusted discount rate, cash flow**

	Fair value as at 31 December 2019	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– Trust plans and asset management plans	1,848,206	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Equity investments	1,696,017	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– Equity investments	200,000	Discounted cash flow	Risk-adjusted discount rate, cash flow

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

During the reporting period, there were no significant change in the valuation techniques.

As at 31 December 2020 and 2019, significant unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets measured at fair value classified as Level 3, which were mainly equity investments. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs. An increases (decreases) in risk-adjusted discount rate in isolation would result in a lower (higher) fair value measurement, and increases (decreases) in cash flow in isolation would result in a higher (lower) fair value measurement. There are no interrelationships between those inputs

The sensitivity of the fair value on changes in significant unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data.

The following table shows the sensitivity of fair value due to 1% movement (100bps) of risk-adjusted discount rate change to reasonably possible alternative assumptions.

	31 December 2020			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– Debt securities	**21,288**	**(20,110)**	**–**	**–**
– Trust plans and asset management plans	**71,284**	**(67,259)**	**–**	**–**
– Equity investments	**68,309**	**(64,533)**	**–**	**–**
Financial investments measured at fair value through other comprehensive income				
– Equity investments	**–**	**–**	**4,668**	**(4,429)**

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

	31 December 2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– Trust plans and asset management plans	73,045	(68,969)	–	–
– Equity investments	64,035	(60,477)	–	–
Financial investments measured at fair value through other comprehensive income				
– Equity investments	–	–	5,016	(4,755)

The following table shows the sensitivity of fair value due to 10% movement of cash flow change to reasonably possible alternative assumptions.

	31 December 2020			
	Effect on net profit		**Effect on other comprehensive income**	
	Favourable	**(Unfavourable)**	**Favourable**	**(Unfavourable)**
Financial investments measured at fair value through profit or loss				
– Debt securities	**23,199**	**(23,199)**	**–**	**–**
– Trust plans and asset management plans	**76,284**	**(76,284)**	**–**	**–**
– Equity investments	**74,585**	**(74,585)**	**–**	**–**
Financial investments measured at fair value through other comprehensive income				
– Equity investments	**–**	**–**	**5,624**	**(5,624)**

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

	31 December 2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– Trust plans and asset management plans	65,809	(65,809)	–	–
– Equity investments	58,142	(58,142)	–	–
Financial investments at fair value through other comprehensive income				
– Equity investments	–	–	4,945	(4,945)

Base on above sensitivity analysis, changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would not result in a significant change in the fair value of relevant financial instruments.

47 Entrusted lending business

The Bank provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Bank does not take any credit risk in relation to these transactions. The Bank acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Bank and are not recognised in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	31 December	
	2020	2019
Entrusted loans	**36,175,510**	68,800,182
Entrusted funds	**36,175,510**	68,800,182

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Commitments and contingent liabilities

(a) Credit commitments

The Bank'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 commitments represent the amounts should the contracts be fully drawn upon. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December	
	2020	2019
Acceptances	**194,625,498**	167,506,456
Letters of credit	**59,117,237**	67,528,818
Letters of guarantees	**20,647,128**	21,315,136
Credit card commitments	**7,491,816**	5,069,857
Total	**281,881,679**	261,420,267

The Bank may be exposed to credit risk in all the above credit businesses. Bank Management periodically assesses credit risk and makes provision for any probable 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. As at 31 December 2020 and 2019, provisions for credit commitments were RMB1,006 million and RMB768 million.

(b) Credit risk-weighted amount for credit commitments

	31 December	
	2020	2019
Credit risk-weighted amounts	**60,787,483**	61,677,273

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Commitments and contingent liabilities *(Continued)*

(c) Capital commitments

As at 31 December 2020 and 2019, the Bank's authorised capital commitments are as follows:

	31 December	
	2020	2019
Contracted but not paid for	**244,073**	93,799
Authorised but not contracted for	**147,024**	48,659
Total	**391,097**	142,458

(d) Outstanding litigations and disputes

As at 31 December 2020 and 31 December 2019, the Bank has been involved in certain claims and acting as the defendant in certain outstanding litigations and disputes with an estimated gross amounts of RMB81.30 million and RMB79.32 million, respectively. The Bank has assessed the impact of the above outstanding litigations and disputes that may lead to an outflow of economic benefits. According to the opinion of the Bank's internal department and external lawyers, as at 31 December 2020, the Bank has made provisions of RMB42.24 million regarding such pending litigations and claims arising from normal course of business.

(e) Pledged assets

(i) Assets pledged as collateral

	31 December	
	2020	2019
Debt securities	**113,770,120**	47,619,652
Discounted bills	**11,311,854**	2,269,220
Total	**125,081,974**	49,888,872

Some of the Bank's assets are pledged as collateral under repurchase agreements, and borrowings from central bank.

The Bank's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2020 and 2019, the Bank did not have these discounted bills under resale agreements. As at 31 December 2020 and 2019, the Bank did not sell or repledge any pledged assets which it has an obligation to resale when they are due.

48 Commitments and contingent liabilities *(Continued)*

(e) Pledged assets *(Continued)*

(ii) Pledged assets received

The Bank conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. The Bank's balance of financial assets held under resale agreements were included in Note 21. The fair value of such collateral accepted by the Bank was nil and RMB1,850 million as at 31 December 2020 and 2019. These transactions were conducted under standard terms in the normal course of business.

49 Subsequent events

Tier-two capital bonds issued

In January 2021, the Bank issued ten-year tier-two capital bonds with face value of RMB9 billion. The fixed coupon interest rate per annum is 4.40%.

Except for the above, the Bank had no other material events for disclosure subsequent to 31 December 2020 and up to the date of this financial statements.

50 Comparative figures

For financial statements disclosure purpose, the Bank made reclassification adjustments to some comparative figures.

Interim Financial Report

For the six months ended 30 June 2021

Review Report to the Board of Directors of

CHINA BOHAI BANK CO., LTD.
(A joint stock company incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 66 to 172 which comprises the statement of financial position of CHINA BOHAI BANK CO., LTD. (the "Bank") as at 30 June 2021 and the related statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the six-months 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 an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making enquiries, 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 Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 August 2021

Unaudited Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June 2021 (Unaudited)	2020 (Unaudited)
Interest income		**31,587,589**	29,255,767
Interest expense		**(18,043,723)**	(15,223,522)
Net interest income	3	**13,543,866**	14,032,245
Fee and commission income		**2,204,688**	2,417,742
Fee and commission expense		**(1,087,297)**	(992,342)
Net fee and commission income	4	**1,117,391**	1,425,400
Net trading losses	5	**(106,233)**	(9,655)
Net gains arising from investment securities	6	**1,186,055**	578,423
Other operating income	7	**61,790**	18,786
Operating income		**15,802,869**	16,045,199
Operating expenses	8	**(4,711,555)**	(4,417,196)
Impairment losses on assets	9	**(4,370,532)**	(5,342,664)
Profit before taxation		**6,720,782**	6,285,339
Income tax	10	**(1,376,217)**	(1,238,628)
Net profit		**5,344,565**	5,046,711
Earnings per share			
– Basic and diluted (RMB yuan)	11	**0.30**	0.35

The notes on pages 74 to 172 form part of these interim financial report.

Unaudited Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2021 (Unaudited)	2020 (Unaudited)
Net profit		**5,344,565**	5,046,711
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of financial assets measured at fair value through other comprehensive income	32	**118,992**	27,858
Credit losses of financial assets measured at fair value through other comprehensive income	32	**3,819**	(190,845)
(Reserve)/Charge from cash flow hedging instruments	32	**(217)**	194
Exchange difference on translating foreign operations		**84**	–
Other comprehensive income, net of tax		**122,678**	(162,793)
Total comprehensive income		**5,467,243**	4,883,918

The notes on pages 74 to 172 form part of these interim financial report.

Unaudited Statement of Financial Position

As at 30 June 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Assets			
Cash and deposits with the central bank	12	**96,693,442**	96,548,417
Deposits with banks and other financial institutions	13	**69,870,163**	27,805,363
Placements with banks and other financial institutions	14	**5,070,429**	6,063,668
Derivative financial assets	15	**490,517**	232,498
Financial assets held under resale agreements	16	**2,293,341**	–
Loans and advances to customers	17	**953,838,630**	867,120,217
Financial investments:	18		
– Financial investments measured at fair value through profit or loss		**88,803,652**	72,597,497
– Financial investments measured at fair value through other comprehensive income		**77,892,511**	61,813,595
– Financial investments measured at amortised cost		**243,218,224**	241,515,654
Property and equipment	20	**3,521,097**	3,630,154
Deferred tax assets	21	**9,724,046**	8,664,618
Other assets	22	**8,911,478**	7,531,444
Total assets		**1,560,327,530**	1,393,523,125
Liabilities and equity			
Liabilities			
Borrowing from the central bank	23	**72,455,956**	71,592,485
Deposits from banks and other financial institutions	24	**151,807,022**	130,273,359
Placements from banks and other financial institutions	25	**61,723,545**	31,920,614
Derivative financial liabilities	15	**847,518**	533,164
Financial assets sold under repurchase agreements	26	**15,661,750**	52,406,083
Deposits from customers	27	**857,649,637**	758,235,794
Income tax payable		**1,032,463**	2,485,405
Debt securities issued	28	**274,813,013**	225,154,090
Other liabilities	29	**17,133,323**	17,676,301
Total liabilities		**1,453,124,227**	1,290,277,295

The notes on pages 74 to 172 form part of these interim financial report.

Unaudited Statement of Financial Position

As at 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Equity			
Share capital	30	**17,762,000**	17,762,000
Other equity instruments	31	**19,961,604**	19,961,604
Other comprehensive income	32	**160,756**	38,078
Capital reserve		**10,732,077**	10,732,077
Surplus reserve	33	**5,868,637**	5,868,637
General reserve	33	**17,664,811**	17,664,811
Retained earnings	34	**35,053,418**	31,218,623
Total equity		**107,203,303**	103,245,830
Total liabilities and equity		**1,560,327,530**	1,393,523,125

Li Fuan	**Qu Hongzhi**	**Du Gang**	**Wang Fenglei**	**(Company stamp)**
Legal Representative Chairman of the Board of Directors	*President Executive Director*	*The person in charge of accounting affairs*	*The person in charge of accounting department*	

The notes on pages 74 to 172 form part of these interim financial report.

Unaudited Statement of Changes in Equity

For the six months ended 30 June 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Other equity instruments	Other comprehensive income	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2020		**17,762,000**	**19,961,604**	**38,078**	**10,732,077**	**5,868,637**	**17,664,811**	**31,218,623**	**103,245,830**
Changes in equity for the year:									
Net profit for the period		–	–	–	–	–	–	5,344,565	5,344,565
Other comprehensive income	32	–	–	122,678	–	–	–	–	122,678
Total comprehensive income		–	–	122,678	–	–	–	5,344,565	5,467,243
Appropriation of profit									
– Dividends distribution to ordinary shareholders	34	–	–	–	–	–	–	(1,509,770)	(1,509,770)
Balance at 30 June 2021 (Unaudited)		**17,762,000**	**19,961,604**	**160,756**	**10,732,077**	**5,868,637**	**17,664,811**	**35,053,418**	**107,203,303**

	Note	Share capital	Other equity instruments	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2019		14,450,000	19,961,604	969,493	5,009,612	14,081,733	28,166,155	82,638,597
Changes in equity for the period:								
Net profit for the period		–	–	–	–	–	5,046,711	5,046,711
Other comprehensive income	32	–	–	(162,793)	–	–	–	(162,793)
Total comprehensive income		–	–	(162,793)	–	–	5,046,711	4,883,918
Balance at 30 June 2020 (Unaudited)		14,450,000	19,961,604	806,700	5,009,612	14,081,733	33,212,866	87,522,515

The notes on pages 74 to 172 form part of these interim financial report.

Unaudited Statement of Changes in Equity
For the six months ended 30 June 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Other equity instruments	Other comprehensive income	Capital reserve	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2019		14,450,000	19,961,604	969,493	–	5,009,612	14,081,733	28,166,155	82,638,597
Changes in equity for the year:									
Net profit		–	–	–	–	–	–	8,444,571	8,444,571
Other comprehensive income	32	–	–	(931,415)	–	–	–	–	(931,415)
Total comprehensive income		–	–	(931,415)	–	–	–	8,444,571	7,513,156
Issue of H shares	30/33	3,312,000	–	–	10,732,077	–	–	–	14,044,077
Appropriation of profit									
– Appropriation to surplus reserve	33	–	–	–	–	859,025	–	(859,025)	–
– Appropriation to general reserve	33	–	–	–	–	–	3,583,078	(3,583,078)	–
– Dividend distribution to other equity instruments holders	34	–	–	–	–	–	–	(950,000)	(950,000)
Balance at 31 December 2020		17,762,000	19,961,604	38,078	10,732,077	5,868,637	17,664,811	31,218,623	103,245,830

The notes on pages 74 to 172 form part of these interim financial report.

Unaudited Cash Flow Statement

For the six months ended 30 June 2021
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June 2021 (Unaudited)	2020 (Unaudited)
Cash flows from operating activities			
Profit before tax		**6,720,782**	6,285,339
Adjustments for:			
Impairment losses on assets		**4,370,532**	5,342,664
Depreciation and amortisation		**711,267**	714,522
Net gains arising from investment securities		**(1,186,055)**	(578,423)
Interest expense on debts securities issued		**4,006,618**	3,366,466
Net trading losses		**106,233**	9,655
Interest income arising from financial investments		**(5,827,615)**	(5,791,865)
Interest expense on lease liabilities		**80,100**	78,506
Net gains on disposal of property and equipment		**(212)**	(122)
		8,981,650	9,426,742
Changes in operating assets			
Net (increase)/decrease in deposits with banks and other financial institutions with maturity over 3 months		**(450,000)**	1,660,000
Net increase in deposits with the central bank		**(8,067,651)**	(238,058)
Net (increase)/decrease in placement with banks and other institutions		**(2,860,000)**	1,000,725
Net increase in financial assets held for trading		**(3,880,229)**	(9,425,076)
Net increase in loans and advances to customers		**(94,806,828)**	(111,670,289)
Net decrease/(increase) in other operating assets		**1,347,024**	(1,649,918)
		(108,717,684)	(120,322,616)
Changes in operating liabilities			
Net increase in borrowings from the central bank		**400,000**	11,900,000
Net increase in deposits from banks and other financial institutions		**20,948,309**	11,786,338
Net increase in placements from banks and other financial institutions		**29,757,934**	4,886,008
Net decrease in financial assets sold under repurchase agreements		**(36,689,181)**	(579,866)
Net increase in deposits from customers		**100,004,044**	119,720,373
Net decrease in other operating liabilities		**(661,595)**	(4,758,876)
		113,759,511	142,953,977
Net cash flows generated from operating activities before tax		**14,023,477**	32,058,103
Income tax paid		**(3,961,862)**	(2,824,185)
Net cash flows generated from operating activities		**10,061,615**	29,233,918

The notes on pages 74 to 172 form part of these interim financial report.

Unaudited Cash Flow Statement

For the six months ended 30 June 2021

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June 2021 (Unaudited)	2020 (Unaudited)
Cash flows from investing activities			
Proceeds from disposal sale and redemption of investments		**221,212,781**	121,783,535
Proceeds received from investment activities		**5,799,991**	5,407,200
Proceeds from disposal of property and equipment and other assets		**218**	183
Payments on acquisition of investments		**(247,087,330)**	(141,605,559)
Payments on acquisition of property and equipment, intangible assets and other assets		**(659,384)**	(169,074)
Net cash flows used in investing activities		**(20,733,724)**	(14,583,715)
Cash flows from financing activities			
Proceeds from debt securities issued		**221,040,769**	176,817,254
Repayment of debt securities issued		**(172,349,805)**	(173,430,295)
Interest paid on debt securities issued		**(3,038,659)**	(3,132,108)
Dividends paid		**(1,509,770)**	–
Repayment of capital element of lease liabilities		**(645,738)**	(300,108)
Interest paid on lease liabilities		**(80,100)**	(78,506)
Net cash flows generated from/(used in) financing activities		**43,416,697**	(123,763)
Effect of foreign exchange rate changes on cash and cash equivalents		**(572,695)**	191,669
Net increase in cash and cash equivalents	37(a)	**32,171,893**	14,718,109
Cash and cash equivalents as at 1 January		**64,755,129**	42,694,864
Cash and cash equivalents as at 30 June	37(b)	**96,927,022**	57,412,973
Interest received		**30,468,158**	27,923,903
Interest paid (excluding interest expense on debt securities issued)		**(15,875,188)**	(10,356,044)

The notes on pages 74 to 172 form part of these interim financial report.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

1 Background information

CHINA BOHAI BANK CO., LTD. (the "Bank") is a national joint-stock commercial bank established in Tianjin on 30 December 2005.

The Bank has been approved by the former China Banking Regulatory Commission (the "CBRC") to hold financial business permit (No. B0017H112000001) and approved by the Tianjin Administration for Market Regulation for the business license (No. 911200007109339563).

On 16 July 2020, the Bank's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 9668).

The Bank commenced its operation on 16 February 2006. As at 30 June 2021, the Bank has established 34 tier-one branches (including Suzhou, Qingdao and Ningbo Branches under direct management of the Head Office and and 1 overseas branch), 31 tier-two branches, 162 sub-branches. The total number of outlets reached 261, including 227 branches and sub-branches, and 34 small and micro community sub-branches.

2 Basis of preparation and accounting policies

Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue by the Bank's Board of Directors on 27 August 2021.

This interim financial report contains financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Bank since the 2020 annual financial statements. The interim financial statements and selected notes thereon do not include all the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institution of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Bank's statutory annual financial statements for that financial year but is derived from those financial statements.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

2 Basis of preparation and accounting policies *(Continued)*

Accounting judgements and estimates

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense on a year to date basis. The significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the financial statements for the year ended 31 December 2020. Actual results may differ from these estimates.

Significant accounting policies

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements.

The IASB has issued the following amendments to IFRSs (including IASs) that are first effective for the current accounting period of the Bank.

Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

The adoption of the amendments has no material impact on the financial position and the financial performance of the Bank.

The Bank has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

3 Net interest income

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Interest income arising from		
Deposits with the central bank	**500,715**	523,206
Deposits with banks and other financial institutions	**134,996**	122,915
Placements with banks and other financial institutions	**127,886**	172,445
Loans and advances to customers		
– Corporate loans and advances	**13,060,719**	13,582,539
– Personal loans	**10,982,217**	8,601,845
– Discounted bills	**744,090**	353,398
Financial assets held under resale agreements	**209,351**	107,554
Financial investments	**5,827,615**	5,791,865
Sub-total	**31,587,589**	29,255,767
Interest expense arising from		
Borrowing from the central bank	**(1,095,409)**	(886,542)
Deposits from banks and other financial institutions	**(2,535,084)**	(1,112,701)
Placements from banks and other financial institutions	**(248,013)**	(312,517)
Deposits from customers	**(9,800,775)**	(9,357,563)
Financial assets sold under repurchase agreements	**(357,824)**	(187,733)
Debt securities issued	**(4,006,618)**	(3,366,466)
Sub-total	**(18,043,723)**	(15,223,522)
Net interest income	**13,543,866**	14,032,245

Interest income arising from impaired loans for the six months ended 30 June 2021 and 2020 amounted to RMB209 million and RMB126 million, respectively.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

4 Net fee and commission income

(a) Income and expense streams:

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Fee and commission income		
Agency service fees	**918,022**	1,175,843
Settlement and clearing fees	**472,576**	310,206
Custodian service fees	**297,186**	420,017
Consulting service fees	**238,328**	222,832
Credit commitments and asset management fees	**219,333**	219,387
Bank card fees	**32,438**	28,582
Others	**26,805**	40,875
Sub-total	**2,204,688**	2,417,742
Fee and commission expense		
Information service fees	**(968,013)**	(895,575)
Agency service fees	**(37,710)**	(31,799)
Settlement and clearing fees	**(21,273)**	(15,144)
Bank card fees	**(19,479)**	(7,104)
Consulting service fees	**(17,760)**	(35,395)
Others	**(23,062)**	(7,325)
Sub-total	**(1,087,297)**	(992,342)
Net fee and commission income	**1,117,391**	1,425,400

(b) Disaggregation of income:

	Six months ended 30 June (Unaudited)			
	2021		2020	
	At a point in time	**Over time**	At a point in time	Over time
Agency service fees	**298,506**	**619,516**	306,075	869,768
Settlement and clearing fees	**995**	**471,581**	777	309,429
Custodian service fees	**–**	**297,186**	–	420,017
Consulting service fees	**–**	**238,328**	–	222,832
Credit commitments and asset management fees	**13,774**	**205,559**	79,639	139,748
Bank card fees	**32,438**	**–**	28,582	–
Others	**6,840**	**19,965**	7,239	33,636
Total	**352,553**	**1,852,135**	422,312	1,995,430

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

5 Net trading losses

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Net (losses)/gains from derivative instruments	**(43,827)**	44,464
Exchange losses	**(443,085)**	(65,708)
Net gains from trading of precious metals	**152,865**	7
Net gains/(losses) from debt securities	**148,473**	(3,007)
Net gains from loans and advances at fair value through profit or loss	**11,323**	14,589
Net gains from equity investment	**68,018**	–
Total	**(106,233)**	(9,655)

6 Net gains arising from investment securities

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Net gains of financial investments measured at fair value through profit or loss	**882,682**	517,248
Net gains of financial investments measured at fair value through other comprehensive income	**53,601**	34,566
Net gains on disposal of financial investments measured at amortised cost	**249,772**	26,609
Total	**1,186,055**	578,423

7 Other operating income

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Government grants	**44,606**	10,421
Rental income	**7,820**	6,518
Long-term un-withdrawn items income	**2,429**	704
Net gains on disposal of property and equipment	**212**	122
Others	**6,723**	1,021
Total	**61,790**	18,786

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

8 Operating expenses

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Staff costs		
– Salaries, bonuses and allowances	**1,915,017**	2,104,498
– Social insurance and annuity	**409,896**	223,383
– Housing allowances	**230,529**	206,770
– Staff welfares	**106,952**	78,914
– Employee education expenses and labour union expenses	**62,717**	66,029
– Others	**102,557**	113,800
Sub-total	**2,827,668**	2,793,394
Depreciation and amortisation	**711,267**	714,522
Taxes and surcharges	**219,382**	214,146
Interest expense on lease liabilities	**80,100**	78,506
Other general and administrative expenses	**873,138**	616,628
Total	**4,711,555**	4,417,196

Expenses relating to short-term leases and leases of low-value assets were RMB17 million and RMB7 million for the six months ended 30 June 2021 and 2020.

9 Impairment losses on assets

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Deposits with banks and other financial institutions	**32,132**	(125,074)
Placements with banks and other financial institutions	**27,629**	61,483
Financial assets held under resale agreements	**4,306**	2,361
Loans and advances to customers	**6,194,174**	4,815,609
Financial investments	**(1,573,537)**	545,374
Credit commitments	**(314,172)**	42,911
Total	**4,370,532**	5,342,664

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

10 Income tax expense

(a) Income tax:

		Six months ended 30 June	
	Note	**2021 (Unaudited)**	2020 (Unaudited)
Current tax		**2,476,510**	1,949,140
Deferred tax	21(b)	**(1,100,293)**	(710,512)
Total		**1,376,217**	1,238,628

(b) Reconciliations between income tax and accounting profit are as follows:

		Six months ended 30 June	
	Note	**2021 (Unaudited)**	2020 (Unaudited)
Profit before taxation		**6,720,782**	6,285,339
Statutory tax rate		**25%**	25%
Income tax calculated at statutory tax rate		**1,680,196**	1,571,335
Non-deductible expenses		**163,017**	118,502
Non-taxable income	(i)	**(464,725)**	(452,197)
Others		**(2,271)**	988
Income tax		**1,376,217**	1,238,628

(i) The non-taxable income mainly represents the interest income arising from the People's Republic of China ("PRC") government bonds, municipal debts, and dividend income from funds.

11 Basic and diluted earnings per share

	Note	Six months ended 30 June **2021** **(Unaudited)**	 2020 (Unaudited)
Profit attributable to ordinary equity holders of the Bank		**5,344,565**	5,046,711
Weighted average number of ordinary shares in issue (in thousands)	(a)	**17,762,000**	14,450,000
Basic and diluted earnings per share (in RMB)		**0.30**	0.35

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the reporting period.

(a) Weighted average number of ordinary shares (in thousands)

	Six months ended 30 June **2021** **(Unaudited)**	 2020 (Unaudited)
Number of ordinary shares at the beginning of the period	**17,762,000**	14,450,000
Weighted average number of ordinary shares issued during the period	**–**	–
Weighted average number of ordinary shares	**17,762,000**	14,450,000

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

12 Cash and deposits with the central bank

	Note	**At 30 June 2021 (Unaudited)**	At 31 December 2020 (Audited)
Cash on hand		**855,839**	433,044
Deposits with the central bank			
– Statutory deposit reserves	(a)	**70,882,409**	62,256,838
– Surplus deposit reserves	(b)	**24,748,942**	33,092,724
– Fiscal deposits		**177,365**	735,285
Sub-total		**95,808,716**	96,084,847
Interests accrued		**28,887**	30,526
Total		**96,693,442**	96,548,417

(a) The Bank places statutory deposit reserves with the People's Bank of China ("PBoC") in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	At 30 June 2021	At 31 December 2020
Reserve ratio for RMB deposits	**9.0%**	9.0%
Reserve ratio for foreign currency deposits	**7.0%**	5.0%

The statutory deposit reserves are not available for the Bank's daily business.

(b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

13 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Deposits in mainland China		
– Banks	**21,393,610**	12,223,057
Sub-total	**21,393,610**	12,223,057
Deposits outside mainland China		
– Banks	**48,692,471**	15,771,096
Sub-total	**48,692,471**	15,771,096
Interests accrued	**14,247**	9,428
Less: Provision for impairment losses	**(230,165)**	(198,218)
Total	**69,870,163**	27,805,363

14 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Placements in mainland China		
– Banks	**5,010,000**	2,150,000
– Other financial institutions	**–**	1,000,000
Sub-total	**5,010,000**	3,150,000
Placements outside Mainland China		
– Banks	**96,867**	2,942,955
Sub-total	**96,867**	2,942,955
Interests accrued	**65,277**	44,832
Less: Provision for impairment losses	**(101,715)**	(74,119)
Total	**5,070,429**	6,063,668

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

15 Derivative financial instruments

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Bank uses derivative financial instruments mainly including forwards, swaps and option contracts.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Bank but does not reflect the risk.

The notional amount and fair value of unexpired derivative financial instruments held by the Bank are set out in the following tables:

	30 June 2021 (Unaudited)		
		Fair value	
	Notional amount	**Assets**	**Liabilities**
Interest rate swaps	**216,258,792**	**40,142**	**(30,752)**
Exchange rate swaps	**35,445,597**	**117,801**	**(296,107)**
Exchange rate forwards	**28,221,930**	**315,598**	**(267,115)**
Precious metal swaps	**2,658,255**	**–**	**(239,158)**
Option contracts	**1,703,913**	**16,976**	**(14,386)**
Total	**284,288,487**	**490,517**	**(847,518)**

	31 December 2020 (Audited)		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	130,258,400	82,861	(73,125)
Exchange rate swaps	25,338,865	16,575	(255,739)
Precious metal swaps	2,739,600	–	(82,149)
Option contracts	1,725,576	9,121	(6,531)
Exchange rate forwards	6,921,165	123,941	(115,620)
Total	166,983,606	232,498	(533,164)

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

15 Derivative financial instruments *(Continued)*

Cash flow hedges

The Bank's cash flow hedges consist of interest rate swap contracts that are used to protect against exposures to variability of future cash flows.

Among the above derivative financial instruments, those designated as hedging instruments in cash flow hedges are set out below.

	As at 30 June 2021 (Unaudited)						
	Notional amounts with remaining life of					Fair Values	
	Within a month	Over a month but within three months	Over three months but within a year	Over a year but within five years	Over five years	Assets	Liabilities
Interest rate swap	–	–	–	200,000	–	–	(503)
Total	–	–	–	200,000	–	–	(503)

	As at 31 December 2020 (Audited)						
	Notional amounts with remaining life of					Fair Values	
	Within a month	Over a month but within three months	Over three months but within a year	Over a year but within five years	Over five years	Assets	Liabilities
Interest rate swap	–	–	–	200,000	–	–	(245)
Total	–	–	–	200,000	–	–	(245)

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

15 Derivative financial instruments *(Continued)*

Cash flow hedges *(Continued)*

Details of the Bank's hedged risk exposures in cash flow hedges and the corresponding effect on equities are as follows:

	As at 30 June 2021 (Unaudited)				
	Carrying amount of hedged items		Effect of hedging instruments on other comprehensive income during the current period	Accumulated effect of hedging instruments on other comprehensive income	Line items in the statement of financial position
	Assets	Liabilities			
Loans	**200,000**	**–**	**(217)**	**(377)**	**Loans and advances to customers**
Total	**200,000**	**–**	**(217)**	**(377)**	

	As at 31 December 2020 (Audited)				
	Carrying amount of hedged items		Effect of hedging instruments on other comprehensive income during the current	Accumulated effect of hedging instruments on other comprehensive income	Line items in the statement of financial position
	Assets	Liabilities			
Loans	200,000	–	(160)	(160)	Loans and advances to customers
Total	200,000	–	(160)	(160)	

The gain and loss arising from the ineffective portion of fair value hedges were immaterial for the six months ended 30 June 2021 and 31 December 2020.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

16 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
In mainland China		
– Banks	**2,297,040**	–
Sub-total	**2,297,040**	–
Interests accrued	**607**	–
Less: Provision for impairment losses	**(4,306)**	–
Total	**2,293,341**	–

(b) Analysed by type of collateral held

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Debt securities		
– Commercial banks and other financial institutions	**77,040**	–
– Corporates	**2,220,000**	–
Sub-total	**2,297,040**	–
Interests accrued	**607**	–
Less: Provision for impairment losses	**(4,306)**	–
Total	**2,293,341**	–

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers

(a) Analysed by nature

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	**569,314,033**	546,044,790
Personal loans		
– Residential and commercial housing loans	**184,354,861**	167,701,283
– Personal consumer loans	**113,772,731**	117,005,285
– Personal business loans	**42,066,326**	25,665,459
Sub-total	**340,193,918**	310,372,027
Interests accrued	**4,455,012**	4,408,520
Less: Provision for loans and advances to customers measured at amortised cost	**(27,444,579)**	(24,825,848)
Sub-total	**886,518,384**	835,999,489
Loans and advances to customers measured at fair value through other comprehensive income:		
Discounted bills	**66,949,948**	31,046,668
Loans and advances to customers measured at fair value through profit or loss:		
Corporate loans and advances	**370,298**	74,060
Net loans and advances to customers	**953,838,630**	867,120,217

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluding interests accrued) analysed by industry sector

	At 30 June 2021 (Unaudited)		
	Amount	Percentage	Loans and advances secured by collaterals
Lease and business services	182,819,279	18.72%	41,587,081
Manufacturing	97,030,546	9.93%	62,327,741
Real estate	93,698,974	9.59%	66,486,374
Water conservancy, environment and public facilities management	61,690,858	6.32%	7,637,058
Wholesale and retail	51,433,541	5.27%	31,332,246
Construction	24,944,421	2.55%	13,170,473
Transportations and communications, storage and post	17,969,714	1.84%	7,412,075
Mining	10,860,002	1.11%	18,644
Production and supply of electricity, heat, gas and water	8,364,017	0.86%	686,096
Financial services	7,044,399	0.72%	986,688
Agriculture, forestry, animal husbandry and fishery	2,685,915	0.27%	435,310
Education	2,573,638	0.26%	1,040,663
Public health and social work	2,229,189	0.23%	567,900
Others	6,339,838	0.65%	2,578,786
Sub-total of corporate loans and advances	569,684,331	58.32%	236,267,135
Personal loans	340,193,918	34.83%	197,369,874
Discounted bills	66,949,948	6.85%	66,949,948
Gross loans and advances to customers	976,828,197	100.00%	500,586,957

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluding interests accrued) analysed by industry sector *(Continued)*

	At 31 December 2020 (Audited)		
	Amount	Percentage	Loans and advances secured by collaterals
Lease and business services	171,383,263	19.31%	32,869,421
Real estate	111,774,970	12.59%	77,024,629
Manufacturing	78,572,827	8.85%	45,626,723
Water conservancy, environment and public facilities management	57,281,338	6.45%	7,199,664
Wholesale and retail	46,695,083	5.26%	20,873,159
Construction	25,998,522	2.93%	13,916,968
Transportations and communications, storage and post	15,266,620	1.72%	6,549,398
Mining	10,576,481	1.19%	18,644
Production and supply of electricity, heat, gas and water	8,434,143	0.95%	589,878
Financial services	5,220,010	0.59%	1,038,896
Agriculture, forestry, animal husbandry and fishery	2,381,667	0.27%	337,210
Education	2,712,058	0.31%	1,089,600
Public health and social work	2,588,730	0.29%	564,100
Others	7,233,138	0.82%	2,945,755
Sub-total of corporate loans and advances	546,118,850	61.53%	210,644,045
Personal loans	310,372,027	34.97%	178,515,317
Discounted bills	31,046,668	3.50%	31,046,668
Gross loans and advances to customers	887,537,545	100.00%	420,206,030

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(b) Loans and advances to customers (excluding interests accrued) analysed by industry sector *(Continued)*

As at the end of the reporting period, detailed information of the credit-impaired loans and advances to customers (excluding interests accrued) as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	At 30 June 2021 (Unaudited)					
	Credit-impaired loans and advances	Expected credit losses over the next 12 months	Expected credit loss that assessed for loans and advances that are not credit-impaired	Expected credit loss that assessed for loans and advances that are credit-impaired	Impairment losses charged during the period	Written-off during the period
Lease and business services	**1,674,144**	**(2,056,039)**	**(402,891)**	**(882,832)**	**(849,622)**	**–**

	At 31 December 2020 (Audited)					
	Credit-impaired loans and advances	Expected credit losses over the next 12 months	Expected credit loss that assessed for loans and advances that are not credit-impaired	Expected credit loss that assessed for loans and advances that are credit-impaired	Impairment losses charged during the year	Written-off during the year
Lease and business services	3,135,737	(1,783,856)	(244,876)	(464,229)	(385,308)	–
Real estate	2,385,067	(2,482,659)	(798,483)	(760,810)	(425,021)	–

(c) Analysed by geographical sector (excluding interests accrued)

	At 30 June 2021 (Unaudited)		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeastern China	**406,241,526**	**41.59%**	**181,337,075**
Central and Southern China	**242,175,722**	**24.79%**	**158,103,648**
Eastern China	**241,310,525**	**24.70%**	**119,127,921**
Western China	**87,100,424**	**8.92%**	**42,018,313**
Gross loans and advances to customers	**976,828,197**	**100.00%**	**500,586,957**

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(c) Analysed by geographical sector (excluding interests accrued) *(Continued)*

	At 31 December 2020 (Audited)		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeastern China	389,592,957	43.89%	159,788,724
Eastern China	211,867,272	23.87%	97,939,390
Central and Southern China	209,862,150	23.65%	131,484,717
Western China	76,215,166	8.59%	30,993,199
Gross loans and advances to customers	887,537,545	100.00%	420,206,030

The geographical areas are categorized as follows:

Northern and Northeastern China includes Head Office, Beijing Branch, Tianjin Branch, Binhai Branch, Tianjin Pilot Free Trade Zone Branch, Dalian Branch, Hohhot Branch, Taiyuan Branch, Shijiazhuang Branch, Changchun Branch and Shenyang Branch.

Eastern China includes Nanjing Branch, Hangzhou Branch, Jinan Branch, Shanghai Branch, Shanghai Pilot Free Trade Zone Branch, Hefei Branch, Suzhou Branch, Qingdao Branch, Ningbo Branch and Nanchang Branch.

Central and Southern China includes Guangzhou Branch, Shenzhen Branch, Shenzhen Qianhai Branch, Hong Kong Branch, Changsha Branch, Wuhan Branch, Fuzhou Branch, Zhengzhou Branch, Xiamen Pilot Free Trade Zone Branch, Haikou Branch and Nanning Branch.

Western China includes Chengdu Branch, Xi'an Branch and Chongqing Branch.

(d) Analysed by type of collateral (excluding interests accrued)

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Unsecured loans	**201,207,230**	191,402,509
Guaranteed loans	**275,034,010**	275,929,006
Collateralised loans	**305,202,924**	294,096,608
Pledged loans	**128,434,085**	95,062,754
Bank acceptance discounted bills	**62,029,139**	24,189,841
Commercial acceptance discounted bills	**4,920,809**	6,856,827
Gross loans and advances to customers	**976,828,197**	887,537,545

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(e) Overdue loans (excluding interests accrued) analysed by overdue period

	At 30 June 2021 (Unaudited)				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	**1,202,928**	**1,814,067**	**1,099,449**	**74,827**	**4,191,271**
Guaranteed loans	**6,032,111**	**1,838,204**	**2,115,935**	**1,666,379**	**11,652,629**
Collateralised loans	**5,187,065**	**1,701,086**	**2,213,488**	**795,519**	**9,897,158**
Pledged loans	**4,782,757**	**1,549,005**	**819,805**	**47,559**	**7,199,126**
Discounted bills	**35,793**	**–**	**–**	**–**	**35,793**
Total	**17,240,654**	**6,902,362**	**6,248,677**	**2,584,284**	**32,975,977**
As a percentage of gross loans and advances to customers	**1.77%**	**0.71%**	**0.64%**	**0.26%**	**3.38%**

	At 31 December 2020 (Audited)				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	1,178,365	1,593,322	514,860	55,566	3,342,113
Guaranteed loans	3,632,195	1,702,760	2,782,758	994,111	9,111,824
Collateralised loans	3,438,574	1,891,123	771,826	606,273	6,707,796
Pledged loans	2,357,456	3,083,464	–	47,559	5,488,479
Total	10,606,590	8,270,669	4,069,444	1,703,509	24,650,212
As a percentage of gross loans and advances to customers	1.20%	0.93%	0.46%	0.19%	2.78%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(f) Loans and advances (excluding interests accrued) and provision for impairment losses

	At 30 June 2021 (Unaudited)			
	Loans and advances that are assessed for expected credit losses over the next 12 months	**Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss**	**Credit-impaired loans and advances that are assessed for lifetime expected credit loss**	**Total**
Total loans and advances to customers measured at amortised cost	**867,778,879**	**24,543,143**	**17,185,929**	**909,507,951**
Less: Provision for impairment losses	**(11,349,727)**	**(5,946,979)**	**(10,147,873)**	**(27,444,579)**
Carrying amount of loans and advances to customers measured at amortised cost	**856,429,152**	**18,596,164**	**7,038,056**	**882,063,372**
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	**66,930,847**	**19,101**	**–**	**66,949,948**

	At 31 December 2020 (Audited)			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
Total loans and advances to customers measured at amortised cost	815,010,509	25,692,529	15,713,779	856,416,817
Less: Provision for impairment losses	(9,664,387)	(7,228,243)	(7,933,218)	(24,825,848)
Carrying amount of loans and advances to customers measured at amortised cost	805,346,122	18,464,286	7,780,561	831,590,969
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	31,046,668	–	–	31,046,668

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(g) Movements of provision for impairment losses

(i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost:

	Six months ended 30 June 2021 (Unaudited)			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	9,664,387	7,228,243	7,933,218	24,825,848
Transferred:				
– to expected credit losses over the next 12 months	4,107	(4,107)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(58,698)	58,698	–	–
– to lifetime expected credit losses: credit-impaired loans	(30,478)	(2,532,489)	2,562,967	–
Charge for the period	1,774,633	1,196,634	3,202,420	6,173,687
Transfer out	–	–	(3,019,363)	(3,019,363)
Recoveries	–	–	52,226	52,226
Write-offs	–	–	(582,386)	(582,386)
Exchange differences and other	(4,224)	–	(1,209)	(5,433)
As at 30 June	11,349,727	5,946,979	10,147,873	27,444,579

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(g) Movements of provision for impairment losses *(Continued)*

(i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost: (Continued)

	Year ended 31 December 2020 (Audited)			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	9,281,200	6,213,635	8,106,036	23,600,871
Transferred:				
– to lifetime expected credit losses:				
not credit-impaired loans	(447,970)	466,896	(18,926)	–
– to lifetime expected credit losses:				
credit-impaired loans	(357,064)	(642,457)	999,521	–
Charge for the year	1,191,933	1,190,169	4,312,113	6,694,215
Transfer out	–	–	(2,623,253)	(2,623,253)
Recoveries	–	–	114,136	114,136
Write-offs	–	–	(2,949,112)	(2,949,112)
Exchange differences and other	(3,712)	–	(7,297)	(11,009)
As at 31 December	9,664,387	7,228,243	7,933,218	24,825,848

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

17 Loans and advances to customers *(Continued)*

(g) Movements of provision for impairment losses *(Continued)*

(ii) Movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	Six months ended 30 June 2021 (Unaudited)			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	**127,184**	**–**	**–**	**127,184**
Transferred:				
– to lifetime expected credit losses:				
not credit-impaired loans	**(308)**	**308**	**–**	**–**
Charge for the period	**19,342**	**1,145**	**–**	**20,487**
As at 30 June	**146,218**	**1,453**	**–**	**147,671**

	Year ended 31 December 2020 (Audited)			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	37,215	–	–	37,215
Charge for the year	89,969	–	–	89,969
As at 31 December	127,184	–	–	127,184

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(h) Disposal of loans and advances to customers

During the six months ended 30 June 2021, the Bank transferred loans and advances with gross amount of RMB160 million to independent third parties, and the transfer price was RMB17 million.

During the years ended 31 December 2020, the Bank transferred loans and advances with gross amount of RMB1,524 million to independent third parties, and the transfer price was RMB290 million.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

18 Financial investments

	Note	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Financial investments measured at fair value through profit or loss	(a)	**88,803,652**	72,597,497
Financial investments measured at fair value through other comprehensive income	(b)	**77,892,511**	61,813,595
Financial investments measured at amortised cost	(c)	**243,218,224**	241,515,654
Total		**409,914,387**	375,926,746

(a) Financial investments measured at fair value through profit or loss

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Debt securities issued by the following institutions in mainland China		
– Government	**2,514,156**	377,181
– Policy banks	**2,087,691**	855,306
– Banks and other financial institutions	**2,998,632**	–
– Corporates	**3,335,105**	7,204,039
Unlisted	**10,935,584**	8,436,526
Debt securities issued by the following institutions outside of the mainland China		
– Corporates	**1,189,535**	–
Listed	**1,189,535**	–
Interbank deposits		
– Unlisted	**199,562**	–
Investment funds		
– Unlisted	**50,532,620**	44,178,765
Equity investments		
– Listed outside Hong Kong	**461,660**	298,175
– Unlisted	**2,904,704**	1,832,738
Trust plans and asset management plans		
– Unlisted	**22,579,987**	17,851,293
Total	**88,803,652**	72,597,497

Note:

As at 30 June 2021 and 31 December 2020, there were no investments subject to material restrictions in the realization.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

18 Financial investments *(Continued)*

(b) Financial investments measured at fair value through other comprehensive income

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Debt securities issued by the following institutions in mainland China		
– Government	**37,856,528**	35,500,988
– Policy banks	**36,114,600**	22,955,615
– Banks and other financial institutions	**2,768,285**	1,285,751
– Corporates	**29,953**	49,612
Sub-total	**76,769,366**	59,791,966
Interests accrued	**923,145**	858,658
Unlisted	**77,692,511**	60,650,624
Trust plans and asset management plans	**–**	962,971
Unlisted	**–**	962,971
Equity investments		
Unlisted	**200,000**	200,000
Total	**77,892,511**	61,813,595

Notes:

(i) As at 30 June 2021 and 31 December 2020, certain debt securities were pledged for borrowings from the central bank (Note 43(e)).

(ii) The Bank irrevocably designate parts of equity investments that are not held for trading as fair value through other comprehensive income ("FVOCI") with the fair value of RMB200 million. Dividends income from such equity investments during six months ended 2021 and the year ended 31 December 2020 was nil and RMB10.8 million, respectively, which was included in the profit or loss. The Bank did not dispose such equity investments during the reporting period, and there was no cumulative gain or loss transferred from other comprehensive income to retained earnings.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

18 Financial investments *(Continued)*

(b) Financial investments measured at fair value through other comprehensive income *(Continued)*

(iii) Movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income is as follows:

	Six months ended 30 June 2021 (Unaudited)			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	42,501	–	30,000	72,501
Charge/(Reversal) for the period	4,606	–	(20,000)	(15,394)
Balance at 30 June	47,107	–	10,000	57,107

	Year ended 31 December 2020 (Audited)			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	809,442	–	13,371	822,813
Transfers				
– to lifetime expected credit losses credit-impaired				
(Reversal)/Charge for the year	(766,941)	–	16,629	(750,312)
Balance at 31 December	42,501	–	30,000	72,501

Provision for impairment on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

18 Financial investments *(Continued)*

(c) Financial investments measured at amortised cost

	Note	**At 30 June 2021 (Unaudited)**	At 31 December 2020 (Audited)
Debt securities issued by the following institutions in mainland China	(i)		
– Government		**70,248,979**	72,995,069
– Policy banks		**53,846,799**	47,850,949
– Banks and other financial institutions		**1,330,320**	2,900,000
– Corporates		**11,412,372**	11,269,315
Interests accrued		**2,294,867**	2,089,849
Unlisted		**139,133,337**	137,105,182
Interbank deposits			
– Unlisted		**649,975**	–
Trust plans and asset management plans		**109,278,032**	111,855,622
Interests accrued		**2,516,358**	2,474,099
Unlisted		**111,794,390**	114,329,721
Less: Provision for impairment losses	(ii)	**(8,359,478)**	(9,919,249)
Total		**243,218,224**	241,515,654

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

18 Financial investments *(Continued)*

(c) Financial investments measured at amortised cost *(Continued)*

Notes:

(i) As at 30 June 2021 and 31 December 2020, certain debt securities were pledged for borrowings from the central bank (Note 43(e)).

(ii) Movements of provision for impairment losses of financial investments measured at amortised cost is as follows:

	Six months ended 30 June 2021 (Unaudited)			
	Expected credit losses over the next 12 months	**Lifetime expected credit losses not credit-impaired**	**Lifetime expected credit losses credit-impaired**	**Total**
Balance at 1 January	**1,247,621**	**3,725,889**	**4,945,739**	**9,919,249**
Transfers:				
– to lifetime expected credit losses credit-impaired	**(26,378)**	**(440,000)**	**466,378**	**–**
Reversal for the period	**(274,035)**	**(1,064,499)**	**(219,609)**	**(1,558,143)**
Exchange differences and other	**(1,628)**	**–**	**–**	**(1,628)**
Balance at 30 June	**945,580**	**2,221,390**	**5,192,508**	**8,359,478**

	Year ended 31 December 2020 (Audited)			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	1,313,800	406,945	1,483,563	3,204,308
Transfers:				
– to lifetime expected credit losses not credit-impaired	(324,820)	324,820	–	–
– to lifetime expected credit losses credit-impaired	–	(243,157)	243,157	–
Charge for the year	261,798	3,237,281	3,369,205	6,868,284
Transfer out	–	–	(150,186)	(150,186)
Exchange differences and other	(3,157)	–	–	(3,157)
Balance at 31 December	1,247,621	3,725,889	4,945,739	9,919,249

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

19 Interest in associate

	Note	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Interest in associate	(a)	–	–

Notes:

(a) The following list contains the Bank's associate, which is immaterial to the Bank and is unlisted corporate entity whose quoted market price is not available:

Name	Percentages of Equity/voting rights		Place of incorporation/ registration	Business sector
	30 June 2021	31 December 2020		
Hawtai Motor Finance Co., Ltd. ("Hawtai Motor Finance")	**10%**	10%	Tianjin, China	Motor Finance

The following tables illustrate the information of the Bank's associate that is not material:

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Carrying amount of immaterial associate in the statements of financial position of the Bank	–	–
Amounts of the Bank's share of results of this associate		
– Losses from continuing operations	–	–
– Total comprehensive losses	–	–

(b) As at 30 June 2021 and 31 December 2020, the Bank has not recognised share of losses totalling RMB85 million and RMB81 million in relation to its interest in the associate, because the Bank has no obligation in respect of this losses.

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(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

20 Property and equipment

	Premises	Leasehold improvements	Operating equipment	Motor vehicles	Construction in progress	Total
Cost						
As at 1 January 2020 (Audited)	3,875,984	680,967	1,248,123	80,471	362,877	6,248,422
Additions	–	73,459	147,150	4,468	98,235	323,312
Transfers	–	–	97,299	–	(97,299)	–
Disposals	–	(21,960)	(24,795)	(2,784)	–	(49,539)
As at 31 December 2020 (Audited)	3,875,984	732,466	1,467,777	82,155	363,813	6,522,195
As at 1 January 2021 (Unaudited)	**3,875,984**	**732,466**	**1,467,777**	**82,155**	**363,813**	**6,522,195**
Additions	**–**	**45,548**	**68,820**	**1,451**	**–**	**115,819**
Disposals	**–**	**(9,702)**	**(13,505)**	**(1,165)**	**–**	**(24,372)**
As at 30 June 2021 (Unaudited)	**3,875,984**	**768,312**	**1,523,092**	**82,441**	**363,813**	**6,613,642**
Accumulated depreciation						
As at 1 January 2020 (Audited)	(984,204)	(526,144)	(873,266)	(60,597)	–	(2,444,211)
Charge for the year	(185,892)	(108,503)	(178,605)	(6,652)	–	(479,652)
Disposals	–	4,550	24,627	2,645	–	31,822
As at 31 December 2020 (Audited)	(1,170,096)	(630,097)	(1,027,244)	(64,604)	–	(2,892,041)
As at 1 January 2021 (Unaudited)	**(1,170,096)**	**(630,097)**	**(1,027,244)**	**(64,604)**	**–**	**(2,892,041)**
Charge for the period	**(92,946)**	**(45,225)**	**(82,713)**	**(3,113)**	**–**	**(223,997)**
Disposals	**–**	**9,010**	**13,376**	**1,107**	**–**	**23,493**
As at 30 June 2021 (Unaudited)	**(1,263,042)**	**(666,312)**	**(1,096,581)**	**(66,610)**	**–**	**(3,092,545)**
Net book value						
As at 31 December 2020 (Audited)	2,705,888	102,369	440,533	17,551	363,813	3,630,154
As at 30 June 2021 (Unaudited)	**2,612,942**	**102,000**	**426,511**	**15,831**	**363,813**	**3,521,097**

The net book values of premises as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Held in mainland China – Medium-term leases (10 – 50 years)	**2,612,942**	2,705,888

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

21 Deferred tax assets

(a) Analysed by nature

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Deductible/ (taxable) temporary differences	**Deferred income tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets				
– Allowance for impairment losses	**35,583,502**	**8,895,876**	30,931,922	7,732,980
– Accrued salary cost	**3,688,910**	**922,227**	4,061,016	1,015,254
– Provisions	**733,699**	**183,425**	1,048,631	262,158
– Fair value changes	**843,629**	**210,907**	688,360	172,090
– Others	**1,322,771**	**330,693**	145,175	36,294
	42,172,511	**10,543,128**	36,875,104	9,218,776
Deferred income tax liability				
– Fair value changes	**(2,829,515)**	**(707,379)**	(1,879,299)	(469,825)
– Others	**(446,813)**	**(111,703)**	(337,333)	(84,333)
	(3,276,328)	**(819,082)**	(2,216,632)	(554,158)
Net balances	**38,896,183**	**9,724,046**	34,658,472	8,664,618

(b) Movements of deferred tax

	Allowance for impairment losses Note (i)	**Fair value changes Note (ii)**	**Others**	**Net balance of deferred tax assets**
As at 1 January 2020	5,669,013	(387,824)	1,083,902	6,365,091
Recognised in profit or loss	2,063,967	(55,296)	145,471	2,154,142
Recognised in other comprehensive income	–	145,385	–	145,385
As at 31 December 2020 (Audited)	7,732,980	(297,735)	1,229,373	8,664,618
Recognised in profit or loss	1,162,896	(159,146)	95,269	1,099,019
Recognised in other comprehensive income	–	(39,591)	–	(39,591)
As at 30 June 2021 (Unaudited)	**8,895,876**	**(496,472)**	**1,324,642**	**9,724,046**

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

21 Deferred tax assets *(Continued)*

(b) Movements of deferred tax *(Continued)*

Notes:

(i) The Bank made provision for impairment losses on loans and advances to customers and other assets. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

22 Other assets

	Note	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Right-of-use assets	(a)	**3,577,626**	3,976,754
Interest receivable	(b)	**1,728,256**	1,370,954
Interest on swap contracts		**1,727,101**	326,346
Land use rights	(c)	**422,074**	429,437
Fees and commission receivable		**314,613**	317,244
Prepayments		**237,517**	156,789
Intangible assets	(d)	**140,379**	147,017
Guarantee deposits		**136,844**	129,844
Amount pending for settlement		**114,234**	410,712
Long-term deferred expenses		**5,491**	1,860
Others		**507,343**	264,487
Sub-total		**8,911,478**	7,531,444
Less: Allowances for impairment losses		**–**	–
Total		**8,911,478**	7,531,444

(a) Right-of-use assets

	Six months ended 30 June 2021 (Unaudited)	Year ended 31 December 2020 (Audited)
Balance at 1 January	**3,976,754**	3,920,944
Additions	**337,186**	926,043
Depreciation charge for the period/year	**(736,314)**	(870,233)
Balance at 30 June/31 December	**3,577,626**	3,976,754

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

22 Other assets *(Continued)*

(b) Interest receivable

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Interests receivables arising from:		
Loans and advances to customers	**567,500**	260,643
Financial investments	**1,160,756**	1,110,311
Total	**1,728,256**	1,370,954

(c) Land use rights

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Located in mainland China:		
10 – 50 years	**422,074**	429,437

(d) Intangible assets

	Six months ended 30 June 2021 (Unaudited)	Year ended 31 December 2020 (Audited)
Cost		
As at 1 January	**515,276**	450,246
Additions for the period/year	**20,742**	65,575
Disposals for the period/year	**(30)**	(545)
As at 30 June/31 December	**535,988**	515,276
Accumulated amortisation		
As at 1 January	**(368,259)**	(314,768)
Charge for the period/year	**(27,374)**	(53,591)
Disposals for the period/year	**24**	100
As at 30 June/31 December	**(395,609)**	(368,259)
Book value		
As at 1 January	**147,017**	135,478
As at 30 June/31 December	**140,379**	147,017

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

23 Borrowings from the central bank

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Medium-term Lending Facility	**71,000,000**	70,600,000
Interests accrued	**1,455,956**	992,485
Total	**72,455,956**	71,592,485

24 Deposits from banks and other financial institutions

Analysed by type of and location of counterparty

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Deposits in mainland China		
– Banks	**117,986,928**	95,899,927
– Other financial institutions	**31,458,029**	33,762,362
Deposits outside mainland China		
– Other financial institutions	**1,165,641**	–
Sub-total	**150,610,598**	129,662,289
Interests accrued	**1,196,424**	611,070
Total	**151,807,022**	130,273,359

25 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Placements in mainland China		
– Banks	**25,435,674**	11,113,200
Placements outside mainland China		
– Banks	**36,054,146**	20,618,686
Interests accrued	**233,725**	188,728
Total	**61,723,545**	31,920,614

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

26 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
In mainland China		
– Banks	**15,648,506**	52,337,687
Sub-total	**15,648,506**	52,337,687
Interests accrued	**13,244**	68,396
Total	**15,661,750**	52,406,083

(b) Analysed by type of collateral held

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Debt securities	**12,063,700**	41,103,700
Acceptance	**3,584,806**	11,233,987
Sub-total	**15,648,506**	52,337,687
Interests accrued	**13,244**	68,396
Total	**15,661,750**	52,406,083

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

27 Deposits from customers

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Demand deposits		
– Corporate customers	**164,129,801**	187,615,249
– Individual customers	**48,848,497**	20,467,078
Sub-total	**212,978,298**	208,082,327
Time deposits		
– Corporate customers	**411,589,090**	288,674,152
– Individual customers	**81,929,525**	81,475,122
Sub-total	**493,518,615**	370,149,274
Pledged deposits		
– Acceptances	**36,551,877**	96,075,072
– Letters of credit and guarantees	**45,460,412**	32,303,279
– Letters of guarantees	**5,098,051**	5,788,720
– Others	**52,950,233**	34,122,644
Sub-total	**140,060,573**	168,289,715
Fiscal deposits	**112,803**	119,136
Inward and outward remittances	**59,538**	85,331
Interests accrued	**10,919,810**	11,510,011
Total	**857,649,637**	758,235,794

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

28 Debt securities issued

	Note	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Interbank deposits issued	(a)	**180,162,554**	165,340,725
Financial bonds issued	(b)	**82,935,207**	57,951,340
Tier-two capital debts issued	(c)	**8,986,945**	–
Subordinate bonds issued	(d)	**947,456**	947,004
Sub-total		**273,032,162**	224,239,069
Interests accrued		**1,780,851**	915,021
Total		**274,813,013**	225,154,090

Notes:

(a) Interbank deposit issued

(i) During six months ended 30 June 2021, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB189,760 million and duration between 1 to 12 months. The effective interest rates ranged from 2.40% to 3.28% per annum.

(ii) For the year ended 31 December 2020, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB344,600 million and duration between 1 to 12 months. The effective interest rates ranged from 1.20% to 3.50% per annum.

(iii) As at 30 June 2021 and 31 December 2020, the fair value of interbank deposits issued was RMB178,838 million and RMB164,185 million, respectively.

(b) Financial bonds issued

(i) On 26 April 2021, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 3.53%.

(ii) On 6 April 2021, the Bank issued three-year financial bonds with face value of RMB15,000 million. The coupon interest rate per annum is 3.55%.

(iii) On 18 August 2020, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 3.55%.

(iv) On 17 February 2020, the Bank issued three-year financial bonds with face value of RMB8,000 million. The coupon interest rate per annum is 3.24%.

(v) On 13 January 2020, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 3.47%.

(vi) On 5 November 2018, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 4.07%.

(vii) On 26 October 2018, the Bank issued three-year financial bonds with face value of RMB20,000 million. The coupon interest rate per annum is 4.09%.

(viii) As at 30 June 2021 and 31 December 2020, the fair value of financial bonds issued was RMB83,183 million and RMB58,083 million, respectively.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

28 Debt securities issued *(Continued)*

(c) Tier-two capital debts issued

(i) On 15 January 2021, the Bank issued ten-year fixed interest rate tier-two capital debts with face value of RMB9,000 million. The coupon interest rate per annum is 4.40%. According to the issuance terms, the Bank has an option to redeem all the debts at face value on the last day of the fifth year.

(ii) As at 30 June 2021 and 31 December 2020, the fair value of tier-two capital debts issued was RMB8,963 million and nil, respectively.

(d) Subordinated bonds issued

(i) On 20 July 2012, the Bank issued fifteen-year fixed interest rate subordinated bonds with face value of RMB950 million. The coupon interest rate per annum is 5.68%. According to the issuance terms, the Bank has the option to redeem all the bonds at face value on the last day of the tenth year.

(ii) As at 30 June 2021 and 31 December 2020, the fair value of subordinated bonds issued was RMB972 million and RMB975 million, respectively.

As at 30 June 2021 and 31 December 2020, there were no defaults of principal and interest or other breaches with respect to these bonds. None of the above bonds were secured.

29 Other liabilities

	Note	**At 30 June 2021 (Unaudited)**	At 31 December 2020 (Audited)
Accrued staff cost	(a)	**4,056,167**	4,257,490
Lease liabilities		**3,747,663**	4,136,314
Payment and collection clearance accounts		**2,937,953**	5,645,377
Interest on swap contracts		**1,708,637**	319,023
Dividends payable		**1,511,901**	–
Other taxes payable		**918,809**	879,618
Provisions	(b)	**733,699**	1,048,631
Amount to be settled and cleared		**511,329**	471,656
Contract liabilities	(c)	**137,168**	140,479
Others		**869,997**	777,713
Total		**17,133,323**	17,676,301

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

29 Other liabilities *(Continued)*

(a) Accrued staff cost

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Salary, bonuses and allowances payable	**3,521,067**	3,883,565
Housing fund payable	**89,965**	39,031
Pension and annuity payable	**84,925**	15,149
Other social insurance payable	**29,227**	11,045
Others	**330,983**	308,700
Total	**4,056,167**	4,257,490

(b) Provisions

	Note	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Provision for credit commitment losses	(i)	**691,455**	1,006,387
Expected litigation losses		**42,244**	42,244
Total		**733,699**	1,048,631

(i) Movements of provisions for credit commitment losses is as follows:

	Six months ended 30 June 2021 (Unaudited)			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January 2021	**861,465**	**144,264**	**658**	**1,006,387**
(Reversal)/Charge for the period	**(249,815)**	**(64,707)**	**350**	**(314,172)**
Exchange differences and other	**(760)**	**–**	**–**	**(760)**
Balance at 30 June 2021	**610,890**	**79,557**	**1,008**	**691,455**

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

29 Other liabilities *(Continued)*

(b) Provisions *(Continued)*

(i) ***Movements of provisions for credit commitment losses is as follows:*** *(Continued)*

	Year ended 31 December 2020 (Audited)			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January 2020	730,049	36,935	1,396	768,380
Charge/(reversal) for the year	132,801	107,329	(738)	239,392
Exchange differences and other	(1,385)	–	–	(1,385)
Balance at 31 December 2020	861,465	144,264	658	1,006,387

(c) Contract liabilities

As at 30 June 2021 and 31 December 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Bank's existing contracts are approximately RMB137 million and RMB140 million, respectively. This amount represents income expected to be recognised in the future from agency, custody, guarantee and acceptance services. The Bank will recognise the expected income in future as the services are provided.

30 Share capital

Issued share capital

Share capital of the Bank as at 30 June 2021 and 31 December 2020 represented share capital of the Bank, which is fully paid.

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Number of shares issued and fully paid at par value of RMB1.00 each (in thousand)	**17,762,000**	17,762,000

On 16 July 2020, the Bank issued 2,880 million H-shares with a par value of RMB1.00 at an offering price of HKD4.80 per share on the Hong Kong Stock Exchange. On 7 August 2020, the over-allotment option was fully exercised, and on 12 August 2020, the Bank issued 432 million H-shares with a par value of RMB1.00 at HKD4.80 per share.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

31 Other equity instruments

Undated capital bonds

(a) *Outstanding undated capital bonds at 30 June 2020, unaudited*

Financial Instrument outstanding	Issue date	Accounting classification	Distribution rate	Issue price	Amount (million shares)	In RMB	Maturity	Conversion condition	Conversion
Undated Capital Bonds	11 September 2019	Equity	4.75%	100RMB/Share	200	20,000,000	None	No	No
Total						20,000,000			
Less: Issue fees						(38,396)			
Book value						19,961,604			

(b) *Main Clauses*

(i) *Principal Amount*

RMB20 billion.

(ii) *Maturity Date*

The Bonds will continue to be outstanding so long as the Issuer's business continues to operate.

(iii) *Distribution Rate*

The distribution rate of the Bonds will be adjusted at defined intervals, with a distribution rate adjustment period every 5 years since the payment settlement date. In any distribution rate adjusted period, the Distribution Payments on the Bonds will be paid at a prescribed fixed distribution rate. The distribution rate at the time of issuance is determined by way of book building running and centralised allocation.

The distribution rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity of 5 trading days prior to the Announcement Date of the Subscription Agreement, as indicated by the yield to maturity curve of applicable 5-year China government Notes (rounded up to 0.01%) published on www.ChinaBond.com.cn (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the distribution rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

The Bonds will not have any distribution rate step up nor any other incentive to redeem.

31 Other equity instruments *(Continued)*

Undated capital bonds *(Continued)*

(b) Main Clauses (Continued)

(iv) Conditional Redemption Rights of the Issuer

The Bonds Issuance sets conditional redemption rights for the Issuer. From the fifth anniversary since the Issuance of the Bonds, the Issuer may redeem the Bonds in whole or in part on each distribution payment date (including the fifth distribution payment date since the Issuance). If, after the Issuance, the Bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Issuer may redeem all but not some only of the Bonds.

(v) Subordination

The claims in respect of the Bonds, in the event of the liquidation of the Issuer, will be subordinated to claims of depositors, general creditors, and subordinated indebtedness; shall rank in priority to all classes of shares held by the Issuer's shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Issuer that rank pari passu with the Bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable, such relevant laws and regulations shall prevail.

(vi) Distribution Payment

The distribution of the Bonds will be payable annually. The distribution payment date of the Bonds shall be 16 September of each year. If any distribution payment date falls on a day which is an official holiday or non-business day in the PRC, it shall be postponed to the subsequent business day. Such postponed distributions shall not bear interest. The Issuer shall have the right to cancel, in whole or in part, distributions on the Bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Issuer will take into full consideration the interest of the Bonds' holders. The Issuer may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the Bonds, no matter in whole or in part, will not impose any other restriction on the Issuer, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the Notes, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting. And the Issuer shall give notice to the investors on such cancellation in a timely manner.

(vii) Put Option

The holder of the Bonds do not have any put option to sell back the Bonds to the Issuer.

31 Other equity instruments *(Continued)*

Undated capital bonds *(Continued)*

(b) Main Clauses (Continued)

(viii) Write–down/write–off Clauses

Upon the occurrence of an Additional Tier 1 Capital Trigger Event, namely, the Issuer's Core Tier 1 Capital Adequacy Ratio having fallen to 5.125% (or below), the Issuer has the right, subject to the approval of the China Banking and Insurance Regulatory Commission ("CBIRC") but without the need for the consent of the Bond holders, to write down all or part of the aggregate amount of the Bonds then issued and outstanding, in order to restore the Core Tier 1 Capital Adequacy Ratio to above 5.125%.In the case of a partial write-down, all of the Bonds then issued and outstanding shall be written down on a prorate basis, according to the outstanding par value, with all other Additional Tier 1 Capital instruments with equivalent write-down clauses of the Issuer. The Bonds may be subject to write-down more than once, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Issuer to above 5.125%.

Upon the occurrence of a Tier 2 Capital Trigger Event, the Issuer has the right to write off in whole, without the need for the consent of Bond holders, the aggregate principal amount of the Bonds then issued and outstanding according to the outstanding par value. A Tier 2 Capital Trigger Event refers to the earlier of the following events: (a) CBIRC having decided that the Issuer would become non-viable without a write-off; (b) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable. Upon write-off of the Bonds, such Bonds are to be permanently cancelled and will not be restored under any circumstances.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

32 Other comprehensive income

	Six months ended 30 June 2021 (Unaudited)	Year ended 31 December 2020 (Audited)
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of debt instruments measured at FVOCI		
As at 1 January	**(111,526)**	324,471
Changes in fair value recognised in other comprehensive income	**1,170,238**	(712,756)
Transfer to profit or loss upon disposal	**(1,011,583)**	131,427
Less: deferred tax	**(39,663)**	145,332
As at 30 June/31 December	**7,466**	(111,526)
Credit losses of debt instruments measured at fair value through other comprehensive income		
As at 1 January	**149,764**	645,022
Impairment losses recognised in other comprehensive income	**5,093**	(660,343)
Less: deferred tax	**(1,274)**	165,085
As at 30 June/31 December	**153,583**	149,764
Reserve from cash flow hedging instruments		
As at 1 January	**(160)**	–
Gains during the period/year recognised in other comprehensive income	**(289)**	(213)
Less: deferred tax	**72**	53
As at 30 June/31 December	**(377)**	(160)
Exchange difference on translating foreign operations		
As at 30 June/31 December	**84**	–

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

33 Reserves

(a) Capital reserve

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Share premium	**10,732,077**	10,732,077

As stated in Note 30, the Bank issued H shares with a par value of RMB1.00 at an offering price of HKD4.80 per share in 2020. The premium arising from the issuance of new shares amounting to RMB10,732.08 million was recorded in capital reserve.

(b) Surplus reserve

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

(c) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis.

34 Retained earnings

Appropriation of profits

In accordance with the resolution at the Bank's Annual General Meeting on 17 May 2021, the shareholders approved the following profit appropriations for the year ended 31 December 2020:

– Appropriation of statutory surplus reserve base on 10% of the net profit under the PRC GAAP;

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB3,583 million; and

– Declaration of cash dividend in an aggregation amount of approximately RMB1,510 million to all existing ordinary equity holders.

In accordance with the resolution at the Bank's Annual General Meeting on 27 March 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019:

– Appropriation of statutory surplus reserve base on 10% of the net profit under the PRC GAAP; and

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB1,440 million.

Interests for Undated Capital Bonds

The Bank declared and distributed the interest on the 2019 Undated Capital Bonds amounting to RMB950 million on 16 September 2020.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

35 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Bank holds an interest:

The Bank holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include the investment management products under trust schemes, wealth management products under trust schemes issued by financial institutions and investment funds. 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 of interests held by the Bank in unconsolidated structured entities, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised as at 30 June 2021 and 31 December 2020:

	At 30 June 2021 (Unaudited)		At 31 December 2020 (Audited)	
	Carrying amount	**Maximum exposure**	Carrying amount	Maximum exposure
Financial investments measured at fair value through profit or loss	**73,112,607**	**73,112,607**	62,030,058	62,030,058
Financial investments measured at fair value through other comprehensive income	**–**	**–**	962,971	962,971
Financial investments measured at amortised cost	**103,611,582**	**104,771,743**	104,608,861	105,714,077
Total	**176,724,189**	**177,884,350**	167,601,890	168,707,106

(b) Structured entities sponsored by the Bank which the Bank does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Bank 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 Bank includes investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2021 and 31 December 2020, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material to the Bank's financial positions.

For the six months ended 30 June 2021 and 2020, the amount of fee and commission income received from the abovementioned structured entities by the Bank amounted to RMB619 million and RMB866 million, respectively.

As at 30 June 2021 and 31 December 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Bank, were RMB224,322 million and RMB213,174 million, respectively.

35 Involvement with unconsolidated structured entities *(Continued)*

(c) Unconsolidated structure entities sponsored by the Bank during the period which the Bank does not have an interest in as at 30 June:

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2021 but matured before 30 June 2021 was RMB20,940 million (the aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Bank after 1 January 2020 but matured before 30 June 2020 was RMB40,319 million).

36 Capital management

The Bank implements a comprehensive capital management framework, covering the management of the regulated capital, economic capital and book capital, particularly the capital compliance management, capital planning, allocation and evaluation.

In setting its capital adequacy objective, the Bank considers regulatory requirements, external rating objective and its own risk preference, so as to protect the interest of its customers and creditors, maximize the value of shareholders and meet all regulatory requirements on capital management.

The Bank calculates capital adequacy ratios in accordance with the "Regulation Governing Capital of Commercial Banks (Provisional)" promulgated by the former CBRC and related regulatory requirements. In calculating its capital adequacy ratios, the Bank considers all its domestic and overseas branches and sub-branches and financial institution subsidiaries (excluding insurance companies).

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 credit risk weighted assets of counterparties in over-the-counter derivatives transactions are the sum of default risk weighted assets of counterparties and credit-adjusted risk-weighted assets. Market risk-weighted assets are calculated using the standardized approach. Operational risk-weighted assets are calculated using basic indicator approach.

The former CBRC 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 domestic systemically important banks, minimum core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should reach 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. During the year, the Bank has complied in full with all its externally imposed capital requirements.

The Bank calculates its core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with the former CBRC's "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements. The capital adequacy ratios and related components of the Bank illustrated below are computed based on the Bank's statutory financial statements prepared in accordance with PRC GAAP.

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

36 Capital management *(Continued)*

The Bank's capital adequacy ratios at 30 June 2021 and 31 December 2020 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Total core tier-one capital		
– Share capital	**17,762,000**	17,762,000
– Qualifying portion of capital reserve	**10,752,077**	10,752,077
– Surplus reserve	**5,868,637**	5,868,637
– General reserve	**17,664,811**	17,664,811
– Other comprehensive income	**160,756**	38,078
– Retained earnings	**35,033,418**	31,487,086
Core tier-one capital	**87,241,699**	83,572,689
Core tier-one capital deductions	**(1,153,879)**	(468,892)
Net core tier-one capital	**86,087,820**	83,103,797
Other tier-one capital	**19,961,604**	19,961,604
Net tier-one capital	**106,049,424**	103,065,401
Tier-two capital		
– Instruments issued and share premium	**9,395,507**	817,124
– Surplus provision for loan impairment	**10,406,319**	9,239,253
Tier-two capital	**19,801,826**	10,056,377
Net capital base	**125,851,250**	113,121,778
Total risk weighted assets	**986,071,976**	936,106,790
Core tier-one capital adequacy ratio	**8.73%**	8.88%
Tier-one capital adequacy ratio	**10.75%**	11.01%
Capital adequacy ratio	**12.76%**	12.08%

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

37 Notes to the cash flow statement

(a) Net increase/(decrease) in cash and cash equivalents

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Cash and cash equivalents as at 30 June	**96,927,022**	57,412,973
Less: Cash and cash equivalents as at 1 January	**(64,755,129)**	(42,694,864)
Net increase in cash and cash equivalents	**32,171,893**	14,718,109

(b) Cash and cash equivalents

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Cash on hand	**855,839**	433,044
Deposits with central bank other than restricted deposits	**24,748,942**	33,092,724
Deposits with banks and other financial institutions	**68,928,334**	27,286,406
Placements with banks and other financial institutions	**96,867**	3,942,955
Financial assets held under resale agreements	**2,297,040**	–
Total	**96,927,022**	64,755,129

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

38 Related parties

Related parties of the Bank

(a) The Bank's major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司)	**20.34%**	20.34%
Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司)	**16.26%**	16.26%
China Shipping Investment Co., Ltd. (中海集團投資有限公司)	**11.12%**	11.12%
State Development & Investment Corp., Ltd. (國家開發投資集團有限公司)	**9.49%**	9.49%
China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)	**9.49%**	9.49%
Oceanwide Industry Co., Ltd. (泛海實業股份有限公司)	**7.72%**	7.72%
Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司)	**6.51%**	6.51%

(b) Associate of the Bank

The detailed information of the Bank's associate is set out in Note 19.

(c) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiary) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 38(a) or their controlling shareholders.

Related party transactions

(a) Pricing policy

Transactions between the Bank and related parties are conducted in the normal course of its business and under normal commercial terms. The pricing policies are no more favourable than those offered to independent third parties.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

38 Related parties *(Continued)*

Related party transactions *(Continued)*

(b) Transactions with related parties other than key management personnel

(i) Transactions between the Bank and major shareholders:

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Transactions during the period		
Interest income	**124,153**	94,557
Interest expense	**21**	78
Operating expense	**648**	2,196

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Balances at end of the period/year		
Deposits with banks and other financial institutions	**2,530,669**	1,184,885
Loans and advances to customers	**3,443,159**	3,442,824
Deposits from customers	**1,020**	1,084
Other liabilities	**26,955**	38,454

(ii) Transactions between the Bank and associate:

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Transactions during the period		
Interest expense	**17**	4

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Balances at end of the period/year		
Deposits from banks and other financial institutions	**4,250**	4,078

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

38 Related parties *(Continued)*

Related party transactions *(Continued)*

(b) Transactions with related parties other than key management personnel *(Continued)*

(iii) Transactions between the Bank and other related parties:

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Transactions during the period		
Interest income	**356,344**	215,540
Fee and commission income	**21,896**	18,726
Net gains of investment securities	**303**	342
Interest expense	**44,137**	9,375
Operating expense	**9,809**	10,583

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Balances at end of the period/year		
Deposits with banks and other financial institutions	**4,572,843**	7,566,578
Derivative financial assets	**818**	723
Financial assets held under resale agreements	**2,297,647**	1,850,664
Loans and advances to customers	**11,447,675**	3,941,371
Financial investments	**3,359,268**	2,650,279
Deposits from banks and other financial institutions	**2,729,865**	1,863,776
Derivative financial liabilities	**1,551**	1,765
Deposits from customers	**1,468,212**	1,119,803
Debt securities issued	**394,450**	374,041
Other liabilities	**242,119**	259,826
Derivative financial instruments-notional amount	**15,100,000**	4,123,088
Bank acceptances	**108,817**	236,942
Letters of guarantees	**50,543**	243
Letters of credit	**178,928**	31,920

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

38 Related parties *(Continued)*

Related party transactions *(Continued)*

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Transactions during the period		
Interest income	**–**	70
Interest expense	**3**	5

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Balances at end of the period/year		
Loans and advances to customers	**–**	3,310
Deposits from customers	**2,327**	3,402

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Key management personnel compensation	**5,932**	9,444

(d) Loans and advances to directors, supervisors and officers

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Aggregate amount of relevant loans outstanding at the end of the period/year	**–**	3,302
Maximum aggregate amount of relevant loans outstanding during the period/year	**–**	3,302

There were no amount due but unpaid as at 30 June 2021 and 31 December 2020.

39 Segment reporting

(a) Business segment

The Bank manages its business by business lines. Consistent with the way in which information is reported internally to the Bank's most senior executive management for the purposes of resource allocation and performance assessment, the Bank 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, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, 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, personal wealth management services and remittance services.

Financial market

This segment covers the Bank's financial market business operations. The financial market business enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The financial market business segment also covers management of the Bank's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Bank'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/expense". 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. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, intangible assets and other long-term assets.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

39 Segment reporting *(Continued)*

(a) Business segment *(Continued)*

	Six months ended 30 June 2021 (Unaudited)				
	Corporate banking	Retail banking	Financial market	Others	Total
Operating income					
External net interest income	4,912,225	9,347,194	(715,553)	–	13,543,866
Internal net interest income/(expense)	1,131,189	(3,025,734)	1,894,545	–	–
Net interest income	6,043,414	6,321,460	1,178,992	–	13,543,866
Net fee and commission income/(expense)	1,081,592	(691,059)	720,988	5,870	1,117,391
Net trading gains/(losses)	131,475	–	(305,726)	68,018	(106,233)
Net gains arising from investment securities	–	553	1,185,502	–	1,186,055
Other operating income	5,081	2,734	270	53,705	61,790
Operating income	7,261,562	5,633,688	2,780,026	127,593	15,802,869
Operating expenses	(2,285,453)	(1,881,603)	(390,002)	(154,497)	(4,711,555)
Impairment (losses)/reversals on assets	(4,142,538)	(1,705,333)	1,477,339	–	(4,370,532)
Profit/(loss) before tax	833,571	2,046,752	3,867,363	(26,904)	6,720,782
Other segment information					
– Depreciation and amortisation	289,831	299,090	29,548	92,798	711,267
– Capital expenditure	58,082	59,938	5,921	18,597	142,538

	As at 30 June 2021 (Unaudited)				
	Corporate banking	Retail banking	Financial market	Others	Total
Segment assets	766,990,829	351,958,600	423,617,652	8,036,403	1,550,603,484
Deferred tax assets					9,724,046
Total assets					1,560,327,530
Segment liabilities	813,299,284	137,942,347	494,853,852	7,028,744	1,453,124,227
Total liabilities					1,453,124,227
Credit commitment	306,252,606	9,128,721	–	–	315,381,327

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

39 Segment reporting *(continued)*

(a) Business segment *(Continued)*

	Six months ended 30 June 2020 (Unaudited)				
	Corporate banking	Retail banking	Financial market	Others	Total
Operating income					
External net interest income	5,662,369	7,688,798	681,078	–	14,032,245
Internal net interest income/(expense)	524,297	(3,189,820)	2,665,523	–	–
Net interest income	6,186,666	4,498,978	3,346,601	–	14,032,245
Net fee and commission income/(expense)	997,159	(588,024)	1,026,924	(10,659)	1,425,400
Net trading gains/(losses)	16,594	–	(26,249)	–	(9,655)
Net gains arising from investment securities	26,772	639	527,086	23,926	578,423
Other operating income	1,023	2	–	17,761	18,786
Operating income	7,228,214	3,911,595	4,874,362	31,028	16,045,199
Operating expenses	(2,249,677)	(1,687,705)	(392,895)	(86,919)	(4,417,196)
Impairment losses on assets	(3,189,715)	(1,397,497)	(755,452)	–	(5,342,664)
Profit/(loss) before tax	1,788,822	826,393	3,726,015	(55,891)	6,285,339
Other segment information					
– Depreciation and amortisation	299,933	294,285	33,953	86,351	714,522
– Capital expenditure	78,648	77,167	8,903	22,642	187,360

	As at 31 December 2020 (Audited)				
	Corporate banking	Retail banking	Financial market	Others	Total
Segment assets	715,344,215	319,709,044	343,074,136	6,731,112	1,384,858,507
Deferred tax assets					8,664,618
Total assets					1,393,523,125
Segment liabilities	719,432,756	108,632,435	454,120,233	8,091,871	1,290,277,295
Total liabilities					1,290,277,295
Credit commitment	274,389,863	7,491,816	–	–	281,881,679

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

39 Segment reporting *(continued)*

(b) Geographical segment

Geographically, the Bank mainly conducts its business in the four areas listed below in Mainland China.

Northern and Northeastern China includes Head Office, Beijing Branch, Tianjin Branch, Binhai Branch, Tianjin Pilot Free Trade Zone Branch, Dalian Branch, Hohhot Branch, Taiyuan Branch, Shijiazhuang Branch, Changchun Branch and Shenyang Branch.

Eastern China includes Nanjing Branch, Hangzhou Branch, Jinan Branch, Shanghai Branch, Shanghai Pilot Free Trade Zone Branch, Hefei Branch, Suzhou Branch, Qingdao Branch, Ningbo Branch and Nanchang Branch.

Central and Southern China includes Guangzhou Branch, Shenzhen Branch, Shenzhen Qianhai Branch, Hong Kong Branch, Changsha Branch, Wuhan Branch, Fuzhou Branch, Zhengzhou Branch, Xiamen Pilot Free Trade Zone Branch, Haikou Branch and Nanning Branch.

Western China includes Chengdu Branch, Xi'an Branch and Chongqing Branch.

	Six months ended 30 June 2021 (Unaudited)					
	Northern and Northeastern China	Eastern China	Central and Southern China	Western China	Elimination	Total
Operating income						
External net interest income	5,618,241	2,831,345	3,489,051	1,605,229	–	13,543,866
Internal net interest income/(expense)	1,960,857	(361,385)	(883,909)	(715,563)	–	–
Net interest income	7,579,098	2,469,960	2,605,142	889,666	–	13,543,866
Net fee and commission income	536,624	342,361	186,622	51,784	–	1,117,391
Net trading (losses)/gains	(121,491)	12,806	1,634	818	–	(106,233)
Net gains arising from investment securities	1,186,055	–	–	–	–	1,186,055
Other operating income	27,223	21,324	10,540	2,703	–	61,790
Operating income	9,207,509	2,846,451	2,803,938	944,971	–	15,802,869
Operating expenses	(2,627,886)	(972,983)	(871,774)	(238,912)	–	(4,711,555)
Impairment (losses)/reversals on assets	(2,098,297)	353,166	(2,481,090)	(144,311)	–	(4,370,532)
Profit/(loss) before tax	4,481,326	2,226,634	(548,926)	561,748	–	6,720,782
Other segment information						
– Depreciation and amortisation	348,552	164,073	160,960	37,682	–	711,267
– Capital expenditure	82,077	20,982	30,913	8,566	–	142,538

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

39 Segment reporting *(continued)*

(b) Geographical segment *(Continued)*

	As at 30 June 2021 (Unaudited)					
	Northern and Northeastern China	Eastern China	Central and Southern China	Western China	Elimination	Total
Segment assets	**1,030,077,378**	**272,298,350**	**280,596,326**	**98,391,780**	**(130,760,350)**	**1,550,603,484**
Deferred tax assets						**9,724,046**
Total assets						**1,560,327,530**
Segment liabilities	**936,188,371**	**270,836,512**	**279,090,204**	**97,769,490**	**(130,760,350)**	**1,453,124,227**
Total liabilities						**1,453,124,227**
Credit commitment	**118,005,891**	**107,560,955**	**73,966,649**	**15,847,832**	**–**	**315,381,327**

	Six months ended 30 June 2020 (Unaudited)					
	Northern and Northeastern China	Eastern China	Central and Southern China	Western China	Elimination	Total
Operating income						
External net interest income	7,223,594	2,440,701	2,886,791	1,481,159	–	14,032,245
Internal net interest income/(expense)	1,308,010	(247,084)	(498,258)	(562,668)	–	–
Net interest income	8,531,604	2,193,617	2,388,533	918,491	–	14,032,245
Net fee and commission income	728,181	376,850	254,416	65,953	–	1,425,400
Net trading (losses)/gains	(23,237)	1,367	(56)	12,271	–	(9,655)
Net gains arising from investment securities	578,423	–	–	–	–	578,423
Other operating income	10,297	4,992	2,921	576	–	18,786
Operating income	9,825,268	2,576,826	2,645,814	997,291	–	16,045,199
Operating expenses	(2,664,824)	(853,906)	(727,991)	(170,475)	–	(4,417,196)
Impairment losses on assets	(2,738,341)	(1,239,134)	(1,344,525)	(20,664)	–	(5,342,664)
Profit before tax	4,422,103	483,786	573,298	806,152	–	6,285,339
Other segment information						
– Depreciation and amortisation	362,574	166,237	155,059	30,652	–	714,522
– Capital expenditure	142,382	23,236	19,837	1,905	–	187,360

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

39 Segment reporting *(continued)*

(b) Geographical segment *(Continued)*

	As at 31 December 2020 (Audited)					
	Northern and Northeastern China	Eastern China	Central and Southern China	Western China	Elimination	Total
Segment assets	955,390,518	238,987,434	239,133,495	80,361,129	(129,014,069)	1,384,858,507
Deferred tax assets						8,664,618
Total assets						1,393,523,125
Segment liabilities	867,760,377	236,527,621	236,076,796	78,926,570	(129,014,069)	1,290,277,295
Total liabilities						1,290,277,295
Credit commitment	105,193,962	91,598,391	69,339,973	15,749,353	–	281,881,679

40 Risk management

The Bank has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

The Bank develops and continually improves risk management policies, limit system, control procedures and IT systems based on the latest changes in regulatory policies, market conditions and business development to analyze, identify, monitor and report various risks.

This note presents information about the Bank's exposure to each of the above risks and their sources, and the Bank's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The Board of Directors of the Bank is responsible for the ultimate responsibility for comprehensive risk management. The Risk Management Committee of the Bank is set up under the Board of Directors, which is responsible to the Board of Directors. The Board of Supervisors of the Bank is responsible for the supervision of comprehensive risk management and is responsible for supervising the performance of the Board of Directors and senior management in risk management and the rectification. The senior management shall assume the responsibilities for implementing comprehensive risk management and implementing the resolutions of the Board of Directors.

The Bank has established a risk prevention system consisting of three lines of defense against each main risk to which it is exposed. The first line of defense is formed by various business departments at the head office, branches, and sub-branches of the Bank, who are directly responsible for the prevention of various types of risks. The second line of defense is business management departments of risk management line, Assets and Liabilities Management Department and Internal Control and Compliance Departments of the Bank, who take the lead in formulating the requisite policies and procedures, and supervising bank-wide risk management measures. The third line of defense is the Audit departments of the Bank, which are responsible for conducting independent valuation of risk management system and its implementation, and monitoring the effectiveness of risk management policies.

(a) Credit risk

Credit risk is one of the most important risks facing the business operations of the Bank. The Bank may be exposed to significant risks when all counterparties are concentrated in a single industry or region. This is mainly because the counterparties' concentration risk are subject to the same impact by the economic development of the region or industry in which they operate.

The Board of Directors of the Bank is responsible for ultimate responsibility for credit risk management and may authorize the Risk Management Committee to execute some of its functions. The bank continues to improve the credit risk management system, credit risk management policies and tools, and the management process is gradually online and digital. The efficiency of credit approval is further improved, providing strategic support for the business development of the Bank.

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

In terms of credit risk capacity building, the Bank implements unified credit management covering all legal clients, strengthens pre-loan access management, builds the mortgage management system, improves the public credit approval system, and promotes online and intelligent approval of retail inclusive business in an orderly manner.

In terms of credit risk system and policy, the Bank focuses on key areas of state support and green finance, develops tiered credit policies of "encourage, maintain, control and compress", and improve regional and industrial credit guidelines.

In terms of credit risk management tools, the Bank set up a real estate business decision support model and government debt paying ability evaluation model, improve customer rating and debt rating model, and promote risk intelligent risk identification ability including key risk point identification, financial report risk identification, external risk information integration application, customer risk profile and credit structure portfolio view.

Measurement of credit risk

Loans and advances to customers and off-balance sheet credit commitments

The Risk Management Department, Asset Monitoring Department, Credit Monitoring Department and Retail Risk Management Department are jointly responsible for management of credit risks in various credit exposures, and the credit risk management for financial investments. For corporate credit, the Bank keeps itself closely informed of the clients' credit ratings through credit rating assessment using its client credit rating models and facility rating models, and applies the ratings in its loan reviews. Together with the early warning system which monitors the risk of a customer in real time, they are the basis of credit extension. The Bank uses facility rating to determine the loss given default for each credit facility and help its credit officers to balance the risks and rewards. With respect to retail credit business, the Bank measures the credit risks of loans and borrowers through closely studying the ecological platform of the retail credit segment, continuously improving credit scoring models and data mining and risk analysis of the historical performance of the borrowers, so as to gradually improve the effectiveness and efficiency of credit access, asset management, asset classification and impairment provisioning.

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Measurement of credit risk (Continued)

Deposits and placements with banks and other financial institutions and financial assets purchased under resale agreements

The Bank adopts a centralized underwriting process in relation to approving credit limits for financial institution counterparties engaged in interbank placements, investment securities and securities under repurchase and resale agreements. The Bank conducts credit approvals for these counterparties based on the comprehensive evaluation and quantitative and qualitative approach which collectively involves the assessment and review of their credit rating in the banking industry, customer base and profiles, management capabilities, business prospects, industry position, external environment, cooperation with the Bank and financial standing and performance etc.

Debt investments and derivative financial instruments

Before making investment in bonds issued by financial institutions or corporate bonds or before any dealing in financial derivatives with clients, the Bank conducts credit assessment on the issuers and the potential clients for dealing in derivative financial instruments (excluding customers who pay full margin). The Bank is also appropriately using external credit rating in assessing risk.

The credit risks in derivatives engaged by the Bank are mitigated mainly through margin deposits and credit facilities from banks.

Prior to approval, the Asset and Liability Management Department assess the potential future exposure ratio for settlement of foreign exchange derivative financial instruments on behalf of customers which is guaranteed by margin. The authorized approver is responsible for approving credit limits. The Credit Monitor Department is responsible for reviewing the specific business, specific operations are carried out in accordance with the business administrative measures.

Credit risk limit management

Loans and advances to customers and off-balance sheet credit commitments

The Bank starts to use credit limit for the customers in accordance with the approval opinions. Meanwhile, the Bank reviews the approved conditions for the credit line, and monitors the use of the credit limit. Where clients provide collateral, credit limits shall be frozen or adjusted in a timely manner in responding to the change in value of the collateral in order to meet the approved conditions for the credit lines.

Debt investment and derivative trading

The Bank activates credit limits for financial institutions based on credit approvals, and monitors inter-bank or non-inter-bank customer limits based on relevant information such as bond investment and derivative product credit approvals and risk exposures.

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures

Collateral

The credit policies of the Bank provide specific requirements on the acceptable collaterals and pledges, and set different rates for different collaterals and pledges based on their nature and extent of realization. The Bank sets out specific requirements for the qualifications of professional evaluation agencies. In addition, through credit risk management system, the Bank implements strict management on the collaterals and pledges and their ownership certificates to prevent the occurrence of operational risks.

If the decrease in value or quantity of collateral makes it insufficient for the actual value of the collateral to meet collateral rate, the Bank shall freeze the underlying credit lines, require the client to provide additional collateral or security deposit or return the corresponding credit lines.

In respect of real estate development loans, the Bank, by complying with relevant regulatory requirements, assesses the value of collateralized real estate properties based on their progress of construction, cost to resume and complete construction, expected time of completion, selling prices and reasonable discount rates to prevent over extension of credit. For real estate properties accepted for pledge, the Bank sets the minimum requirements on their completion.

The acceptable collateral includes financial collateral, real estate properties, accounts receivable and other collateral, mainly consisting of the following types:

- Cash and its equivalent
- Bills
- Stock
- State-owned construction land use right
- Residential real estate
- Commercial real estate
- Accounts receivable
- Vehicle
- Mechanical equipment
- Inventory
- Resource assets
- Intellectual property

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures (Continued)

Master netting arrangements

The Bank and its counterparties enter into master netting arrangements for derivatives transactions to further reduce credit risk. Master netting arrangements may not lead to the offsetting between assets and liabilities on the statement of financial position, because the transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts are terminated and settled on a net basis.

The derivatives are mainly settled in accordance with the provisions of the International Swaps and Derivatives Association and the features of the products, using, in principle, the method that involves the lowest settlement risk.

Credit commitments

The main objective of credit commitments is to ensure that clients obtain the funds they need. The Bank makes irrevocable guarantee when it issues letters of guarantee, letters of credit and bank's acceptance bill, i.e., the Bank shall make repayments on behalf of the client if the client cannot meet its repayment obligations to a third party, and the Bank assumes the same credit risks as those of a loan, review should be done in strict compliance with the Bank's relevant requirements in conducting such business.

The Bank defines margin deposit as one of the risk mitigations and receives certain margin deposits when conducting relevant credit extension business, with the exception of certain creditworthy clients, to reduce the credit risk involved in providing this service. The margin deposit is collected at a certain percentage of the committed amount based on the credibility of the client.

Impairment and provisioning policies

Stages of risks in financial instrument

The financial assets are categorized by the Bank into the following stages to manage its financial assets' credit risk:

Stage 1: Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2: Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3: Financial assets that are in default and considered credit-impaired.

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Impairment and provisioning policies *(Continued)*

Significant increase in credit risk

The Bank evaluates the whether the credit risk of related financial instruments at least on each date of statement of financial position has increased significantly since initial recognition. The Bank makes full use of all reasonable and supportable information, including forward-looking information, to reflect the significant changes in its credit risk when it conducts the classification of losses of financial instruments. Criteria include regulation and operation environment, internal and external credit ratings, solvency, ability to continue as a going concern, provisions of loan contract, and repayment activities etc. Based on a single financial instrument or a combination of financial instruments with similar credit risk characteristics, the Bank compares the risk of default of financial instruments on the date of statement of financial position to determine the change in default risk during the expected duration of financial instruments. The Bank judges whether the credit risk of a financial instrument has significantly increased since initial confirmation from the risk classification, risk overdue days, internal and external ratings, probability of default, and market price etc.

Definition of "default" and "credit-impaired assets"

When a financial asset is impaired, the Bank identifies the financial asset as a default. Generally speaking, if the financial asset is overdue for more than 90 days, it is considered as a default.

At each date of the statement of financial position, the Bank assesses whether financial assets carried at amortised cost and debt instruments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– for economic or contractual reasons relating to the borrower's financial difficulty, the Bank having granted to the borrower a concession that would not otherwise consider;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

– the disappearance of an active market for that financial asset because of financial difficulties;

– purchase or source a financial asset at significant discount, which reflects that the financial asset is credit-impaired; or

– overdue more than 90 days.

The above criteria apply to all financial assets of the Bank and they are consistent with the definition of "default" adopted by the internal management of credit risk.

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Impairment and provisioning policies *(Continued)*

Measurement of expected credit losses ("ECL")

The Bank adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

– PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;

– EAD is the amount that the Bank should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;

– LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Bank. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Bank determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Bank multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). For the purpose of calculating the lifetime ECL, the Bank calculated the ECL of each period, and the results of calculation are then discounted to the date of statement of financial position and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

– In respect of the financial assets with instalment repayments and bullet repayment, the Bank determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of over-limit repayment and prepayments/refinancing made by the borrower.

– As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the date of statement of financial position by the credit conversion factor (CCF).

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Impairment and provisioning policies *(Continued)*

Measurement of expected credit losses ("ECL") (Continued)

– The Bank determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

– As to financial assets classified as guarantees, the Bank determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.

– As to credit-based financial assets, the Bank usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Bank quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

During the six months ended 30 June 2021, there has been no significant changes in the estimate techniques and key assumptions of the Bank.

Forward-looking information included in the expected credit loss model is as follows:

The calculation of expected credit losses involves forward-looking information. After the historical analysis, the Bank identified the key economic indicators related to expected credit loss, such as gross domestic product (GDP), consumer price index(CPI), Purchasing Managers' index (PMI), Broad money (M2), Industrial Added Value, and Real Estate Climate Index. The Bank carried out regression analysis to determine the relationship between these economic indicators and PD, so as to ascertain the impact of historical changes in these indicators on PD a. The Bank forecasts these economic indicators at least annually and provides the best estimates of the economic conditions for the coming year.

The important macroeconomic assumptions used by the Bank in various macroeconomic scenarios include M2, consumer price index, and fixed asset investment completion.

The Bank established measurement models to identify the three risk weights, i.e. positivity, neutrality and negativity. During the six months ended 30 June 2021, the Bank's positivity scenario weight is 35%, neutrality scenario weight is 50%., and negativity scenario weight is 15%. The Bank measures allowance for credit losses for the first stage based on the weighted average of the credit losses in the three cases in the next 12 months; and measures allowance for credit losses for the second and third stages based on the weighted average of credit losses in the three cases within the lifetime.

During the six months ended 30 June 2021, the Bank has fully considered the impact of the COVID-19 pandemic on the macro economy and banking industry when evaluating the forward-looking information used in the expected credit loss measurement model.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Management Overlay

Taking into account inherent limitations of ECL model and temporary systematic risk factors, the Bank has additionally accrued loss allowance in response to potential risk and improved its risk compensation capability.

During the six months ended 30 June 2021 and the years ended 31 December 2020, the COVID-19 pandemic have a greater impact on the macro economy. The Bank has considered the relevant impact in the expected credit loss model and additionally increase the loss provision, which further enhances the ability to offset risks.

(i) *Maximum credit risk exposure*

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Credit risk exposures relating to on-balance sheet items:		
Cash and deposits with the central bank	**95,837,603**	96,115,373
Deposits with banks and other financial institutions	**69,870,163**	27,805,363
Placements with banks and other financial institutions	**5,070,429**	6,063,668
Derivative financial assets	**490,517**	232,498
Financial assets purchased under resale agreements	**2,293,341**	–
Loans and advances to customers	**953,838,630**	867,120,217
Financial investments		
– Financial investments measured at fair value through profit or loss	**88,803,652**	72,597,497
– Financial investments measured at fair value through other comprehensive income	**77,892,511**	61,813,595
– Financial investments measured at amortised cost	**243,218,224**	241,515,654
Other assets	**3,956,150**	2,190,030
Sub-total	**1,541,271,220**	1,375,453,895
Credit risk exposures relating to off-balance sheet items:		
Acceptances	**206,864,813**	194,625,498
Letters of credit	**76,919,241**	59,117,237
Letters of guarantees	**22,385,392**	20,647,128
Credit card commitment	**9,128,721**	7,491,816
Irrevocable loan commitments	**83,160**	–
Sub-total	**315,381,327**	281,881,679
Total	**1,856,652,547**	1,657,335,574

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Management Overlay *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows:

Financial assets (excluding interests accrued) analysed by credit quality

	At 30 June 2021 (Unaudited)							
	Balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	96,664,555	–	–	96,664,555	–	–	–	–
Deposits with banks and other financial institutions	69,928,334	–	157,747	70,086,081	(72,418)	–	(157,747)	(230,165)
Placements with banks and other financial institutions	4,906,867	–	200,000	5,106,867	(41,715)	–	(60,000)	(101,715)
Financial assets held under resale agreements	2,297,040	–	–	2,297,040	(4,306)	–	–	(4,306)
Loans and advances to customers	867,778,879	24,543,143	17,185,929	909,507,951	(11,349,727)	(5,946,979)	(10,147,873)	(27,444,579)
Financial investments	220,960,548	11,949,293	13,856,636	246,766,477	(945,580)	(2,221,390)	(5,192,508)	(8,359,478)
Other assets	3,956,150	–	–	3,956,150	–	–	–	–
Total	1,266,492,373	36,492,436	31,400,312	1,334,385,121	(12,413,746)	(8,168,369)	(15,558,128)	(36,140,243)
Financial assets measured at fair value through other comprehensive income								
Loans and advances to customers	66,930,847	19,101	–	66,949,948	(146,218)	(1,453)	–	(147,671)
Financial investments	76,969,366	–	–	76,969,366	(47,107)	–	(10,000)	(57,107)
Total	143,900,213	19,101	–	143,919,314	(193,325)	(1,453)	(10,000)	(204,778)
Credit commitments	314,305,422	1,072,676	3,229	315,381,327	(610,890)	(79,557)	(1,008)	(691,455)

Notes to the Unaudited Interim Financial Statements

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

***Credit risk mitigation measures** (Continued)*

***Management Overlay** (Continued)*

(ii) *Financial assets analysed by credit quality are summarized as follows: (Continued)*

Financial assets (excluding interests accrued) analysed by credit quality *(Continued)*

	At 31 December 2020 (Audited)							
	Balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	96,517,891	–	–	96,517,891	–	–	–	–
Deposits with banks and other financial institutions	27,836,406	–	157,747	27,994,153	(40,471)	–	(157,747)	(198,218)
Placements with banks and other financial institutions	5,892,955	–	200,000	6,092,955	(14,119)	–	(60,000)	(74,119)
Loans and advances to customers	815,010,509	25,692,529	15,713,779	856,416,817	(9,664,387)	(7,228,243)	(7,933,218)	(24,825,848)
Financial investments	220,023,815	14,883,823	11,963,317	246,870,955	(1,247,621)	(3,725,889)	(4,945,739)	(9,919,249)
Other assets	2,190,030	–	–	2,190,030	–	–	–	–
Total	1,167,471,606	40,576,352	28,034,843	1,236,082,801	(10,966,598)	(10,954,132)	(13,096,704)	(35,017,434)
Financial assets measured at fair value through other comprehensive income								
Loans and advances to customers	31,046,668	–	–	31,046,668	(127,184)	–	–	(127,184)
Financial investments	60,954,937	–	–	60,954,937	(42,501)	–	(30,000)	(72,501)
Total	92,001,605	–	–	92,001,605	(169,685)	–	(30,000)	(199,685)
Credit commitments	280,872,410	1,005,999	3,270	281,881,679	(861,465)	(144,264)	(658)	(1,006,387)

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Management Overlay *(Continued)*

(ii) Financial assets analysed by credit quality are summarized as follows: (Continued)

The overall ECL rate for financial assets and credit commitments analysed by credit quality

	At 30 June 2021 (Unaudited)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial assets measured at amortised cost	**0.98%**	**22.38%**	**49.55%**	**2.71%**
Financial assets measured at fair value through other comprehensive income	**0.13%**	**7.07%**	**100.00%**	**0.14%**
Credit commitments	**0.19%**	**7.42%**	**31.22%**	**0.22%**

	At 31 December 2020 (Audited)			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	0.94%	27.00%	46.72%	2.83%
Financial assets measured at fair value through other comprehensive income	0.18%	N/A	100.00%	0.22%
Credit commitments	0.31%	14.34%	20.12%	0.36%

As at 30 June 2021 and at 31 December 2020, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB5,492 million and RMB12,424 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB8,649 million and RMB8,168 million. The collaterals mainly include lands, buildings, machinery and equipments, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

Restructured loans refer to those loans that the financial status of the relevant borrowers deteriorate, or that borrowers are not capable of repaying and therefore certain clauses on the loan contract are adjusted. As at 30 June 2021 and at 31 December 2020, the Bank's restructured loans amounted to RMB3,652 million and RMB4,928 million.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(a) Credit risk *(Continued)*

Credit risk mitigation measures *(Continued)*

Management Overlay *(Continued)*

(iv) Credit rating

The Bank adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (excluding interests accrued) analysed by the rating agency designations as at 30 June 2021 and at 31 December 2020 are as follows:

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Neither overdue nor impaired		
Ratings		
– AAA	**215,116,883**	194,224,076
– AA- to AA+	**8,372,455**	8,105,742
Sub-total	**223,489,338**	202,329,818
Unrated	**2,067,029**	715,619
Total	**225,556,367**	203,045,437

(b) Market risk (including the interest rate risk in the banking book)

Market risk refers to the risk of losses to the Bank's on-balance sheet and off-balance sheet activities arising from unfavorable changes in market prices, mainly including interest rates and exchange rates, commodity risk and equity risks. The interest rate risk in the banking book refers to the risk of losses on the economic value and the overall income of the banking book resulted from unfavorable changes in interest rate levels and the maturity structure. The Bank is exposed to market risks in its trading book and banking book. Financial instruments and commodity position recorded in the trading book are those held by the Bank for the purpose of trading or avoiding risks in other items of trading book and which can be traded freely. The assets and liabilities of long-term positions held for the purpose of managing the liquidity of the Bank, regulatory reserve or profit maximization are included in the banking book. Generally, the assets and liabilities recorded in the banking book are mainly held-to-maturity.

The Board is responsible for approving management strategies of market risk (including interest rate risks in the banking book, similarly hereinafter), policy and procedure, determining the level of market risk tolerance, urging senior management to undertake necessary measures to identify, measure, monitor and control market risk, obtaining periodic reports associated with nature and level of market risk, monitoring and evaluating the comprehensiveness, effectiveness, and performance of market risk management. The Bank's senior management has set up the Asset and Liability Management Committee which is in charge of formulating, reviewing and supervising market risk policy and procedure, and process execution. The committee sets market risk limit according to the Board's risk appetite.

40 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

The Bank sets up the market risk management team under the Asset and Liability Management Department. The team is independent of trading department, and responsible for market risk identification, measurement, monitoring, and control, ensuring that the market risk of the Bank is in compliance with the requirements of internal limits and external supervision according to Bank's market risk management policies and procedures.

Trading book market risk

Limits management

In order to control trading book market risk, the Bank sets Value-at-Risk limits, Basis Point Value limits and stop loss limits.

Stress testing

Stress testing is used to assess the loss sustainability under extremely adverse conditions when significant market changes take place, including the extreme fluctuations of market risk elements, such as interest rates and exchange rates, unexpected political or economic events, or a combination of the above situations. The market risk of the Bank goes through stress testing on a regular basis.

Assessment of fair value

Assessment of the fair value of financial instruments is based on the quantitative analysis of the financial products that takes into consideration the specific characteristics of the financial products, trading strategy, market situation, risk factors and the quality and qualification of counterparties. The Bank assesses the fair value of its financial instruments on a regular basis.

Interest rate risk of banking book

Interest rate risk of the banking book are measured and managed mainly through gap management, sensitivity analysis and duration analysis to ensure the interest rate risk of the banking book are controlled within the scope set by the risk appetite.

The Bank calculates the interest rate sensitivity gap based on repricing cash flow of the interest-earning assets and interest-bearing liabilities, and conducts scenario analysis, to assess the impact on the Bank of changes in interest rates. The impact on the market value of assets or liabilities of one basis point movement in interest rate was assessed through calculation of Basic Point Value.

Interest rate risk of the Bank's banking book goes through stress testing on a regular basis. In such stress testing, basic interest rate and market rate is treated as a prime factor, and other factors such as political and economic contingency or several contingencies happened at the same time are included.

Interest rate risk

The Bank operates its business predominantly in mainland China under the interest rate scheme regulated by PBoC.

The Bank manages its interest rate risks through gap analysis, duration analysis and sensitivity analysis of its assets and liabilities. The Bank has set limits to the rate gap, duration and interest rate sensitivity, and monitors regularly to ensure that the exposures are within the Bank's limit.

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(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Interest rate risk (Continued)

(i) The table below summarizes the Bank's exposures to interest rate risks. It presents the Bank's assets and liabilities on the statement of financial position at carrying amounts, by the earlier of the contractual re-pricing date or the maturity date.

	At 30 June 2021 (Unaudited)					
	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	96,693,442	884,727	95,808,715	–	–	–
Deposits with banks and other financial institutions	69,870,163	14,247	69,308,523	547,393	–	–
Placements with banks and other financial institutions	5,070,429	65,277	1,524,992	3,480,160	–	–
Derivative financial assets	490,517	490,517	–	–	–	–
Financial assets held under resale agreements	2,293,341	607	2,292,734	–	–	–
Loans and advances to customers (Note (i))	953,838,630	4,455,013	192,730,502	645,225,055	97,626,157	13,801,903
Financial investments (Note (ii))	409,914,387	27,632,944	93,007,813	56,249,700	196,326,638	36,697,292
Other	22,156,621	22,156,621	–	–	–	–
Total assets	1,560,327,530	55,699,953	454,673,279	705,502,308	293,952,795	50,499,195
Liabilities						
Borrowing from the central bank	72,455,956	1,455,956	30,800,000	40,200,000	–	–
Deposits from banks and other financial Institutions	151,807,022	1,196,424	79,775,188	69,135,410	1,700,000	–
Placements from banks and other financial institutions	61,723,545	233,725	13,480,805	47,309,015	700,000	–
Derivative financial liabilities	847,518	847,518	–	–	–	–
Financial assets sold under repurchase agreements	15,661,750	13,244	15,153,752	494,754	–	–
Deposits from customers	857,649,637	10,988,167	328,629,127	246,488,583	269,746,760	1,797,000
Debt securities issued	274,813,013	1,780,851	91,372,852	118,776,482	53,895,883	8,986,945
Other	18,165,786	18,165,786	–	–	–	–
Total liabilities	1,453,124,227	34,681,671	559,211,724	522,404,244	326,042,643	10,783,945
Asset-liability gap	107,203,303	21,018,282	(104,538,445)	183,098,064	(32,089,848)	39,715,250

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Interest rate risk *(Continued)*

(i) *(Continued)*

	At 31 December 2020 (Audited)					
	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	96,548,417	463,570	96,084,847	–	–	–
Deposits with banks and other financial institutions	27,805,363	9,428	27,246,391	549,544	–	–
Placements with banks and other financial institutions	6,063,668	44,832	4,711,098	1,307,738	–	–
Derivative financial assets	232,498	232,498	–	–	–	–
Loans and advances to customers (Note (i))	867,120,217	4,415,017	415,846,854	323,592,494	107,513,563	15,752,289
Financial investments (Note (ii))	375,926,746	21,576,223	85,776,203	44,683,725	192,303,761	31,586,834
Other	19,826,216	19,826,216	–	–	–	–
Total assets	1,393,523,125	46,567,784	629,665,393	370,133,501	299,817,324	47,339,123
Liabilities						
Borrowing from the central bank	71,592,485	992,485	14,100,000	56,500,000	–	–
Deposits from banks and other financial Institutions	130,273,359	611,070	59,711,269	69,951,020	–	–
Placements from banks and other financial institutions	31,920,614	188,728	15,540,982	16,190,904	–	–
Derivative financial liabilities	533,164	533,164	–	–	–	–
Financial assets sold under repurchase agreements	52,406,083	68,396	51,621,739	715,948	–	–
Deposits from customers	758,235,794	11,664,700	348,839,868	160,388,452	233,895,774	3,447,000
Debt securities issued	225,154,090	915,021	76,559,617	118,759,098	28,920,354	–
Other	20,161,706	16,025,392	217,904	685,867	2,553,276	679,267
Total liabilities	1,290,277,295	30,998,956	566,591,379	423,191,289	265,369,404	4,126,267
Asset-liability gap	103,245,830	15,568,828	63,074,014	(53,057,788)	34,447,920	43,212,856

Notes:

(i) As at 30 June 2021 and 31 December 2020, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB21,157 million and RMB16,393 million, respectively.

(ii) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and financial investments measured at amortised cost.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Interest rate risk *(Continued)*

(ii) Interest rate sensitivity analysis

The Bank uses sensitivity analysis to measure the potential impact of changes in interest rate on the Bank's net profit or loss and equity. The following table sets forth the results of the Bank's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	At 30 June 2021 (Unaudited) (Decrease)/ Increase	At 31 December 2020 (Audited) (Decrease)/ Increase
Change in net profit		
Up 100 bps parallel shift in yield curves	**(363,818)**	(139,458)
Down 100 bps parallel shift in yield curves	**363,818**	139,458

	At 30 June 2021 (Unaudited) Increase/ (Decrease)	At 31 December 2020 (Audited) Increase/ (Decrease)
Change in equity		
Up 100 bps parallel shift in yield curves	**327,851**	232,807
Down 100 bps parallel shift in yield curves	**(327,851)**	(232,807)

The sensitivity analysis above is based on a static interest rate risk profile of the Bank's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Bank's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at 30 June 2021 and 31 December 2020 apply to all non-derivative financial instruments of the Bank;

– At 30 June 2021 and 31 December 2020, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next full year from the end of the period;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Bank'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.

40 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Foreign currency risk

Foreign exchange risk refers to the risk of losses arising from the negative changes in the rate of exchange. The Bank conducts the majority of its business in RMB, with certain foreign transactions in United States dollars ("USD"), Hong Kong dollars ("HKD") and, to a much lesser extent, other currencies.

The Bank's principle in controlling foreign exchange risk is to match its assets and liabilities by currency and to maintain foreign exchange risk within established limits. The Bank has set foreign exchange risk limits which are consistent with the guidelines established by the Asset and Liability Management Committee of the Bank and are in accordance with relevant regulatory requirements, and reflect management's assessment of current circumstances. The Bank also manages its sources and uses of foreign currencies to minimize potential mismatches.

The Bank monitors its foreign exchange risk. The Bank mainly uses the foreign exchange exposure analysis, scenario analysis and stress testing to measure and analyze the foreign exchange risk. Besides, the Bank monitors and controls the foreign exchange risk through the limit management. The Asset and Liability Management Department's market risk team performs independent monitoring, reporting, and management for the entire bank's foreign exchange risk. Meanwhile, the Bank managed the on-balance sheet foreign exchange risk exposures through derivative financial instruments such as foreign exchange swaps and foreign exchange futures, and kept the Bank's total exposures of on-balance sheet and off-balance sheet to a low level. Therefore, the foreign exchange exposure at the end of the period is not sensitive to exchange rate fluctuations, and the potential impact on the Bank's net profit and shareholders' equity is not significant.

The following table summarizes the Bank's exchange risk of assets and liabilities at reporting date. Included in the table are the carrying value of assets and liabilities, and the off-balance sheet credit commitments in RMB equivalent, categorized by the original currency.

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(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Foreign currency risk *(Continued)*

The Bank's currency exposures as at 30 June 2021 and 31 December 2020 are as follows:

	At 30 June 2021 (Unaudited)			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	86,116,236	9,301,224	1,275,982	96,693,442
Deposits with banks and other financial institutions	10,090,083	57,423,540	2,356,540	69,870,163
Placements with banks and other financial institutions	4,983,484	86,945	–	5,070,429
Derivative financial assets	490,517	–	–	490,517
Financial assets held under resale agreements	2,293,341	–	–	2,293,341
Loans and advances to customers	879,424,597	71,368,557	3,045,476	953,838,630
Financial investments (Note (i))	393,649,998	15,880,356	384,033	409,914,387
Other assets	22,057,273	56,329	43,019	22,156,621
Total assets	1,399,105,529	154,116,951	7,105,050	1,560,327,530
Liabilities				
Borrowing from the central bank	72,455,956	–	–	72,455,956
Deposits from banks and other financial Institutions	150,640,626	320,904	845,492	151,807,022
Placements from banks and other financial institutions	2,492,067	54,908,678	4,322,800	61,723,545
Derivative financial liabilities	847,518	–	–	847,518
Financial assets sold under repurchase agreements	15,661,750	–	–	15,661,750
Deposits from customers	722,104,964	134,524,952	1,019,721	857,649,637
Debt securities issued	274,813,013	–	–	274,813,013
Other liabilities	14,380,007	141,089	3,644,690	18,165,786
Total liabilities	1,253,395,901	189,895,623	9,832,703	1,453,124,227
Net position	145,709,628	(35,778,672)	(2,727,653)	107,203,303
Off-balance sheet credit commitments	278,995,873	33,760,458	2,624,996	315,381,327

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(b) Market risk (including the interest rate risk in the banking book) *(Continued)*

Foreign currency risk *(Continued)*

	At 31 December 2020 (Audited)			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	91,572,545	4,097,350	878,522	96,548,417
Deposits with banks and other financial institutions	10,435,710	15,019,529	2,350,124	27,805,363
Placements with banks and other financial institutions	3,123,130	2,940,538	–	6,063,668
Derivative financial assets	232,498	–	–	232,498
Loans and advances to customers	820,669,192	45,069,757	1,381,268	867,120,217
Financial investments (Note (i))	360,736,839	14,714,781	475,126	375,926,746
Other assets	19,766,818	47,427	11,971	19,826,216
Total assets	1,306,536,732	81,889,382	5,097,011	1,393,523,125
Liabilities				
Borrowing from the central bank	71,592,485	–	–	71,592,485
Deposits from banks and other financial Institutions	130,273,129	1	229	130,273,359
Placements from banks and other financial institutions	4,473,750	24,325,431	3,121,433	31,920,614
Derivative financial liabilities	528,552	4,612	–	533,164
Financial assets sold under repurchase agreements	52,406,083	–	–	52,406,083
Deposits from customers	674,607,125	82,860,830	767,839	758,235,794
Debt securities issued	225,154,090	–	–	225,154,090
Other liabilities	16,013,812	138,632	4,009,262	20,161,706
Total liabilities	1,175,049,026	107,329,506	7,898,763	1,290,277,295
Net position	131,487,706	(25,440,124)	(2,801,752)	103,245,830
Off-balance sheet credit commitments	261,730,605	18,045,145	2,105,929	281,881,679

(i) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost.

40 Risk management *(Continued)*

(c) Liquidity risk

The Bank adopts a centralized approach with respect to its liquidity risk management, in which the head office centrally manages overall liquidity risk across the Bank under the policies and guidance of the Board of Directors. Liquidity risk is managed on three levels from the Board of Directors, to senior management and down to individual departments, so that all the Bank is involved in the liquidity risk management. The Asset and Liability Management Department is the leading department in managing the liquidity risk, and is responsible for formulating liquidity risk management strategies, policies and procedures, and identifying, measuring, monitoring and controlling liquidity risk, and ensuring the Bank's overall liquidity risk is controlled within the Bank's risk tolerance based on cash flow gap analysis, with the help of intraday position management, early-warning indicators and limit control, among other means and methods, and by conducting stress testing and crisis response exercises, strengthening market pre judgment and implementing dynamic liquidity risk management when appropriate. The Bank reviews the above practices and means and methods at least once a year. The Corporate Banking Department, Retail Banking Department and Financial Market Department, among others at the head office, and the subsidiaries engage in their business activities in compliance with the liquidity risk management policies, appetite, processes, limits and other requirements as set down by the Board of Directors and senior management.

In addition to effectively managing intraday positions, the Bank managed cash flow, balancing liquidity and profitability and ensuring safety payment of the Bank and implementing integration management of local and foreign currency. For medium and long term liquidity risk management, the Bank strengthened management measures on regulatory ratios and internal limit, and timely monitored early warning indicators, implemented initiative supplementing of liabilities, stabilized the source of capital and improved future maturity structure of assets and liabilities. Regulatory indicators mainly including liquidity proportion, liquidity coverage ratio, net stable funding ratio and liquidity matching rate are set to guide business development. Internal limits, primarily on treasury loans, debt securities pledged as security and asset-liability maturity gap, are monitored to manage and adjust mismatches between the duration of assets and liabilities. Enforcing the establishment and analysis of customer behavior models, leveraging liquidity management models that use prudent assumptions on the Bank's cash inflows and outflows from its assets and liabilities, and by monitoring, analyzing and managing its compliance with regulatory indicators and internal limits, the Bank has been able to maintain a sound liquidity position.

In order to cope with its liquidity risks arising from fluctuation of capital market and changes of macro-economic environment, the Bank sticks to the practice of stress testing of them, including the test of cash flow gaps in the future 7 days,30 days and 90 days and implementation of shortest lifetime management of the Bank by introducing the results of customer behaviors analysis to test the Bank's tolerance of liquidity risks under different stress scenarios through stimulation of decline in the price of marketable securities and outflow of deposits. Also, in consideration of its business size, complexity, level of risk and organizational structure, the Bank has emergency plans in place and explicit internal labor division and emergency procedures to ensure its liquidity under a crisis situation.

To bolster the Bank's liquidity, the Bank formulates investment guidelines and regularly assesses and adjusts its investment strategies for debt securities in light of actual risk management needs, clearly defines the ceiling for collateral bonds through internal limits. This ensures the availability of sufficient quality liquid assets which are readily realizable, and structurally ensure the potential liquidity needs of the Bank are well taken care of. The bank focuses on the adjustment and optimization of asset structure, establishes a portfolio of liquidity reserve assets, and implements asset planning management, and pay attention to the stable return of funds when business is due. In addition, the Bank continues to expand its various debt channels, actively strengthens the degree of participation in the issuance of financial bonds, inter-bank customer relationship management and open market operations of the PBoC, attempts to expand the Bank's medium and long-term stable sources of liabilities, so as to improve the Bank's financing ability under high liquidity pressure.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Maturity analysis

The following tables provide an analysis of non-derivative assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at 30 June 2021 and 31 December 2020:

	At 30 June 2021 (Unaudited)							
	Indefinite Note (i)	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	70,909,029	25,784,413	-	-	-	-	-	96,693,442
Deposit with banks and other financial institutions	3,723	67,822,557	1,492,592	-	551,291	-	-	69,870,163
Placements with banks and other financial institutions	168,569	-	399,895	993,304	3,508,661	-	-	5,070,429
Financial assets held under resale agreements	-	75,570	2,217,771	-	-	-	-	2,293,341
Loans and advances to customers	14,190,922	2,774,323	62,472,597	82,742,673	370,462,647	252,699,626	168,495,842	953,838,630
Financial investments (ii)	21,758,395	24,204,393	24,111,194	22,175,712	69,939,158	210,391,313	37,334,222	409,914,387
Other	22,156,621	-	-	-	-	-	-	22,156,621
Total assets	129,187,259	120,661,256	90,694,049	105,911,689	444,461,757	463,090,939	205,830,064	1,559,837,013
Liabilities								
Borrowing from the central bank	-	-	21,604,013	10,051,094	40,800,849	-	-	72,455,956
Deposits from banks and other financial Institutions	-	25,931,315	19,600,286	34,760,176	69,813,306	1,701,939	-	151,807,022
Placements from banks and other financial institutions	-	-	5,538,239	7,995,788	47,489,518	700,000	-	61,723,545
Financial assets sold under repurchase agreements	-	7,000,181	7,091,656	1,074,404	495,509	-	-	15,661,750
Deposit from customers	-	210,842,496	60,976,188	55,315,605	252,384,214	276,305,852	1,825,282	857,649,637
Debt securities issued	-	270,000	16,242,263	70,391,697	125,026,225	53,895,883	8,986,945	274,813,013
Other	18,165,786	-	-	-	-	-	-	18,165,786
Total liabilities	18,165,786	244,043,992	131,052,645	179,588,764	536,009,621	332,603,674	10,812,227	1,452,276,709
Net position	111,021,473	(123,382,736)	(40,358,596)	(73,677,075)	(91,547,864)	130,487,265	195,017,837	107,560,304

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Maturity analysis (Continued)

	At 31 December 2020 (Audited)							
	Indefinite Note (i)	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	63,018,716	33,529,701	–	–	–	–	–	96,548,417
Deposit with banks and other financial institutions	–	27,250,767	–	–	554,596	–	–	27,805,363
Placements with banks and other financial institutions	–	2,629,311	1,914,133	205,989	1,314,235	–	–	6,063,668
Loans and advances to customers	11,090,114	5,658,777	64,713,005	82,859,214	278,962,810	267,715,556	156,120,741	867,120,217
Financial investments (ii)	18,711,973	29,172,970	11,219,097	11,672,396	68,616,635	204,477,627	32,056,048	375,926,746
Other	19,826,216	–	–	–	–	–	–	19,826,216
Total assets	112,647,019	98,241,526	77,846,235	94,737,599	349,448,276	472,193,183	188,176,789	1,393,290,627
Liabilities								
Borrowing from the central bank	–	–	11,134,811	3,387,701	57,069,973	–	–	71,592,485
Deposits from banks and other financial Institutions	–	27,060,708	11,502,265	20,897,166	70,813,220	–	–	130,273,359
Placements from banks and other financial institutions	–	2,009,666	6,339,951	7,327,414	16,243,583	–	–	31,920,614
Financial assets sold under repurchase agreements	–	15,167,964	29,492,628	7,026,533	718,958	–	–	52,406,083
Deposit from customers	119,108	207,698,503	55,322,139	88,731,884	162,122,294	240,761,577	3,480,289	758,235,794
Debt securities issued	–	–	12,946,723	64,171,119	119,115,894	28,920,354	–	225,154,090
Other	16,025,392	–	72,030	145,874	685,867	2,553,276	679,267	20,161,706
Total liabilities	16,144,500	251,936,841	126,810,547	191,687,691	426,769,789	272,235,207	4,159,556	1,289,744,131
Net position	96,502,519	(153,695,315)	(48,964,312)	(96,950,092)	(77,321,513)	199,957,976	184,017,233	103,546,496

Note:

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans and advances, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of financial investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

(ii) Financial investments include financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Bank at 30 June 2021 and 31 December 2020:

	At 30 June 2021 (Unaudited)							
	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								
Borrowing from the central bank	72,455,956	73,129,408	–	21,629,825	10,093,918	41,405,665	–	–
Deposits from banks and other financial institutions	151,807,022	153,445,320	25,931,315	19,625,383	34,954,309	71,013,733	1,920,580	–
Placements from banks and other financial institutions	61,723,545	62,057,803	–	5,542,113	8,007,879	47,764,075	743,736	–
Financial assets sold under repurchase agreements	15,661,750	15,730,145	7,000,181	7,124,953	1,107,883	497,128	–	–
Deposits from customers	857,649,637	884,750,852	210,842,496	61,014,699	55,496,243	256,208,791	298,710,509	2,478,114
Debt securities issued	274,813,013	285,519,117	270,000	16,274,080	70,789,520	126,886,254	58,147,921	13,151,342
Other financial liabilities	18,165,786	18,808,807	14,418,122	120,091	122,236	669,451	2,664,043	814,864
– Lease liabilities	3,747,663	4,390,685	–	120,091	122,236	669,451	2,664,043	814,864
– Other	14,418,123	14,418,122	14,418,122	–	–	–	–	–
Total non-derivative financial liabilities	1,452,276,709	1,493,441,452	258,462,114	131,331,144	180,571,988	544,445,097	362,186,789	16,444,320
Credit commitments	315,381,327	315,381,327	10,141,533	27,008,232	47,851,656	224,615,544	5,084,362	680,000

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Analysis on contractual undiscounted cash flows of non-derivative financial liabilities (Continued)

	At 31 December 2020 (Audited)							
	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								
Borrowing from the central bank	71,592,485	71,592,485	–	11,134,811	3,387,701	57,069,973	–	–
Deposits from banks and other financial institutions	130,273,359	131,711,713	27,060,708	11,518,444	21,033,236	72,099,325	–	–
Placements from banks and other financial institutions	31,920,614	32,053,310	2,009,667	6,343,579	7,341,607	16,358,457	–	–
Financial assets sold under repurchase agreements	52,406,083	52,435,611	15,167,964	29,494,055	7,049,670	723,922	–	–
Deposits from customers	758,235,794	783,206,434	207,817,609	55,356,965	89,135,555	163,361,464	263,031,814	4,503,027
Debt securities issued	225,154,090	230,482,753	–	12,966,164	64,502,918	121,509,282	31,146,537	357,852
Other financial liabilities	20,161,706	20,525,450	16,025,392	73,803	149,421	701,827	2,761,307	813,700
– Lease liabilities	4,136,314	4,500,058	–	73,803	149,421	701,827	2,761,307	813,700
– Other	16,025,392	16,025,392	16,025,392	–	–	–	–	–
Total non-derivative financial liabilities	1,289,744,131	1,322,007,756	268,081,340	126,887,821	192,600,108	431,824,250	296,939,658	5,674,579
Credit commitments	281,881,679	281,881,679	9,763,231	29,058,670	75,137,793	161,443,707	5,798,278	680,000

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Analysis on contractual undiscounted cash flow of derivative financial instruments

The Bank's derivative financial instruments that will be settled on a net basis include interest rate swaps and precious metal swaps. The Bank's derivative financial instruments that will be settled on a gross basis are exchange rate swaps and exchange rate forwards.

The following table analyses the contractual undiscounted cash flow of financial derivatives that will be settled on net amounts and gross amounts basis held by the Bank at the the end of the reporting period. The amounts disclosed are the contractual undiscounted cash flows.

	At 30 June 2021 (Unaudited)				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	84	128	3,593	5,383	9,188
Precious metal swaps	–	–	(289,689)	–	(289,689)
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
– Cash inflow	9,302,256	20,327,957	4,686,894	152,448	34,469,555
– Cash outflow	(9,400,397)	(20,415,629)	(4,800,542)	(153,636)	(34,770,204)
Exchange rate forwards					
– Cash inflow	–	–	862,430	–	862,430
– Cash outflow	–	–	(831,600)	–	(831,600)
Total cash inflow	9,302,256	20,327,957	5,549,324	152,448	35,331,985
Total cash outflow	(9,400,397)	(20,415,629)	(5,632,142)	(153,636)	(35,601,804)

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

40 Risk management *(Continued)*

(c) Liquidity risk *(Continued)*

Analysis on contractual undiscounted cash flow of derivative financial instruments *(Continued)*

	At 31 December 2020 (Audited)				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	913	88	598	11,343	12,942
Precious metal swaps	–	–	(113,527)	–	(113,527)
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
– Cash inflow	11,122,357	11,758,953	1,314,644	154,386	24,350,340
– Cash outflow	(11,151,098)	(11,947,989)	(1,330,065)	(160,678)	(24,589,830)
Exchange rate forwards					
– Cash inflow	–	–	862,430	–	862,430
– Cash outflow	–	–	(843,600)	–	(843,600)
Total cash inflow	11,122,357	11,758,953	2,177,074	154,386	25,212,770
Total cash outflow	(11,151,098)	(11,947,989)	(2,173,665)	(160,678)	(25,433,430)

(d) Operational risk

Operational risk is the risk of losses due to inadequate or flawed internal processes, staff and IT systems, and external events. It includes legal risk but excludes strategic risk and reputational risk.

The Bank constantly improve and strengthen the operational risk management mechanism consisting of three lines of defence, comply with regulatory requirements, implement related management policies to further standardise the methods and processes of operational risk management for effective risk management,to prevent and control major operational risk events as the management goal, further standardize the methods and procedures of operational risk management, strengthen the initiative of operational risk management. In accordance with the risk-oriented principle, the inspection and supervision of key institutions, positions, businesses and links should be strengthened. Carry out operational risk management tools, timely update and improve indicators. To carry out the "Year of Internal Control and Compliance Management Construction" activity, actively promote the supervision, inspection and rectification, and constantly improve the long-term management mechanism. We will launch special actions to address compliance risks, and focus on the problems of repeated investigations and repeated crimes. Continuously improve the operational risk case base, carry out a series of training, and actively create a good operational risk management culture.

41 Fair value

(a) Methods and assumptions for measurement of fair value

The Bank 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 reporting period. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, such as discounted cash flows model.

(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 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 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 reporting period.

(iv) Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards, swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and the Garman Kohlhagen model extended from Black Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

(b) Fair value measurement

(i) Financial assets

The Bank's financial assets mainly consist of cash and deposits with the central bank, deposit with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, and investments.

Deposits with the central bank, deposit 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.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values.

Derivative financial assets, financial investments measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss are stated at fair value. Financial investments measured at amortised cost and the carrying amounts of investments classified as receivables are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

41 Fair value *(Continued)*

(b) Fair value measurement *(Continued)*

(ii) Financial liabilities

The Bank's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, derivative financial liabilities, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Derivative financial liabilities is stated at fair value. The book value and fair value of debt securities issued is presented in Note 28. The carrying amounts of other financial liabilities approximate their fair value.

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

– Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

– Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments that measured at fair value, the fair value of which is based on quoted market prices. When quoted prices on open market are not available, the Banks will determine the fair value of financial instruments by using appropriate valuation model, enquiry or by reference to the valuation results of third-party valuation institution. The Bank selects appropriate models based on the risk characteristics, liquidity, counterparty risk and pricing basis of specific financial instruments or trading strategies to ensure that their fair value are truly and effectively reflected. The Bank selects the quoted prices or refers to the valuation results of third-party valuation agencies for evaluation of the fair value of a financial instrument, and when referring to the valuation results of third-party valuation agencies, the authority, independence and professionalism of the agencies should be assessed.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

41 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

	At 30 June 2021 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial assets	–	490,517	–	490,517
Loans and advances to customers measured at fair value through profit or loss				
– Corporate loans and advance	–	370,298	–	370,298
Loans and advances to customers measured at fair value through other comprehensive income				
– discounted bills	–	66,949,948	–	66,949,948
Financial investments measured at fair value through profit or loss				
– debt securities	–	11,557,890	567,229	12,125,119
– interbank deposits	–	199,562	–	199,562
– investment funds	–	50,532,620	–	50,532,620
– trust plans and asset management plans	–	19,396,670	3,183,317	22,579,987
– equity investments	461,660	–	2,904,704	3,366,364
Financial investments measured at fair value through other comprehensive income				
– debt securities (exclusive interests accrued)	–	76,769,366	–	76,769,366
– equity investments	–	–	200,000	200,000
Total	461,660	226,266,871	6,855,250	233,583,781
Liabilities				
Derivative financial liabilities	–	(847,518)	–	(847,518)
Total	–	(847,518)	–	(847,518)

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

41 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

	At 31 December 2020 (Audited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial assets	–	232,498	–	232,498
Loans and advances to customers measured at fair value through profit or loss				
– Corporate loans and advance	–	74,060	–	74,060
Loans and advances to customers measured at fair value through other comprehensive income				
– discounted bills	–	31,046,668	–	31,046,668
Financial investments measured at fair value through profit or loss				
– debt securities	–	7,869,297	567,229	8,436,526
– investment funds	–	44,178,765	–	44,178,765
– trust plans and asset management plans	–	16,175,017	1,676,276	17,851,293
– equity investments	298,175	–	1,832,738	2,130,913
Financial investments measured at fair value through other comprehensive income				
– debt securities (exclusive interests accrued)	–	59,791,966	–	59,791,966
– equity investments	–	–	200,000	200,000
– trust plans and asset management plans (exclusive interests accrued)	–	962,971	–	962,971
Total	298,175	160,331,242	4,276,243	164,905,660
Liabilities				
Derivative financial liabilities	–	(533,164)	–	(533,164)
Total	–	(533,164)	–	(533,164)

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

41 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

The movement during the six months ended 30 June 2021 in the balance of Level 3 fair value measurements (unaudited) is as follows:

	1 January 2021	Transfer into Level 3	Transfer out of Level 3	Total gains or losses of the period		Additions, issues, sales and settlements				30 June 2021	Unrealized gains or losses for the year included in profit or loss for assets held at the end of the period
				Recorded in profit or loss	Recorded in other comprehensive income	Additions	Issues	Sales	Settlements		
Assets											
Financial assets measured at fair value through profit or loss											
– debt securities	567,229	-	-	-	-	-	-	-	-	567,229	-
– trust plans and asset management plans	1,676,276	-	-	-	-	1,517,931	-	-	(10,890)	3,183,317	-
– equity investments	1,832,738	-	-	-	-	1,071,973	-	-	(7)	2,904,704	-
Sub-total	4,076,243	-	-	-	-	2,589,904	-	-	(10,897)	6,655,250	-
Financial assets measured at fair value through other comprehensive income											
– equity investments	200,000	-	-	-	-	-	-	-	-	200,000	-
Total	4,276,243	-	-	-	-	2,589,904	-	-	(10,897)	6,855,250	-

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

41 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

The movement during the year ended 31 December 2020 in the balance of Level 3 fair value measurements (audited) is as follows:

	1 January 2020	Transfer into Level 3	Transfer out of Level 3	Total gains or losses of the period		Additions, issues, sales and settlements				31 December 2020	Unrealized gains or losses for the year included in profit or loss for assets held at the end of the period
				Recorded in profit or loss	Recorded in other comprehensive income	Additions	Issues	Sales	Settlements		
Assets											
Financial assets at fair value through profit or loss											
– Debt securities	–	–	–	–	–	567,229	–	–	–	567,229	–
– trust plans and asset management plans	1,848,206	–	–	(161,296)	–	–	–	–	(10,634)	1,676,276	(161,296)
– equity investments	1,696,017	–	(104,625)	–	–	241,346	–	–	–	1,832,738	–
Sub-total	3,544,223	–	(104,625)	(161,296)	–	808,575	–	–	(10,634)	4,076,243	(161,296)
Financial assets at fair value through other comprehensive income											
– equity investments	200,000	–	–	–	–	–	–	–	–	200,000	–
Total	3,744,223	–	(104,625)	(161,296)	–	808,575	–	–	(10,634)	4,276,243	(161,296)

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

41 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorized within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at 30 June 2021 (Unaudited)	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– debt securities	567,229	Discounted cash flow	Risk-adjusted discount rate, cash flow
– trust plans and asset management plans	3,183,317	Discounted cash flow	Risk-adjusted discount rate, cash flow
– equity investments	2,904,704	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– equity investments	200,000	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at 31 December 2020 (Audited)	Valuation techniques	Unobservable input
Financial investments measured at fair value through profit or loss			
– Debt securities	567,229	Discounted cash flow	Risk-adjusted discount rate, cash flow
– trust plans and asset management plans	1,676,276	Discounted cash flow	Risk-adjusted discount rate, cash flow
– equity investments	1,832,738	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments measured at fair value through other comprehensive income			
– equity investments	200,000	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the reporting period, there were no significant change in the valuation techniques.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

41 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

As at 30 June 2021 and 31 December 2020, significant unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets measured at fair value classified as Level 3, which were mainly equity investments. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs. An increases (decreases) in risk-adjusted discount rate in isolation would result in a lower (higher) fair value measurement, and increases (decreases) in cash flow in isolation would result in a higher (lower) fair value measurement. There are no interrelationships between those inputs.

The sensitivity of the fair value on changes in significant unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data.

The following table shows the sensitivity of fair value due to 1% movement (100bps) of risk-adjusted discount rate change to reasonably possible alternative assumptions.

	At 30 June 2021 (Unaudited)			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– debt securities	**21,288**	**(20,110)**	**–**	**–**
– trust plans and asset management plans	**127,927**	**(120,766)**	**–**	**–**
– equity investments	**108,584**	**(102,579)**	**–**	**–**
Financial investments measured at fair value through other comprehensive income				
– equity investments	**–**	**–**	**4,668**	**(4,429)**

	At 31 December 2020 (Audited)			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– debt securities	21,288	(20,110)	–	–
– trust plans and asset management plans	71,284	(67,259)	–	–
– equity investments	68,309	(64,533)	–	–
Financial investments measured at fair value through other comprehensive income				
– equity investments	–	–	4,668	(4,429)

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

41 Fair value *(Continued)*

(c) Fair value hierarchy *(Continued)*

The following table shows the sensitivity of fair value due to 10% movement of cash flow change to reasonably possible alternative assumptions.

	At 30 June 2021 (Unaudited)			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– debt securities	**23,199**	**(23,199)**	**–**	**–**
– trust plans and asset management plans	**138,253**	**(137,755)**	**–**	**–**
– equity investments	**105,345**	**(119,554)**	**–**	**–**
Financial investments measured at fair value through other comprehensive income				
– equity investments	**–**	**–**	**5,624**	**(5,624)**

	At 31 December 2020 (Audited)			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial investments measured at fair value through profit or loss				
– Debt securities	23,199	(23,199)	–	–
– trust plans and asset management plans	76,284	(76,284)	–	–
– equity investments	74,585	(74,585)	–	–
Financial investments at fair value through other comprehensive income				
– equity investments	–	–	5,624	(5,624)

Base on above sensitivity analysis, changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would not result in a significant change in the fair value of relevant financial instruments.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

42 Entrusted lending business

The Bank provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Bank does not take any credit risk in relation to these transactions. The Bank acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Bank and are not recognised in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Entrusted loans	**31,345,322**	36,175,510
Entrusted funds	**31,345,322**	36,175,510

43 Commitments and contingent liabilities

(a) Credit commitments

The Bank's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The Bank's loan commitments are the commitments to extend credit for any given time in the form of approved loans and credit card limits. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Irrevocable loan commitments		
– Original contractual maturity within one year	**83,160**	–
Credit card commitments	**9,128,721**	7,491,816
Sub-total	**9,211,881**	7,491,816
Acceptances	**206,864,813**	194,625,498
Letters of credit	**76,919,241**	59,117,237
Letters of guarantees	**22,385,392**	20,647,128
Total	**315,381,327**	281,881,679

The Bank may be exposed to credit risk in all the above credit businesses. Bank Management periodically assesses credit risk and makes provision for any probable 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. As at 30 June 2021 and 31 December 2020, provisions for credit commitments were RMB691 million and RMB1,006 million.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

43 Commitments and contingent liabilities *(Continued)*

(b) Credit risk-weighted amount for credit commitments

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Credit risk-weighted amounts	**59,750,613**	60,787,483

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Capital commitments

As at 30 June 2021 and 31 December 2020, the Bank's authorised capital commitments are as follows:

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Contracted but not paid for	**321,027**	244,073
Authorised but not contracted for	**146,062**	147,024
Total	**467,089**	391,097

(d) Outstanding litigations and disputes

As at 30 June 2021 and 31 December 2020, the Bank has been involved in certain claims and acting as the defendant in certain outstanding litigations and disputes with an estimated gross amounts of RMB74.33 million and RMB81.30 million, respectively. The Bank has assessed the impact of the above outstanding litigations and disputes that may lead to an outflow of economic benefits. According to the opinion of the Bank's internal legal department and external lawyers, as at 30 June 2021 and 31 December 2020, the Bank has made provisions of RMB42.24 million and RMB42.24 million regarding such pending litigations and claims arising from normal course of business.

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

43 Commitments and contingent liabilities *(Continued)*

(e) Pledged assets

(i) Assets pledged as collateral

	At 30 June 2021 (Unaudited)	At 31 December 2020 (Audited)
Investment securities	**84,889,059**	113,770,120
Discounted bills	**3,601,754**	11,311,854
Total	**88,490,813**	125,081,974

Some of the Bank's assets are pledged as collateral under repurchase agreements, and borrowings from central bank.

The Bank's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 30 June 2021 and 31 December 2020, the Bank did not have these discounted bills under resale agreements. As at 30 June 2021 and 31 December 2020, the Bank did not sell or repledge any pledged assets which it has an obligation to resale when they are due.

(ii) Pledged assets received

The Bank conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. The Bank's balance of financial assets held under resale agreements were included in Note 16. The fair value of such collateral accepted by the Bank was RMB2,293 million and RMB1,850 million as at 30 June 2021 and 31 December 2020. These transactions were conducted under standard terms in the normal course of business.

44 Subsequent events

Up to the approval date of the report, the Bank has no significant subsequent events for disclosure.

45 Comparative figures

For financial statements disclosure purpose, the Bank made reclassification adjustments to some comparative figures.

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[1] A joint-stock company incorporated in the People's Republic of China with limited liability.

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Pricing Supplement

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Pricing Supplement dated 3 November 2021

CHINA BOHAI BANK CO., LTD., HONG KONG BRANCH*

Issue of U.S.$300,000,000 1.50 per cent. Notes due 2024 (the "**Notes**")
under the U.S.$.2,000,000,000 Medium Term Note Programme (the "**Programme**")

This document constitutes the Pricing Supplement for the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Offering Circular dated 28 October 2021 (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular. This Pricing Supplement, together with the information set out in the Schedule to this Pricing Supplement, supplements the Offering Circular and supersedes the information in the Offering Circular to the extent inconsistent with the information included therein. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular.

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* China Bohai Bank Co., Ltd. 渤海银行股份有限公司 is a joint stock company incorporated in the People's Republic of China with limited liability.

1	Issuer:	China Bohai Bank Co., Ltd., Hong Kong Branch*
2	(i) Series Number:	001
	(ii) Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)	001
3	Specified Currency or Currencies:	U.S. Dollars ("**U.S.$**")
4	Aggregate Nominal Amount:	
	(i) Series:	U.S.$300,000,000
	(ii) Tranche:	U.S.$300,000,000
5	(i) Issue Price:	99.766 per cent. of the Aggregate Nominal Amount
	(ii) Gross proceeds:	U.S.$299,298,000
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:	10 November 2021
	(ii) Interest Commencement Date:	Issue Date
8	Maturity Date:	10 November 2024
9	Interest Basis:	1.50 per cent. Fixed Rate (further particulars specified below)
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption / Payment Basis:	Not Applicable
12	Put/Call Options:	Not Applicable
13	Listing:	The Stock Exchange of Hong Kong Limited ("**HKSE**") Listing is expected to be effective on 11 November 2021
14	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15	Fixed Rate Note Provisions	Applicable
	(i) Rate of Interest:	1.50 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Date(s):	10 May and 10 November in each year
	(iii) Fixed Coupon Amount:	U.S.$7.5 per Calculation Amount
	(iv) Broken Amount:	Not Applicable

* China Bohai Bank Co., Ltd. 渤海银行股份有限公司 is a joint stock company incorporated in the People's Republic of China with limited liability.

	(v) Day Count Fraction (Condition 5(j)):	30/360
	(vi) Determination Date(s) (Condition 5(j)):	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
16	Floating Rate Note Provisions	Not Applicable
17	Zero Coupon Note Provisions	Not Applicable
18	Index Linked Interest Note Provisions	Not Applicable
19	Dual Currency Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

20	Call Option	Not Applicable
21	Put Option	Not Applicable
22	Final Redemption Amount of each Note	U.S.$1,000 per Calculation Amount
23	Early Redemption Amount	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons (Condition 6(c)) or Event of Default (Condition 10 and/or the method of calculating the same (if required or if different from that set out in the Conditions):	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24	Form of Notes:	**Registered Notes:** Regulation S Global Note (U.S.$300,000,000 nominal amount) registered in the name of a nominee for a common depositary for Euroclear and Clearstream
25	Financial Centre(s) (Condition 7)) or other special provisions relating to payment dates:	Not Applicable
26	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
27	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
28	Details relating to Instalment Notes:	Not Applicable
29	Redenomination, renominalisation and reconventioning provisions:	Not Applicable

30	Consolidation provisions:	Not Applicable
31	Other terms or special conditions:	Not Applicable

DISTRIBUTION

32	(i) If syndicated, names of Managers:	CLSA Limited Standard Chartered Bank Bank of China Limited Bank of Communications Co., Ltd. Hong Kong Branch CCB International Capital Limited China Minsheng Banking Corp., Ltd., Hong Kong Branch CMB Wing Lung Bank Limited Haitong International Securities Company Limited Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch Industrial Bank Co., Ltd. Hong Kong Branch Industrial and Commercial Bank of China (Asia) Limited CMBC Securities Company Limited BOCOM International Securities Limited China Everbright Securities (HK) Limited GF Securities (Hong Kong) Brokerage Limited CEB International Capital Corporation Limited Guotai Junan Securities (Hong Kong) Limited China International Capital Corporation Hong Kong Securities Limited China Zheshang Bank Co., Ltd. (Hong Kong Branch) CMB International Capital Limited SPDB International Capital Limited China Everbright Bank Co., Ltd., Hong Kong Branch
	(ii) Stabilisation Manager (if any):	One or more of the Managers appointed and acting in its capacity as a stabilisation manager
33	If non-syndicated, name of Dealer:	Not Applicable
34	U.S. Selling Restrictions	TEFRA not applicable; Regulation S (Category 1)
35	Prohibition of Sales to EEA Retail Investors:	Not Applicable
36	Prohibition of Sales to UK Retail Investors:	Not Applicable
37	Additional selling restrictions:	Not Applicable
38	Private bank rebate/commission:	Not Applicable

OPERATIONAL INFORMATION

39	ISIN Code:	XS2405490850
40	Common Code:	240549085
41	CMU Instrument Number:	Not Applicable
42	Legal Entity Identifier of the Bank:	549300YB2ARX5DQT4F62
43	Any clearing system(s) other than Euroclear, Clearstream, the CMU and the relevant identification number(s):	Not Applicable
44	Delivery:	Delivery against payment
45	Additional Paying Agents (if any):	Not Applicable

GENERAL

46	The aggregate principal amount of Notes issued has been translated into US dollars at the rate of N/A, producing a sum of (for Notes not denominated in U.S. dollars):	Not Applicable
47	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
48	In the case of Bearer Notes, specify the location of the office of the Fiscal Agent if other than London:	Not Applicable
49	Date of corporate approval(s) for the issuance of the Notes:	The issue of the Notes has been duly authorised by the resolutions of the board of directors of China Bohai Bank Co., Ltd. 渤海银行股份有限公司(the "Bank") dated 29 March 2021, the resolutions of the shareholders of the Bank dated 17 May 2021 and the minutes of president's office meeting of the Bank dated 23 June 2021
50	Date of any regulatory approval for the issuance of the Notes:	The pre-issuance registration certificate dated 9 September 2021 was issued by the National Development and Reform Commission of the People's Republic of China
51	Governing Law:	English law
52	Ratings:	The Notes to be issued have been rated: S&P: BBB-; Moody's: Baa3.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue if listed and admitted to trading on the Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.$2,000,000,000 Medium Term Note Programme of China Bohai Bank Co., Ltd. 渤海银行股份有限公司 and China Bohai Bank Co., Ltd., Hong Kong Branch

STABILISATION

In connection with the issue of any Tranche of Notes, one or more of the Managers named as Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement may over-allot 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, there is no obligation on the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager) to do this. Such stabilisation if commenced may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended 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.

MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2021 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 30 June 2021.

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: (S.D.)

Duly authorised

SCHEDULE

The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule.

RECENT DEVELOPMENTS

Resignation of an independent non-executive Director

On 29 October 2021, the Bank published an announcement on the Hong Kong Stock Exchange that the Board had received the resignation letter from Mr. WANG Ren ("**Mr. WANG**"). Mr. WANG resigned as an independent non-executive director of the Bank, a member of the nomination and remuneration committee and a member of the audit and consumer rights protection committee of the Board due to personal work re-arrangement. His resignation will become effective upon the election of a successor independent non-executive director by the shareholders' general meeting of the Bank and on the date such successor independent non-executive director obtains the approval of appointment qualification from the CBIRC, during which Mr. WANG continues to perform his duties as an independent non-executive director of the Bank, a member of the nomination and remuneration committee and a member of the audit and consumer rights protection committee of the Board. Mr. WANG has confirmed that he has no disagreement with the Board, and there are no matters relating to his resignation that needs to be brought to the attention of the shareholders or creditors of the Bank or the Hong Kong Stock Exchange.