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本公告及所附上市文件僅供參考，並不構成收購、購買或認購發行人（定義見下）證券的邀請或要約。本公告及所附上市文件並不亦非旨在作為在美國境內出售或收購任何發行人證券的要約或招攬購買任何發行人證券的要約。本公告及所附上市文件所述證券未曾亦不會根據經修訂的 1933 年美國證券法（「證券法」）登記，亦不會於美國境內提呈發售及出售，除非獲豁免遵守或交易不受限於證券法的登記規定。本公告及所附上市文件不得直接或間接在美國或美國境內分發。證券並無且將不會於美國境內進行公開發售。

本公告及所附上市文件乃按香港聯合交易所有限公司證券上市規則（「上市規則」）規定發佈且僅供參考，並不屬於提呈出售或收購任何證券的要約或招攬購買任何證券的要約。本公告及本文所述任何內容（包括上市文件）並非任何合約或承諾的依據。為免生疑，刊發本公告及所附上市文件不應被視為就香港法例第 32 章公司（清盤及雜項條文）條例而言根據發行人或其代表刊發的招股章程提出的證券發售要約，亦不屬於香港法例第 571 章證券及期貨條例所指其中載有向公眾人士發出邀請以訂立或建議訂立有關購買、出售、認購或包銷證券的協議的廣告、邀請或文件。

**香港投資者謹請注意：**發行人確認該等票據（定義見下）擬僅供專業投資者（定義見上市規則第 37 章）購買，並已按該基準於香港聯合交易所有限公司上市。因此，發行人確認該等票據不適合作為香港散戶之投資。投資者應審慎考慮所涉及的風險。

## 刊發發售通函及定價補充文件 中國光大銀行股份有限公司香港分行（「發行人」）



中國光大銀行股份有限公司（「本公司」）  
**China Everbright Bank Company Limited**  
(於中華人民共和國註冊成立的股份有限公司)  
(股份代號: 6818)

根據 5,000,000,000 美元中期票據計劃（「該計劃」）  
發行 2026 年到期的人民幣 1,500,000,000 元 3.00% 票據（票據代號：84512）  
及  
2027 年到期的 550,000,000 美元浮動利率票據（票據代號：4582）  
(統稱「該等票據」)

本公告乃根據上市規則第 37.39A 條刊發。

請參閱本公告隨附日期為二零二三年九月四日有關該計劃的發售通函（「發售通函」）、日期為二零二四年五月七日有關該等票據的補充發售通函（「補充發售通函」）及日期為二零二四年五月七日有關該等票據的各定價補充文件（「定價補充文件」）。誠如發售通函、補充發售通函及定價補充文件所披露，該等票據僅供專業投資者（定義見上市規則第 37 章）購買，並已按該基準於香港聯合交易所有限公司上市。

發售通函、補充發售通函及定價補充文件並不構成向任何司法權區的公眾提呈出售任何證券的招股章程、通告、通函、宣傳冊或廣告，亦並非向公眾發出邀請以就認購或購買任何證券作出要約，且並非供分發以邀請公眾發出認購或購買任何證券之要約。

發售通函、補充發售通函及定價補充文件不得被視為認購或購買發行人的任何證券的勸誘，且無意進行有關勸誘。

中國●北京  
2024年5月16日

於本公告日期，本公司執行董事為王志恒先生及曲亮先生；非執行董事為吳利軍先生、崔勇先生、姚威先生、朱文輝先生及李巍先生；以及獨立非執行董事為邵瑞慶先生、洪永森先生、李引泉先生、劉世平先生以及黃志凌先生。

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## IMPORTANT NOTICE

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

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

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

THE OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE 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. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of Your Representation:** In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to the Issuer, the Bank, the Arrangers and the Dealers (each as defined in the Offering Circular) that you and any customers you represent are persons outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

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

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

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



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

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

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

### Medium Term Note Programme

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

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

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

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

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

The 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 or the Notes on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer, the Group, the Bank or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the relevant general foreign debt issuance quota granted by the National Development and Reform Commission of the PRC (the "**NDRC**") pursuant to the Administrative Measures for the Review and Registration of Medium and Long-Term Foreign Debts of Enterprises (《企業中長期外債審核登記管理辦法》(國家發展和改革委員會令第56號)) issued by the NDRC on 5 January 2023 and which came into effect on 10 February 2023 and any implementation rules, reports, certificates and guidelines and applicable policies issued by the NDRC from time to time (the "**NDRC Measures**"). After the issuance of such relevant Tranche of Notes, the Issuer undertakes to file or cause to be filed with the NDRC the requisite information and documents within the relevant prescribed timeframes from time to time after the relevant Issue Date in accordance with the NDRC Measures; and comply with the NDRC Measures and other obligations required by the NDRC as it applies to the Notes.

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

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

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

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

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

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

Credit-Linked Notes may be issued under the Programme. For the description of certain risks relating to Credit-Linked Notes which may be issued under the Programme, please refer to "*Risk Factors - Risks Relating to Credit-Linked Notes*" of this Offering Circular.

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

#### Arrangers

China Everbright Bank  
Hong Kong Branch

CEB International

Citigroup

#### Dealers

China Everbright Bank  
Hong Kong Branch

CEB International

Citigroup

The date of this Offering Circular is 4 September 2023

## IMPORTANT NOTICE

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

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

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

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

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore and Taiwan, and to persons connected therewith. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory

authority of any state or other jurisdiction of the United States and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of bearer notes, delivered within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of this Offering Circular, see “*Subscription and Sale*”.

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

**EU MiFID II product governance/target market** – The Pricing Supplement in respect of any Notes may include a legend entitled “EU MiFID II Product Governance” which will outline the target market 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, “**EU 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/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 Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

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

**PRIIPS/IMPORTANT – UK RETAIL INVESTORS** – If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to UK Retail Investors”, the Notes are not intended to be offered,

sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the “UK Prospectus Regulation”). Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**Singapore SFA Product Classification:** In connection with Section 309B of the Securities and Futures Act 2001 (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are “prescribed capital markets products” (as defined in the CMP Regulations 2018).

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

#### **Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors**

Prospective investors should be aware that certain intermediaries in the context of certain offerings of Notes pursuant to this Programme (each such offering, a “CMI Offering”), including certain Dealers, may be “capital market intermediaries” (the “CMIs”) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “SFC Code”). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as “overall coordinators” (the “OCs”) for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Bank, a CMI or its group companies would be considered under the SFC Code as having an association (an “Association”) with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more



corresponding or identical orders placed via two or more CMI(s). A rebate may be offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50% interest, in which case it will be classified as a “proprietary order” and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a “proprietary order” (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealer and/or any other third parties as may be required by the SFC Code, including to the Issuer, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

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

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

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Bank, the Group, the Arrangers, the Dealers, or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase

any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the Group.

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

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

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

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor’s particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

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

of any such person undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Agents or any of them.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

For convenience only, this Offering Circular contains translations of certain amounts denominated in Renminbi and U.S. dollars. Unless indicated otherwise, the translations between Renminbi and U.S. dollars were made at the rate of RMB7.2513 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2023. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Further information on exchange rates are set forth in the section headed “Exchange Rates” in this Offering Circular.

As at the date of this Offering Circular, the Bank’s audited consolidated financial statements as at and for the years ended 31 December 2021 and 2022 are the most recently published audited financial statements available incorporated in the F-pages of this Offering Circular. The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2021 and 2022 were prepared in accordance with International Financial Reporting Standards (“IFRS”) and have been audited by Ernst & Young. The Bank has applied new standards and amendments starting from 1 January 2022, including Amendments to IFRS 3 - Reference to the Conceptual Framework, Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use, Amendments to IAS 37 - Onerous Contracts –Costs of Fulfilling a Contract and Annual Improvements to IFRSs 2018-2020 - Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. The adoption of the above amendments did not have any significant impact on the operating results, financial position and comprehensive income of the Group.

The interim financial information of the Bank as at and for the six months ended 30 June 2022 and 2023 was extracted from the reviewed consolidated interim financial statements of the Bank as at and for the six months ended 30 June 2023 (the “2023 Interim Financial Statements”) included in the interim report of the Bank (the “2023 Interim Report”) published on 24 August 2023 and prepared in accordance with IFRS.

The 2023 Interim Financial Statements (which includes the comparative financial information as at and for the six months ended 30 June 2022) included in this Offering Circular have been reviewed by Ernst & Young. Such interim financial information as at and for the six months ended 30 June 2023 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 2023.

The Bank publishes its quarterly financial statements from time to time. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit and/or review. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results.

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

### **FORWARD LOOKING STATEMENTS**

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

### **INFORMATION INCORPORATED BY REFERENCE**

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual consolidated financial statements and any interim consolidated financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such annual financial statements of the Bank from time to time on (if any), in each case published on the HKSE and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be

incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

None of the Issuer, the Bank, the Group, the Arrangers, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March or as at and for the nine months ended 30 September in respect of any financial year for an assessment of the Bank's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March in respect of any financial year or as at and for the nine months ended 30 September in respect of any financial year should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December of the same financial year.

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

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## SUMMARY OF THE PROGRAMME

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

<b>Issuer</b>	China Everbright Bank Co., Ltd., Hong Kong Branch. The Bank’s Legal Entity Identifier number is 549300U6PKQ4H1P34E17. The Issuer’s Legal Entity Identifier number is 549300WVNR4RWTGIV379.
<b>Programme Size</b>	Up to U.S.\$5,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
<b>Risk Factors</b>	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer in fulfilling its obligations in respect of the Notes are discussed under the section “ <i>Risk Factors</i> ” below.
<b>Arrangers</b>	China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited and Citigroup Global Markets Limited.
<b>Dealers</b>	China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited, Citigroup Global Markets Limited and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series of the Notes.
<b>Issuing and Paying Agent, Registrar and Transfer Agent</b>	Citibank, N.A., London Branch
<b>Fiscal Agent, CMU Lodging and Paying Agent and CMU Registrar</b>	Citicorp International Limited
<b>Method of Issue</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ <b>Series</b> ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price and by the same Issuer), intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches by the Issuer (each a “ <b>Tranche</b> ”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other

**Clearing Systems**

Tranches of the same Series and issued by the Issuer) will be completed in the Pricing Supplement.

Euroclear, Clearstream and/or the CMU (each, a “**Clearing System**”) and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer and the relevant Dealer.

**Form of Notes**

Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and vice versa. No single Series or Tranche may comprise both Bearer Notes and Registered Notes.

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement.

The Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) unless (i) the relevant Pricing Supplement states that Bearer Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) or (ii) the Bearer Notes are issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules but in circumstances in which the Bearer Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable.

Each Global Note will be deposited on or around the relevant issue date with a common depository for Euroclear and/or Clearstream or lodged with a sub-custodian for the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Registered Global Notes. Registered Global Notes representing Registered Notes will be registered in the name of a nominee for one or more of Euroclear, Clearstream and the CMU.

**Currencies**

Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or



<b>Status of the Notes</b>	<p>regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.</p> <p>The Notes constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Bank which will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Bank, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.</p>
<b>Issue Price</b>	<p>Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.</p>
<b>Underlying</b>	<p>The Notes may be linked to the performance of a Reference Entity.</p>
<b>Maturities</b>	<p>Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.</p> <p>Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (“FSMA”) by the Issuer.</p>
<b>Reporting to the NDRC</b>	<p>Where the NDRC Measures applies to the Tranche of Notes to be issued, the Issuer undertakes to (i) file or cause to be filed with the NDRC the requisite information and documents within the relevant prescribed timeframes from time to time after the Issue Date in accordance with the NDRC Measures; and (ii) comply with the NDRC Measures and other obligations required by the NDRC as it applies to the Notes.</p>
<b>Redemption</b>	<p>Subject always to the occurrence of a Credit Event (if applicable), Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such</p>

<b>Optional Redemption</b>	<p>dates and in such manner as may be specified in the relevant Pricing Supplement.</p> <p>Subject always to the occurrence of a Credit Event (if applicable), Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.</p>
<b>Redemption for Tax Reasons</b>	<p>Except as described in “Optional Redemption” above, early redemption will only be permitted for tax reasons as described in Condition 11(c) (<i>Redemption for tax reasons</i>).</p>
<b>Redemption upon the occurrence of a Credit Event</b>	<p>The Pricing Supplement in respect of a Series of Notes may provide that upon the occurrence of a Credit Event and the satisfaction by the Issuer of all of the conditions specified in the Conditions as completed by the applicable Pricing Supplement, the Issuer’s obligation to redeem the Notes of any Series at the Final Redemption Amount will be replaced by an obligation to redeem the Notes at such amount specified in, or calculated pursuant to the terms set out in, the Conditions as completed by the applicable Pricing Supplement (which may be less than the outstanding principal amount of such Notes) and/or by the delivery of any asset(s) as may be specified in the applicable Pricing Supplement, the market value of which may be less than the outstanding principal amount of such Notes.</p> <p>Payment by the Issuer of any amount so specified and/or delivery by the Issuer of any asset so specified in accordance with the Conditions and the provisions of the applicable Pricing Supplement shall satisfy the obligations of the Issuer with respect to the Notes of the relevant Series and Noteholders shall have no claim in respect of any amounts which would, but for the operation of the provisions of the Conditions and such Pricing Supplement, have been payable in respect of such Notes.</p>
<b>Interest</b>	<p>Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate, floating rate or calculated by reference to a variable and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.</p>
<b>Denominations</b>	<p>Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.</p>
<b>Cross-acceleration</b>	<p>The Notes will contain a cross-acceleration provision as further described in Condition 15 (<i>Events of Default</i>).</p>
<b>Withholding Tax</b>	<p>All payments in respect of Notes will be made free and clear of withholding taxes of the PRC and Hong Kong, as the case may</p>

**Listing and Trading**

be, unless the withholding is required by law. In that event, the Issuer will (subject to certain customary exceptions as described in Condition 14 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.

Application has been made to the HKSE for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the HKSE. Separate application may be made for the listing of the Notes (except Credit-Linked Notes) on the HKSE.

However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system.

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

Credit-Linked Notes may be issued under the Programme. If Credit-Linked Notes are issued under the Programme, such Credit-Linked Notes will not be admitted to listing, trading and/or quotation on the Hong Kong Stock Exchange.

**Governing Law**

English law.

**Rating**

The Programme is rated “BBB” by Fitch and “BBB+” by S&P. Tranches of Notes may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating organisation.

**Selling Restrictions**

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore and Taiwan, see “*Subscription and Sale*” below.

In connection with the offering and sale of a particular Series of the Notes, additional restrictions may be imposed which will be set out in the applicable Pricing Supplement.

**Initial Delivery of Notes**

On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Note Certificate

representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream or deposited with a sub-custodian for the CMU or any other clearing system or may be delivered outside any clearing system *provided that* the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a sub-custodian for, such clearing systems.

## SUMMARY FINANCIAL INFORMATION OF THE BANK

The summary consolidated financial information as at and for the years ended 31 December 2020, 2021 and 2022 set forth below is derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2021 and 2022 and should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2021 and 2022 and the notes thereto, which are included in the F-pages of this Offering Circular.

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2021 and 2022 were prepared in accordance with IFRS and have been audited by Ernst & Young. The Bank's financial information for the year ended 31 December 2020 was restated in the Bank's audited consolidated financial statements as at and for the year ended 31 December 2021 due to the retrospective adjustments made pursuant to a business combination under common control of the Group on 18 September 2021. The Bank has applied new standards and amendments starting from 1 January 2022, including Amendments to IFRS 3 - Reference to the Conceptual Framework, Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use, Amendments to IAS 37 - Onerous Contracts – Costs of Fulfilling a Contract and Annual Improvements to IFRSs 2018-2020 - Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. The adoption of the above amendments did not have any significant impact on the operating results, financial position and comprehensive income of the Group.

The selected consolidated interim financial information of the Bank as at and for the six months ended 30 June 2022 and 2023 was extracted from the 2023 Interim Report published on 24 August 2023 and prepared in accordance with IFRS. The 2023 Interim Financial Statements (which include the comparative financial information as at and for six months ended 30 June 2022) included in this Offering Circular have not been audited but have been reviewed by Ernst & Young. Such unaudited and reviewed consolidated interim financial information should not be taken as an indication of the expected financial condition or results of operations of the Bank for the relevant full financial year and should not be relied upon to provide the same quality of information associated with information that has been subject to an audit.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's audited consolidated financial statements as at and for the years ended 31 December 2021 and 2022, and the reviewed consolidated financial statements for the six months ended 30 June 2023, which are included in the F-pages of this Offering Circular.

### Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December				For the six months ended 30 June		
	2020 (restated)	2021	2022		2022	2023	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>	(RMB in millions)	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>
	(audited)				(unaudited but reviewed)		
Interest income.....	221,475	229,334	241,309	33,278	118,396	125,016	17,241
Interest expense.....	(110,778)	(117,179)	(127,654)	(17,604)	(61,721)	(70,283)	(9,693)
Net interest income .....	110,697	112,155	113,655	15,674	56,675	54,733	7,548
Fee and commission income.....	27,009	30,131	30,077	4,148	16,255	14,886	2,053
Fee and commission expense .....	(2,600)	(2,817)	(3,333)	(460)	(1,420)	(1,441)	(199)

	For the year ended 31 December				For the six months ended 30 June		
	2020	2021	2022		2022	2023	
	(restated)						
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>	(RMB in millions)	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>
	<i>(audited)</i>			<i>(unaudited but reviewed)</i>			
Net fee and commission income.....	24,409	27,314	26,744	3,688	14,835	13,445	1,854
Net trading gains .....	484	2,193	2,470	341	1,319	2,028	280
Dividend income.....	15	24	49	7	2	1	0
Net gains arising from investment securities .....	5,203	10,092	6,416	886	4,808	5,228	721
Net gains/(losses) on derecognition of financial assets measured at amortised cost .....	591	115	858	118	768	(376)	(52)
Net foreign exchange gains/(losses).....	310	3	484	67	(297)	714	98
Other net operating income.....	1,089	1,470	1,189	164	421	758	105
Operating income.....	142,798	153,366	151,865	20,943	78,531	76,531	10,555
Operating expenses .....	(40,335)	(45,540)	(45,227)	(6,237)	(20,257)	(20,543)	(2,833)
Credit impairment losses..	(56,733)	(54,772)	(50,600)	(6,978)	(29,024)	(26,595)	(3,668)
Other impairment losses...	(199)	(23)	(9)	(1)	(1)	(2)	(0)
Impairment losses on assets <sup>(1)</sup> .....	(56,932)	(54,795)	(50,609)	(6,979)	(29,025)	26,597	3,668
(Losses)/Gains on investment of joint ventures.....	(5)	(90)	(63)	(9)	(32)	22	3
Profit before tax .....	45,526	52,941	55,966	7,718	29,217	29,413	4,056
Income tax.....	(7,598)	(9,302)	(10,926)	(1,507)	(5,771)	(5,194)	(716)
Net profit.....	37,928	43,639	45,040	6,211	23,446	24,219	3,340
Other comprehensive income, net of tax:							
Items that will not be reclassified to profit or loss:							
– Remeasurement of supplementary retirement benefits.....	22	(287)	(135)	(19)	-	-	-
- Equity instruments at fair value through other comprehensive income.....							

	For the year ended 31 December				For the six months ended 30 June		
	2020 (restated)	2021	2022		2022	2023	
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>	(RMB in millions)	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>
		<i>(audited)</i>			<i>(unaudited but reviewed)</i>		
- Net change in fair value.....	2	-	-	-	(1)	4	-
- Related income tax effect.....	-	-	-	-	-	(1)	-
Items that will be reclassified to profit or loss:							
– Equity instruments at fair value through other comprehensive income ...							
– Net Change in fair value	(636)	2,828	(5,046)	(696)	(2,290)	3,646	503
– Changes in allowance for expected credit losses .	(219)	112	834	115	432	520	72
– Reclassified to the profit or loss upon disposal .....	(774)	(126)	(774)	(107)	(654)	131	18
– Related income tax effect.....	406	(685)	1,201	166	601	(1,069)	(147)
– Exchange differences on translation of financial statements.....	(148)	(83)	180	25	85	80	11
Subtotal .....	(1,371)	2,046	(3,605)	497	(1,826)	3,308	456
Other comprehensive income, net of tax .....	(1,347)	1,759	(3,740)	516	(1,827)	3,311	457
Total comprehensive income.....	36,581	45,398	41,300	5,696	21,619	27,530	3,797
Net profit attributable to:							
Equity shareholders of the Bank.....	37,835	43,407	44,807	6,179	23,299	24,072	3,320
Non-controlling interests..	93	232	233	32	147	147	20
	37,928	43,639	45,040	6,211	23,446	24,219	3,340
Total comprehensive income attributable to:							
Equity shareholders of the Bank.....	36,491	45,166	41,065	5,663	21,471	27,381	3,776
Non-controlling interests..	90	232	235	32	148	149	21
	36,581	45,398	41,300	5,696	21,619	27,530	3,797
Basic earnings per share (in RMB/Share).....	0.68	0.71	0.74	0.10	0.38	0.38	0.05
Diluted earnings per share (in RMB/Share).....	0.61	0.65	0.67	0.09	0.35	0.36	0.05

Note:

- (1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB7.2513 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2023.

## Consolidated Statement of Financial Position

	As at 31 December				As at 30 June	
	2020	2021	2022		2023	
	(restated)					
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>
		(audited)			(unaudited but reviewed)	
<b>Assets</b>						
Cash and deposits with the central bank .....	360,287	378,263	356,426	49,153	338,544	46,689
Deposits with banks and other financial institutions .....	46,059	51,189	32,073	4,423	42,888	5,915
Precious metals.....	9,353	6,426	7,187	991	6,817	940
Placements with banks and other financial institutions .....	69,290	138,349	129,979	17,925	150,504	20,756
Derivative financial assets .....	25,264	13,705	15,730	2,169	18,826	2,596
Financial assets held under resale agreements	43,592	31,164	28	4	90,320	12,456
Loans and advances to customers .....	2,942,435	3,239,396	3,499,351	482,583	3,663,930	505,300
Finance lease receivables.....	100,788	109,053	108,012	14,896	102,598	14,149
Financial investments .....	1,670,415	1,836,016	2,046,612	282,241	2,202,425	303,741
Financial assets at fair value through profit or loss .....	304,908	383,666	403,617	55,661	488,594	67,383
Debt instruments at fair value through other comprehensive income .....	222,807	325,695	449,596	62,002	493,417	68,048
Equity instruments at fair value through other comprehensive income .....	875	1,125	1,126	155	1,130	156
Financial investments measured at amortised cost .....	1,141,825	1,125,530	1,192,273	164,422	1,219,284	168,154
Investment in joint ventures.....	257	256	165	23	194	27
Property, plant and equipment .....	23,304	25,155	26,174	3,610	26,161	3,608
Right-of-use assets.....	11,178	10,953	10,281	1,418	9,555	1,318
Goodwill.....	1,281	1,281	1,281	177	1,281	177
Deferred tax assets.....	19,587	19,895	32,703	4,510	33,735	4,652
Other assets .....	45,073	40,968	34,508	4,759	70,150	9,675
Total assets .....	5,368,163	5,902,069	6,300,510	868,880	6,757,928	931,999

Note:

- (1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB7.2513 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2023.



	As at 31 December				As at 30 June	
	2020	2021	2022		2023	
	(restated)					
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>	(RMB in millions)	(U.S.\$ in millions) <sup>(1)</sup>
		(audited)			(unaudited but reviewed)	
<b>Liabilities and equity</b>						
<b>Liabilities</b>						
Due to the central bank.....	241,110	101,180	63,386	8,741	99,281	13,692
Deposits from banks and other financial institutions.....	469,345	526,259	540,668	74,562	547,445	75,499
Placements from banks and other financial institutions.....	161,879	179,626	188,601	26,009	179,712	24,784
Financial liabilities at fair value through profit or loss.....	4	67	27	4	-	-
Derivative financial liabilities.....	25,778	13,337	14,261	1,967	19,440	2,681
Financial assets sold under repurchase agreements.....	14,182	80,600	92,980	12,823	206,231	28,442
Deposits from customers.....	3,480,642	3,675,743	3,917,168	540,202	4,156,940	573,292
Accrued staff costs.....	15,175	16,777	19,006	2,621	18,127	2,500
Taxes payable.....	8,772	6,535	11,141	1,536	6,831	942
Lease liabilities.....	10,807	10,736	10,151	1,400	9,419	1,299
Debt securities issued.....	440,870	763,532	875,971	120,802	914,749	126,155
Other liabilities.....	44,559	43,311	57,137	7,880	59,076	8,147
<b>Total liabilities</b> .....	<b>4,913,123</b>	<b>5,417,703</b>	<b>5,790,497</b>	<b>798,546</b>	<b>6,217,251</b>	<b>857,434</b>
<b>Equity</b>						
Share capital.....	54,032	54,032	54,032	7,451	59,086	8,149
Other equity instrument.....	109,062	109,062	109,062	15,040	104,899	14,467
– Preference shares.....	64,906	64,906	64,906	8,951	64,906	8,951
– Perpetual bonds.....	39,993	39,993	39,993	5,515	39,993	5,516
Capital reserve.....	58,434	58,434	58,434	8,058	74,473	10,271
Other comprehensive income.....	1,393	3,152	(590)	(81)	2,719	375
Surplus reserve.....	26,245	26,245	26,245	3,619	26,245	3,620
General reserve.....	67,702	75,596	81,401	11,226	81,554	11,247
Retained earnings.....	136,602	155,968	179,299	24,726	189,422	26,124
Total equity attributable to equity shareholders of the Bank.....	453,470	482,489	507,883	70,040	538,398	74,252
Non-controlling interests.....	1,570	1,877	2,130	294	2,279	314
<b>Total equity</b> .....	<b>455,040</b>	<b>484,366</b>	<b>510,013</b>	<b>70,334</b>	<b>540,677</b>	<b>74,566</b>
<b>Total liabilities and equity</b> .....	<b>5,368,163</b>	<b>5,902,069</b>	<b>6,300,510</b>	<b>868,880</b>	<b>6,757,928</b>	<b>931,999</b>
Note:						
(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB7.2513 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2023.						

## RISK FACTORS

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

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

### RISKS RELATING TO THE BANK'S LOAN PORTFOLIO

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

The Bank's results of operations may be negatively impacted by its non-performing loans ("NPL"). As at 31 December 2020, 2021 and 2022 and 30 June 2023, the Bank's non-performing loan ratio ("NPL ratio") was 1.38 per cent., 1.25 per cent., 1.25 per cent. and 1.30 per cent. respectively, and the Bank's total NPL was RMB41,666 million, RMB41,366 million, RMB44,674 million and RMB48,821 million, respectively. During these periods, the Bank's NPL remains controllable but there can be no assurance that it will not deteriorate as the Bank experiences upward pressure resulting from a number of factors including a downturn in the economic cycle or economic volatility and disruptions. Hence, there can be no assurance that the Bank will be able to maintain the Bank's NPL ratio at the current relatively low level in the future or that the quality of the Bank's existing or future loans and advances to customers will not deteriorate. The Bank's NPL ratios as at the above-mentioned dates may not fully reflect the actual changes to the Bank's asset quality due to the Bank's collective disposal of NPL.

The quality of the Bank's loan portfolio may deteriorate due to various reasons, most of which are beyond the Bank's control, such as slowdown of the PRC or global economies, deterioration of the global credit environment, other adverse macroeconomic trends in the PRC or globally and the occurrence of natural disasters or other catastrophes, all of which could adversely impact the Bank's borrowers' businesses, financial conditions or liquidity and in turn impair their repayment abilities. The actual or perceived deterioration in creditworthiness of the Bank's borrowers, decline in real property prices, increases in unemployment rate and decreases in profitability of the Bank's borrowers may also have an adverse impact on the Bank's asset quality and may lead to significant increases in the provision made for the Bank's impaired loans, as well as impairment loss on loan. Although as at 31 December 2022, the impairment loss on loans and advances to customers decreased from RMB50,646 million to RMB47,668 million, and for the six months ended 30 June 2023, the impairment loss on loans and advances to customers decreased from RMB25,097 million to RMB23,595 million compared with the first half in 2022, there is no assurance that the impairment loss on loans and advances to customers of Bank will continue to decrease steadily. If any of the Bank's NPL or the provision made for the Bank's impaired loans or the impairment loss on loan significantly increases in the future, the Bank's results of operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its abilities to effectively manage its credit risk and to maintain or improve the quality of its loan portfolio. There can be no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from any deficiencies or are adequate to manage all credit risks faced by the Bank. Failure of the Bank's credit risk management policies, procedures, or systems may lead to an increase in the Bank's NPL and adversely affect the quality of the Bank's loan portfolio.

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

As at 31 December 2020, 2021 and 2022, the coverage ratio of the Bank's provisions for NPL to total NPL was 182.71 per cent., 187.02 per cent. and 187.93 per cent., respectively, which is consistently above the standard provision coverage ratio of 150 per cent. as prescribed under the Administrative Measures for the Loan Loss Reserves of Commercial Banks (商業銀行貸款損失準備管理辦法) issued by China Banking Regulatory Commission (the "CBRC", which later merged with the China Insurance Regulatory Commission into China Banking and Insurance Regulatory Commission (the "CBIRC", now the National Administration of Financial Regulation (the "NAFR")), which shall be responsible for the duties previously performed by the CBIRC) (the "Rules"). As at 30 June 2023, the provision coverage ratio reached 188.56 per cent., up by 0.63 percentage points as compared to 31 December 2022. The Rules provide that the standard provision coverage ratio may be adjusted by NAFR in response to the prevailing macroeconomic environment or individually adjusted and applied to a relevant bank depending on such bank's operating conditions. In accordance with the Rules, a warning would be issued by NAFR to a relevant bank if such provision coverage ratio was below the applicable level for three consecutive months, requesting for such bank's rectification; if such event subsists for at least six consecutive months, NAFR may impose on the relevant bank administrative and regulatory measures as provided under the Banking Industry Supervision and Administration Law of the PRC (中華人民共和國銀行業監督管理法). NAFR may adjust the coverage ratio for NPL from time to time. There can be no assurance that the Bank's provision coverage ratio will not fall below the ratio prescribed by NAFR.

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

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

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

The Bank's net loans and advances to customers have grown significantly in the past few years, increasing from RMB2,942,435 million as at 31 December 2020 to RMB3,499,351 million as at 31 December 2022 and further increased to RMB3,663,930 million as at 30 June 2023. The growth of the Bank's loan portfolio may be affected by various factors beyond the Bank's control, such as the PRC's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow, or the balance of the Bank's loan portfolio may even decline. In addition, in response to constraints on the Bank's regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby materially and adversely affect the Bank's business, financial condition and results of operations.

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

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

For example, the PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years, and the PRC government has, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating, and also transforming the real estate market into a steady, healthy and sound market for necessity but not speculation. Such factors may adversely affect the growth and quality of the Bank's loans to the real estate industry and its financial condition and results of operations. On 26 February 2013, the PRC State Council (the "**State Council**") promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which requires banking institutions to implement differentiated housing credit policies, further implement the policy of down payment ratio and mortgage rate for first-time house buyers and tighten the credit policies for buyers of second or additional homes, and the said regulation also imposes a personal income tax on the profit generated from sale of residential property. Such measures may slow down the development of the residential real estate market in the PRC, hinder an increase in residential mortgages and reduce the average amount of residential mortgages, and thus have a material adverse impact on the Bank's retail banking business. However, such policies are subject to further change and implementation by banks in the PRC. On 1 February 2016, the People's Bank of China ("**PBOC**") and CBRC issued a notice regarding purchase of second residential property and first ordinary owner-occupied residential property. Such notice requires that for a household owning one residential property with outstanding housing loans on that property and applying for housing loans for the purchase of a second ordinary owner-occupied residential property for the purpose of improving housing conditions, the minimum down payment ratio of the loan shall be not less than 30 per cent. The notice also requires that in the cities where no residential property purchase restriction policies are implemented, for households purchasing their first ordinary owner-occupied residential property, the minimum down payment ratio of the loan shall be not less than 25 per cent. in principal, but may be decreased by 5 per cent. at the discretion of the local authorities. On 28 December 2020, the PBOC and the CBIRC (now the NAFR) promulgated the Notice on Establishing the Regulatory Mechanism on the Concentration Ratio of Real Estate Loans for Banking Financial Institutions (關於建立銀行業金融機構房地產貸款集中度管理制度的通知), which requires that the percentage of (a) the balance of real estate loans of a banking financial institution to its balance of RMB loans; and (b) the balance of personal residential loans of such banking financial institution to its balance of RMB loans shall not exceed the caps prescribed by the PBOC and CBIRC (now the NAFR). Banking financial institutions shall adjust their business within the transitional period of two years (for those not exceeding 2 per cent. of the prescribed caps) or four years (for those exceeding 2 per cent. of the prescribed caps). On 26 March 2021, the Ministry of Housing and Urban-Rural Development, the PBOC and the CBIRC (now the NAFR) issued the Circular on the Prevention of Irregular Flow of Loans for Business Purposes into the Real Estate Sector (《關於防止經營用途貸款違規流入房地產領域的通知》), to make great efforts to clear up the problem of loans for business purposes flowing into the real estate sector and to cool down the real estate market.

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

PRC consumers could materially and adversely affect the Bank's business, financial condition and results of operations.

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

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which, in aggregate, represented 38.21 per cent., 37.41 per cent., 36.58 per cent. and 38.30 per cent. of the balance of the Bank's total loans and advances, respectively. If any of the industries which dominates a relatively large portion of the Bank's loans experiences a slowdown in the future, the Bank's NPL may increase and the extension of the Bank's new loans may be negatively affected. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As mentioned above, the Bank is exposed to risks relating to the real estate market through its personal residential housing mortgage loans and other loans secured by real estate collateral. As at 30 June 2023, the Bank's personal residential housing mortgage loans represented 38.97 per cent. of the Bank's total personal loans and advances. In recent years, the PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years. The PRC government has been imposing and may continue to impose various macroeconomic measures with an aim of cooling the overheated real estate market in the PRC, such as setting minimum down payment requirements and minimum mortgage rates on residential housing purchases, imposing value-added taxes on the transfer of certain residential properties and levying mandatory personal income tax for second home sales and imposing the "three red lines" (which refers to prescribed asset to liability ratio, net debt to equity ratio and cash to short-term borrowings ratio requirements) on certain real estate developers to control their growing debt levels and restore the real estate's sector. Though the Bank follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strictly enforcing repayment schedules; in addition, the Bank has strengthened the on-spot examination of key business fields such as real estate loans, such measures taken by the PRC Government may adversely affect the growth and quality of the Bank's personal residential housing mortgage loans and loans to the real estate industry. In recent years, the defaults on the bonds of the real estate developers in the PRC triggered increased the uncertainty in the market. A downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and the Bank's ability to generate new loans and recover on its loans in the event of default as the value of the real estate securing the Bank's loans may decrease, which in turn could have a material adverse effect on the Bank's business, financial condition and results of operations.

As at 30 June 2023, loans provided by the Bank to its top ten customers totalled RMB57,849 million, which represented 1.55 per cent. of the Bank's total loans and advances and 9.01 per cent. of the Bank's net capital. However, if the quality of any of the loans to the above or other single-borrowers or group-borrowers with large borrowing amounts deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Moreover, the Bank also provides loans to small-and medium-sized enterprises ("SMEs"). The Bank's loans to SMEs are generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. SMEs may also be more likely to suffer from inadequate or ineffective internal control or risk management systems and may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In addition, as Coronavirus Disease 2019 ("COVID-19") hampered business activities in the world, including China, the CBIRC promulgated a series of measures to relax credit controls and increase financial support to SMEs to combat the challenges arising from COVID-19. In particular, it

has encouraged banking institutions to increase lending to SMEs by lowering loan rates and increasing the amounts these enterprises could borrow. However, SMEs are more vulnerable to fluctuations in the macroeconomy, and the adverse impact brought by major economic crisis or regulatory changes. In addition, these enterprises may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In the absence of accurate assessment of the relevant credit risks, the non-performing loans of the Bank may increase significantly if a large number of its SMEs clients are affected by major economic crisis or regulatory changes. As a result, this may have an impact on the Bank's overall risk profile and quality of the loan portfolio, which could in turn materially and adversely affect its business, financial condition and results of operations. There can be no assurance that the risk management measures adopted by the Bank for the loans to SMEs will effectively reduce or eliminate the risks relating to such customers. If the quality of the Bank's loans to SMEs deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank provides a majority of its corporate loans to customers in certain regions or industries. If these regions or industries encounter operational or cash flow problems due to the economic cycle or economic transformations, the Bank's NPL associated with such regions or industries could experience upward pressure. As at 30 June 2023, approximately 69.27 per cent. of the Bank's total loans and advances to customers were generated from the Bank's branches located in the Yangtze River Delta, Central China, Pearl River Delta and Bohai Rim regions in aggregate. If the economies in those regions experience a slowdown or deteriorate or face local, regional or systemic risks, or if the Bank's credit risk assessments of the borrowers who are located at or conduct substantial business activities in those areas are inaccurate, the Bank's NPL may increase. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

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

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

In recent years, with the aim of reinforcing the risk management of loans to LGFVs, the State Council, CBIRC (now the NAFR) and PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to LGFVs. In September 2014, the State Council released the Opinion on Enhancing the Administration of Fiscal Debts of Local Governments (關於加強地方政府性債務管理的意見) (“Circular 43”), pursuant to which LGFVs shall no longer serve the fiscal financing functions nor incur new government debts. In addition, Circular 43 sets forth the general principles of dealing with existing debts of LGFVs. Based on the audit results of such debts run by the local governments, LGFVs' existing debts that should be repaid by the local governments shall be identified, reported to the State Council for approval, and then included in the budget plan of local governments. If the local government or the State Council does not approve all or any portion of such debts to be repaid with local government public funds, the LGFVs' financial condition and debt-repayment ability may be materially adversely affected. In addition, media publications have continued to express concerns

about LGFV debt levels. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to LGFVs and enhancing the mortgages and guarantees on such loans, any unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments, or other factors may adversely affect the debt repayment abilities of these LGFVs and other government-related entities, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations. For the Bank's risk management measures relating to the Bank's loans to LGFVs, see "*Risk Management – Credit Risk Management – Management of Credit Risk Associated with Corporate Credit Business*".

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

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

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

A significant portion of the Bank's loan portfolio is secured by collateral or guarantees. As at 30 June 2023, 32.65 per cent., 8.74 per cent. and 24.33 per cent. of the Bank's total loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing the Bank's loans primarily comprised of real estate properties and other assets located in the PRC. The value of the collateral securing the Bank's loans is usually higher than the amount of the corresponding loans but such value may significantly decline due to factors beyond the Bank's control, such as a slowdown in the PRC economic growth or a downturn of the PRC's real estate market. A slump in the PRC's real estate market may result in a decline in the value of the real estate properties securing the Bank's loans to a level below the outstanding balances of the principal and interest of such loans. Any such decline may reduce the amount the Bank may be able to recover from such collateral and, as a result, increase the Bank's impairment losses.

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

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

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

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

## **RISKS RELATING TO THE BANK'S BUSINESS**

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

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

The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product ("GDP") in recent years. In 2022, the PRC Government reported a GDP of RMB121.0207 trillion, representing year-on-year growth of 3.0 per cent. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally. Although the PRC Government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. Furthermore, the sustained tension between the United States and China over trade policies could undermine the stability of the global economy. The United States and China have been involved in disputes over trade barriers that have escalated into a trade war between the two countries. Both countries have implemented tariffs and trade barriers on certain industries and products, adversely affecting cross-border investment and global supply



chains. The two governments have entered into an initial phase one agreement to resolve the disputes on 15 January 2020. However, there are uncertainties as to when and whether the phase two negotiations will begin and whether the two governments will fulfil their respective obligations under the phase one agreement.

Central banks of a number of major economies, including the Federal Reserve Board of Governors of the United States, have also accelerated their shifts in monetary policies and increased interest rates in response to sustained inflationary pressure. The tightening of credit and liquidity by central banks has resulted in lower demand for loans and general downbeat investor sentiment. There can be no assurance that monetary and fiscal policy measures adopted by central banks or national governments will have the intended effects or that a global economic downturn will not occur or market volatilities will not persist. In early 2023, the global financial markets have experienced further turmoil with the collapse of mid-size United States banks Silicon Valley Bank, Signature Bank and First Republic Bank, as well as the collapse of global financial institution Credit Suisse, which has resulted in tightened credit standards, reduced capital investment and higher uncertainty in the global macroeconomic environment. In addition, the ongoing corporate deleveraging efforts by the PRC government since 2017 and the increased amount of corporate defaults over recent years, particularly in the PRC real estate sector, have contributed to further turmoil in financial markets in the PRC.

Since February 2022, Russia started military actions in Ukraine. Many countries imposed economic sanctions against Russia, Russia-related corporations and individuals. The on-going war has caused turmoil to global financial and commodities market, especially in the United States, EU and the UK, where some of the countries have experienced shortage in energy and commodities supply, significant inflation which those governments are introducing methods to control. The external sanctions environment remains dynamic, and sanctions regimes are increasingly complex and less predictable. In particular, extensive financial, trade, transport, and immigration sanctions have been imposed by the UK, the EU and U.S., among others, against Russian individuals and companies in light of the Russia-Ukraine geopolitical conflicts. Increasing tension between the U.S. and China may further contribute to the dynamism of the sanctions environment. The sanctions regimes put in place since the Russia-Ukraine geopolitical conflicts have led to rising prices of energy, food and other commodities, and consequently a historical level of high inflation globally. As a result, the aggravated geopolitical tension brings uncertainty to the global economy as well as significant volatilities in the global financial market.

Further, on 12 March 2020, the World Health Organisation declared COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in many countries, including China, India, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic has significantly disrupted the global economy and global markets and is likely to result in a global economic recession. Even though the World Health Organisation (“WHO”) has in May 2023 declared that COVID-19 is no longer a global health emergency, the speed at which countries and territories will be able to unwind the government support measures and restrictions and return to pre COVID-19 economic levels will vary based on the levels of infection, local governmental decisions and access to and ability to roll out vaccines. Also, despite the easing of travel restrictions and containment measures related to COVID-19 in the PRC since December 2022, there are uncertainties as to how COVID-19 and related policies will evolve. There remains a risk of subsequent waves of infection, as evidenced by the recently emerged variants of the virus. Renewed outbreaks emphasise the ongoing threat of COVID-19 even in countries that have recorded lower than average cases so far.

In addition, on 31 January 2020, the United Kingdom officially exited the European Union (“EU”) following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which was rectified in April 2021 and entered into force on 1 May 2021 by the European

Parliament and the Council of the EU. Given the lack of precedent, it is unclear how Brexit and the implementation of the EU-UK Trade and Cooperation Agreement would affect the long-term fiscal, monetary and regulatory landscape within the UK, the EU and globally. Moreover, there are ongoing concerns about European sovereign debt levels, negative interest rate and the consequences for economic growth and investor confidence in the Eurozone, political gridlock in the United States over government spending, debt levels and civil rights issues and the consequences for economic growth and investor confidence in the United States, and the uncertainty around the Federal Reserve's future monetary policies.

All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies, which may have a material adverse impact to the Bank's business, prospects, financial conditions and results of operations in many ways, including, among others:

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

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

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

As with most PRC commercial banks, the Bank's results of operations depend to a large extent on the Bank's net interest income. For the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2023, the Bank's net interest income represented 77.52 per cent., 73.13 per cent., 74.84 per cent. and 71.52 per cent., respectively, of the Bank's operating income. Increasing competition in the banking industry and further liberalisation of the PRC interest rate regime may affect the volatility of interest rates. Changes in the PBOC benchmark interest rates or volatility in market interest rates may adversely affect the Bank's net interest income, which may adversely affect the Bank's business, financial condition and results of operations.

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

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

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

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

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

On 7 June 2012, CBRC promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (the “**Capital Management Rules**”, which superseded the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) and became effective on 1 January 2013. According to the Capital Management Rules, the minimum capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. A commercial bank is also subject to the capital conservation buffer over and above the minimum capital requirement at 2.5 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital, and under certain circumstances, a countercyclical buffer of between 0 and 2.5 per cent. of total risk weighted assets comprised of core tier-1 capital, and if a commercial bank is designated as a domestic systematically important commercial bank by the CBIRC (now the NAFR), such bank is subject to requirement of up to an additional 1 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital. The Bank issued RMB40 billion undated tier-1 capital bonds in September 2020. In August 2022, the Bank issued RMB45 billion tier-2 capital bonds, effectively replenishing tier-2 capital and consolidating capital foundation. As at 30 June 2023, the Bank's common equity tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio were 9.04 per cent., 11.25 per cent. and 13.51 per cent., respectively. Although these capital adequacy ratios were in compliance with the relevant PRC laws and regulations, certain developments could affect the Bank's ability to satisfy the capital adequacy requirements in the future, including but not limited to:

- losses resulting from deterioration in the Bank's asset quality;

- a decrease in the value of the Bank’s investments;
- an increase in the minimum capital adequacy requirements by banking regulators;
- changes in guidelines by banking regulators regarding the calculation of capital adequacy ratios of commercial banks;
- decreases in the Bank’s net profits and thus decreases in its retained earnings; and
- other factors discussed elsewhere in this section.
- the Bank may also be required to raise additional capital in the future by issuing equity securities and other financial instruments in order to maintain the Bank’s capital adequacy ratios above the minimum required level. In addition, the Bank’s ability to raise additional capital may be limited by numerous factors, including:
  - the Bank’s future business and financial condition, results of operations and cash flows;
  - the Bank’s credit rating;
  - any government regulatory approval;
  - general market conditions for capital-raising activities, in particular by commercial banks and other financial institutions; and
  - economic, political and other conditions in and outside of the PRC.

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

Furthermore, NAFR may increase the minimum capital adequacy ratios requirements or change the methodology for calculating net capital or capital adequacy ratios or the Bank may otherwise be subject to new capital adequacy requirements. For example, PBOC and CBIRC (now the NAFR) released the Assessment Measures for Systematically Important Banks (系統重要性銀行評估辦法) (the “**D-SIB Assessment Measures**”) on 3 December 2020. According to the D-SIB Assessment Measures, domestic banks with asset balance ranked as top 30 will be assessed to determine whether they are to be designated as domestic systemically important banks (“**D-SIB**”). On 15 October 2021, PBOC published the list of D-SIBs (the “**D-SIB List**”), which comprised six state-owned banks, nine joint stock commercial banks and four city commercial banks. In 2022, the Bank was designated in bucket one of the D-SIB List, and is subject to more specific and tighter regulations, in particular higher capital requirement, which aim to strengthen banks’ risk prevention and absorption capacity, such as those proposed under the Ancillary Regulatory Provision for Systematically Important Banks (Trial) (系統重要性銀行附加監管規定 (試行)) which came into force from 1 December 2021. As at the date of this Offering Circular, the Bank is subject to a capital surcharge of 0.25% under the D-SIB requirements.

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

***The Bank is subject to currency risk.***

Substantially all of the Bank’s revenues are denominated in Renminbi, which currently is not freely convertible into foreign currencies. A portion of the Bank’s revenues must be converted into other currencies

in order to meet the Bank's demand for foreign currency. The Bank is subject to currency risk arising from losses incurred due to unfavourable exchange rate fluctuations on the Bank's foreign exchange exposures resulting from the unmatched currency structure between foreign currency-denominated assets and foreign currency-denominated liabilities. The value of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other factors, changes in the PRC's and international political and economic conditions.

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

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

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

Deposits from customers are the Bank's primary source of funding. From 31 December 2020 to 31 December 2022, the Bank's total deposits from customers (including accrued interest) grew from RMB3,480,642 million to RMB3,917,168 million, which further grew to RMB4,156,940 million as at 30 June 2023. However, there are many factors that may affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of other investment channels and retail customers' changing perceptions toward savings.

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

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

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

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

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

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

- lack of or insufficient experience in certain new products and services;
- inability to identify, monitor, analyse and report on risks associated with such new businesses comprehensively and effectively, which may result in damages and prevent the Bank from competing in these areas effectively;
- inability to comply with relevant laws and regulations in the course of developing, distributing, promoting and servicing new products and services, which may subject the Bank to regulatory penalties or litigations;
- inability to achieve the expected profitability of such new businesses;
- inability to recruit and retain qualified personnel on commercially reasonable terms;
- revocation or withholding of approvals by regulators for any products or services that the Bank has offered or plans to offer;
- lack of customer acceptance or expected success of the Bank's new products and services;
- inability to promptly adapt to changes in regulatory requirements and approval standards for new products or services;

- possible unsuccessful attempts to enhance the Bank’s risk management and internal control capabilities to support a broader range of products and services;
- disagreements between the Bank and the joint venture partners and other entities with which the Bank offers certain of its new financial products and services, or their inability or unwillingness to continue their arrangements with the Bank due to financial difficulties or other reasons; and
- significant and/or increasing competition from other industry participants offering similar products or services.

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

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

In recent years, the Bank has taken actions to expand its operations outside Mainland China. As at 30 June 2023, it had six overseas institutions outside Mainland China, with branches in Hong Kong, Macau, Seoul, Luxembourg and Sydney and a representative office in Tokyo. The application for establishing the Bank’s Macau Branch was approved by CBIRC (now the NAFR) and Macau Special Administrative Region Government in November 2020 and July 2022, respectively. In March 2023, the Bank’s Macau Branch was opened for business.

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

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

In recent years, with the slowdown in the growth of deposits in the PRC banking industry as a whole, competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including the Bank, have been expanding their offering of wealth management products and services to customers. In September 2019, CBIRC (now the NAFR) approved the establishment of Everbright Wealth Management Co., Ltd. as China’s first wealth management subsidiary under a joint-stock commercial bank, driving the Bank’s initiative of “building a first-class wealth

management bank”. The Bank’s wealth management service fees amounted to RMB2,518 million, RMB3,976 million, RMB4,677 million and RMB2,038 million, respectively, for the years ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2023.

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

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

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

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

***The Bank is exposed to systemic risk resulting from failures by banks, other financial institutions and corporates.***

Within the financial services industry, the default of any institution or corporate could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions as the commercial soundness of many financial institutions may be closely correlated as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as “systemic risk”, and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, other financial institutions and exchanges with whom the Bank interacts on a daily basis. In turn, the actual or perceived soundness of these institutions could have an adverse effect on the Bank’s ability to raise new funding, including regulatory capital, and could have a material impact on the Bank’s financial condition and results of operations.



The recent financial markets turmoil with the collapse of Silicon Valley Bank, followed by Signature Bank and First Republic Bank in the United States and the crisis of Credit Suisse, has resulted in higher uncertainty in the financial services industry and has prompted questions about the viability of other financial services firms with the tightening of credit controls and liquidity for banks and possibility of broader systemic risk. In addition, the actions of government regulators and central banks to the recent financial markets turmoil, including the intervention of Swiss authorities in response to the collapse of Credit Suisse, has caused market participants to question how regulators and central banks will exercise resolution authority powers with respect to financial institutions or respond in the event of further turbulence or crisis in financial markets. As a result, there is greater uncertainty about the ability of financial institutions to raise regulatory capital, which could increase the Bank's cost of capital, or require the Bank to utilise different methods of raising regulatory capital than the Bank has used in the past and could have a material impact on the Bank's financial condition and results of operations.

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

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

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

Apart from the Bank's businesses of taking deposits, providing loans and credit and providing fee-and commission-based products and services, the Bank also engages in a range of investment activities. As at 30 June 2023, financial investments measured at amortised costs were the largest component of the Bank's total investment in securities and other financial assets. The Bank's returns on investment and its profitability may be materially and adversely affected by the foreign exchange rate, credit and liquidity conditions, the performance and volatility of capital markets, asset values and macroeconomic and geopolitical conditions. Any adverse changes in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment portfolio and could have a material and adverse effect on the Bank's business, financial condition and results of operations.

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

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

In recent years, the Bank has made substantial investments in debt securities classified as receivables, which include investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions. Due to the adoption of IFRS 9, debt securities classified as receivables has been reclassified, which has resulted in adjustments to the other line items recognised under total investment in securities and other financial assets. As at 30 June 2023, the Bank's investments in securities and other financial assets (which includes financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income, financial investments measured at amortised cost and derivative financial assets) amounted to RMB2,221,251 million.

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

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

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

The Bank recorded net cash inflows of RMB30,355 million and RMB80,387 million for the years ended 31 December 2020 and 2021. For the year ended 31 December 2022, the Bank recorded net cash outflows of RMB88,926 million, which were primarily due to net cash outflows from investing activities of RMB103,094 million and net cash outflows from operating activities of RMB56,398 million, and were partially offset by net cash inflows from financing activities of RMB70,566 million. The Bank's net cash outflows from investing activities were primarily due to acquisition of investments, and net cash outflows from operating activities were primarily due to changes in operating assets. For the six months ended 30 June 2023, the Bank recorded net cash outflows of RMB15,877 million, which were primarily due to net cash outflows from investing activities of RMB126,280 million, and were partially offset by net cash inflows from operating activities of RMB70,765 million and net cash inflows from financing activities of RMB39,638 million. The Bank's net cash outflow from investing activities were primarily due to payments on acquisition of investments. There can be no assurance that the Bank will not record net cash outflow positions in the future due to other reasons, including the risk factors disclosed herein. If the Bank has net cash outflow positions in the future, the Bank's working capital may be constrained and the Bank may be forced to seek additional external funding at a cost higher than the Bank's existing financial arrangements. Any such development could materially and adversely affect the Bank's liquidity condition and results of operations.

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

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

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

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

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

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

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

As at 30 June 2023, as the controlling shareholder of the Bank, China Everbright Group Ltd. directly held 24,227,813,441 A shares and 1,782,965,000 H shares of the Bank, accounting for 44.02 per cent. of the total equity of the Bank.

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

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

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

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

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

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

The Bank has in the past suffered from certain internal control deficiencies and risk management weaknesses and was subject to fines and other penalties for non-compliance with the relevant legal or regulatory requirements. The Bank has significantly revamped and enhanced its risk management and internal control policies and systems in a continual effort to improve its risk management capabilities and enhance its internal controls. See “*Risk Management – Overview*”. However, there can be no assurance that the Bank’s risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit risks and other risks faced by the Bank. Some of these risks are unforeseeable or unidentifiable and may be more severe than what the Bank may anticipate. In addition, the Bank cannot assure potential investors that its employees will be able to consistently comply with or correctly apply these policies and procedures.

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

***The Bank is subject to operational risks.***

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

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

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

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

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

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

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

***Failure by the Bank to meet its environmental, social and governance ("ESG") or corporate social responsibility ("CSR") targets may have an adverse effect on the Bank's performance.***

The Bank takes its corporate social responsibilities seriously and seeks to serve the public, promote livelihoods, and become a low-carbon and environmentally friendly bank for sustainable development. The

Bank formulated and issued the Rolling Strategic Plan for 2021-2025, which requires the Bank to “vigorously develop green finance, support the development of green, low-carbon and circular economy, and provide investment and financing support for the goal of carbon peaking and carbon neutrality in a market-oriented manner, so as to ensure that the growth rate of green financing is not lower than the average financing growth rate of the Bank”. The Medium- and Long-Term Development Strategy (2018-2027) of the Bank clearly defined the green finance strategy, which requires the Bank to work on green finance and cooperate with various stakeholders to continuously improve its economic, environmental and social responsibility performance and social responsibility management. Meanwhile, the Bank conscientiously implemented relevant regulatory policies, practiced the green development philosophy in all respects, built green top-level designs, and improved the green finance management mechanism by formulating the Medium-Term Action Plan for Promoting Carbon Peaking and Carbon Neutrality and Green Finance (2022-2025) and the Management Measures for Green Finance (Trial).

Furthermore, the Bank also publishes its Corporate Social Responsibility Reports annually, which sets out the Bank’s implementation strategies, targets and goals (such as emission reduction goals, energy conservation goals, waste reduction goals and water conservation goals) and proposed business processes and standards, with respect to ESG and CSR. Any failure by the Bank to meet any of the targets, strategies, goals, processes and standards mentioned above, or any failure by the Bank to satisfy investor or other stakeholder expectations or standards in the execution of its ESG strategies, may affect the Bank’s current and future business performance, results of operations and reputation. These may in turn negatively affect the Bank’s ability to service the Notes and to satisfy its other obligations under the Notes.

***The Bank relies on independent contract workers.***

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

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

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

The Bank is required to comply with applicable anti-money laundering and anti-terrorism laws and regulations stipulated in the PRC, Hong Kong and other relevant jurisdictions. These laws and regulations require the Bank to adopt and enforce “know-your-customer” policies and procedures and to report suspicious and large transactions to the relevant regulatory authorities in different jurisdictions. Due to reasons such as the complexity and secrecy of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely identify and eliminate such illegal or improper activities at the time when the Bank may be used by other parties to engage in these activities. To the extent that the Bank fails to fully comply with such laws and regulations, the relevant government agencies which

regulate the Bank have the power and authority to impose fines and other penalties on the Bank. See also “– *Risks Relating to the Bank’s Business – The Bank is subject to various PRC and overseas regulatory requirements, and the Bank’s failure to fully comply with such requirements could materially and adversely affect the Bank’s business, reputation, financial condition and results of operations*” and “– *Risks Relating to the Bank’s Business – The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank’s staff, customers or other entities*”. For example, in February 2020, the Bank was fined RMB18.2 million by PBOC for (1) failure to perform customer identification obligations; (2) failure to keep customer identity data and transaction records; (3) failure to submit large transaction reports and suspicious transaction reports; and (4) conducting transaction with unidentified customers. The Bank has taken corrective measures to strengthen the enforcement of its “know-your-customer” policies, such as improving the internal control system, strengthening its money laundering and terrorism financing assessment, conducting enhanced training for its employees and implementing anti-money laundering data governance, and to optimise its monitoring system, but there can be no assurances by the Bank that there will be no such fines or penalties against the Bank in the future. The Bank’s business and reputation could be negatively impacted if customers manipulate their transactions with the Bank for money laundering or other illegal or improper purposes.

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

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

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

In the past, the Bank has been sanctioned and fined for the misconducts of its employees, and there can be no assurance by the Bank that it can prevent its employees from engaging in misconducts in the future. The misconducts may also include making or accepting bribery activities, conducting inside dealing, improperly

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

In addition, the Bank's staff may commit errors or take improper actions, resulting in the risk that the Bank could be liable for economic compensation, or be subject to regulatory actions, litigation or other legal proceedings. As at 30 June 2023, the Bank had 39 tier-one branches, 115 tier-two branches, 1,156 business outlets (including inter-city sub-branches, county-level sub-branches, intra-city sub-branches, banking departments of branches, and community banks) in the PRC and 46,876 employees. As at 30 June 2023, the Bank had six overseas institutions outside Mainland China, with branches in Hong Kong, Macau, Seoul, Luxembourg and Sydney and a representative office in Tokyo. Although the Bank has continuously sought to enhance management and supervision of its branches and/or branches' officers (including putting in place policies on employee conduct), as the branches have relatively significant autonomy in their operations and management within the scope of authorisation, the Bank cannot assure that it can always timely detect or prevent operational or management problems within its branches. There can be no assurance that all of the Bank's staff will comply with the Bank's risk management and internal control policies and procedures. There can be no assurance that the Bank can adequately detect and prevent the Bank's staff and any other third-party from engaging in fraudulent acts or any other misconduct. Any fraudulent acts or other misconduct, whether involving an act in the past that has not been detected or an act in the future, may have a material adverse effect on the Bank's reputation, results of operations and business prospects.

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

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

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

For some of the properties the Bank holds and occupies in the PRC, the Bank has not obtained the relevant land use right certificates and/or building ownership certificates. There can be no assurance that the Bank will be able to obtain title certificates for all of these properties. There can also be no assurance that the Bank's ownership rights would not be adversely affected in respect of properties for which the Bank was



unable to obtain the relevant title certificates. If the Bank is forced to relocate any of the Bank's business operations located at the affected properties, the Bank may incur additional costs as a result of such relocation.

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

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

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

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

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

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

parties. The occurrence of any of the foregoing could have a material adverse effect on the Bank's business, results of operations and financial condition.

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

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

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

For several years, global regulators and central banks have been driving international efforts to reform key benchmark interest rates and indices; in particular interbank offered rates ("IBORs") such as the London Interbank Offered Rate ("LIBOR"). This has resulted in significant changes to the methodology and operation of certain benchmarks and indices, the adoption of alternative risk-free rates ("RFRs"), the discontinuation of certain reference rates (including LIBOR), and the introduction of implementing legislation and regulations. The publication of certain non-U.S. Dollar LIBOR tenors (including all sterling, euro, Swiss franc and yen settings) and U.S. Dollar LIBOR 1-week and 2-month settings ceased at the end of 2021. The publication of yen LIBOR on a synthetic basis ceased at the end of 2022 and the United Kingdom Financial Conduct Authority ("FCA") also confirmed in January 2022 that the publication of sterling LIBOR on a synthetic basis will end in early 2024. Furthermore, the remaining U.S. Dollar LIBOR tenors (including overnight, 1-month, 3-month, 6-month and 12-month) ceased in June 2023, and restrictions have been imposed on new use of U.S. Dollar LIBOR. Following the 30 June 2023 cessation date, the FCA requires the publication of 1-, 3- and 6-month synthetic U.S. Dollar LIBOR until 30 September 2024, using an unrepresentative "synthetic" methodology, as part of the smooth wind-down of LIBOR. These synthetic U.S. Dollar LIBOR settings will not be permitted to be used for new contracts.

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

- regulatory compliance, legal and conduct risks, arising from both the continued sale of products referencing IBORs, sales of products referencing RFRs and the transition of legacy contracts to alternative rates. There is a risk that the Bank is unable to meet regulatory milestones associated with the discontinuance of sale of certain IBOR products, which may result in regulatory investigations or reviews being conducted into the Bank's preparation and readiness for the replacement of IBORs with alternative reference rates. Additionally, if the Bank's sales processes are not appropriately adapted to account for the additional complexity of new products, or new RFR market conventions, additional conduct risks and regulatory actions may result and there may be a heightened risk of disputes. In

addition, there may be conduct risks resulting from clients of the Bank alleging that they have not been treated fairly throughout the transition or may not be aware of the options available to them and the implications of decisions taken, leading them to claim unfair financial detriment;

- legal risks associated with the enforceability of fall-back provisions in IBOR contracts. There is a risk that some contracts will not be transitioned before the relevant IBOR is discontinued and the parties will need to rely on the “fall-back” provisions of those contracts. As these fall-back provisions do not always contemplate the permanent cessation of the relevant IBOR, there is a risk that the provisions may not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. This may lead to complaints, litigation and/or regulatory action. While legislative solutions have been proposed in the UK, U.S. and EU, market participants will need to consider the impact of any proposals ultimately adopted;
- financial risks resulting from the discontinuation of IBORs and the development of RFR market liquidity will affect the Bank throughout transition. The differences in IBOR and RFR interest rate levels will create a basis risk that the Bank will need to actively manage through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively;
- operational risks resulting from changes to exiting reference rates and indices, discontinuation of any reference rate or index and transition to alternative RFRs may require changes to some of the Bank’s information technology systems, trade reporting infrastructure, operational processes and control. In addition, if any reference rate or index (such as LIBOR) is no longer available to calculate amounts payable, the Group may incur additional expenses in amending documentation for new and existing transactions and/or effecting the transition from the original reference rate or index to a new reference rate or index;
- market risks as it is possible that markets and industries transition at different paces in different regions and across different products, presenting various sources of basis risk and posing major challenges on hedging strategies; and
- accounting risk as the changes in benchmark rates, and their impact on matters such as measurement of financial instruments, may not be incorporated correctly by the Group in its financial statements.

If any of these risks materialise, it could have a material adverse effect on the Bank’s business, financial condition, results of operations, prospects and customers.

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

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

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

In recent years, the PRC banking industry has been the subject of negative reports or criticism by various media, including in relation to incidents of fraud and issues relating to loan quality, capital adequacy, solvency, internal controls and management. In particular, there have been negative publications in the media regarding two of the Bank’s branches being unable to fulfil their obligations to repay short-term inter-bank loans. See “Risk Factors – Risks Relating to the Bank’s Business - The Bank may not be able to obtain

*necessary short-term funding and inter-bank deposits through the exchange market and inter-bank market, which may have a material adverse effect on the Bank's liquidity or financial condition".* In addition, the Bank shares a common major shareholder with a company that has received negative publicity due to sanctions and penalties levied by the PRC government in connection with such company's improper behaviour in its trading of securities. Furthermore, the Bank's practices of selecting third party service providers have been questioned by and subject to negative media coverage, which the Bank believes is without merit. In response, the Bank has made timely clarifications of such negative publications. However, if the Bank or the PRC banking industry as a whole suffers from similar negative media reports or criticism in the future, the Bank cannot make any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Any negative coverage, whether or not related to the Bank or the Bank's related parties and regardless of truth or merit, may have an impact on the Bank's reputation and, consequently, may undermine the confidence of the Bank's customers and investors, which may in turn materially and adversely affect the Bank's business, results of operations, financial condition, reputation and prospects.

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has exchange rate contracts, interest rate contracts and commodity derivatives contracts with a number of domestic and international banks, financial institutions and other entities. As a result, the Bank is subject to credit risk from its various counterparties. As at 30 June 2023, the notional amount of the Bank's outstanding derivative financial instruments amounted to RMB1,979,577 million, and the fair value of the Bank's outstanding derivative assets and liabilities amounted to RMB18,826 million and RMB19,440 million, respectively. Although the Bank cautiously evaluates the credit risks from its counterparties in its derivative transactions and believe that the overall credit quality of the Bank's counterparties is adequate, there can be no assurance that parties with significant risk exposure will not have difficulty in fulfilling derivative contracts that may cause losses for the Bank.

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

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

## **RISKS RELATING TO THE PRC BANKING INDUSTRY**

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

The banking industry in the PRC is becoming increasingly competitive. The Bank faces competition from commercial banks in all of its principal areas of business where the Bank has operations. On 1 July 2013, the General Office of the State Council of the PRC issued the Guidance Letter regarding Financial Support

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

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

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

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

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

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

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

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

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

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

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

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

## **RISKS RELATING TO THE PRC**

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

A substantial part of the Bank's revenue is derived from the PRC. The Bank relies, to a significant degree, on its domestic operations to achieve revenue growth. Domestic demand for banking services is materially affected by growth of private consumption and overall economic growth in the PRC. The global crisis in financial services and credit markets in 2008 caused a slowdown in the economic growth in many countries, including the PRC. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally, the trade war between the United States and PRC and COVID-19 spreading globally. In 2019, the PRC Government reported a GDP of RMB98.6515 trillion, representing year-on-year growth of 6.0 per cent. In 2020, the PRC Government reported a GDP of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. In 2021, the PRC Government reported a GDP of RMB114.3670 trillion, representing year-on-year growth of 8.1 per cent. In 2022, the PRC Government reported a GDP of RMB121.0207 trillion, representing year-on-year growth of 3.0 per cent. Although the PRC government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. There are uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact on the Bank's business, prospects, financial conditions

and results of operations. See also “*Risk Factors - Risks Relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank’s business, financial condition and results of operations*”.

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

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

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

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

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

A substantial majority of the Bank’s businesses, assets and operations is located in the PRC. Accordingly, the Bank’s business prospects, financial condition and results of operations are, to a significant degree, subject to the economic, political and legal developments in the PRC. The PRC’s economy differs from the

economies of most developed countries in many respects, including, among others, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

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

The PRC government has the power to implement macroeconomic controls affecting the PRC's economy. The government has implemented various measures in an effort to control the growth rate of certain industries and indebtedness levels. However, the PRC may not be able to sustain current growth rates and levels of economic activities. If the PRC's economy experiences a decrease in growth rate or a significant slowdown, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's business, financial condition and results of operations may be materially and adversely affected.

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

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

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

In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainties. The interpretation of PRC laws may be subject to domestic political and policy changes.

For example, the NDRC issued 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)) (the "NDRC Circular") on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities or medium to long term loans with a term not less than one year issued or incurred outside the PRC with the NDRC prior to the issue of the securities or drawings under the loans and notify the particulars of the relevant issues or drawings within ten PRC working days after the completion of the relevant issue or drawing.

The NDRC Measures superseded the NDRC Circular. Under the NDRC Measures, the Issuer shall, (i) file or cause to be filed with the NDRC the requisite information and documents within ten PRC business days after each foreign debt issuance and the expiration of the Certificate with respect to the relevant Notes in accordance with the NDRC Measures, (ii) file or cause to be filed with the NDRC the requisite information and documents within five PRC business days before the end of January and the end of July each year, and (iii) file or cause to be filed the requisite information and documents upon the occurrence of any material event that may affect the enterprise's due performance of its debt obligations. The NDRC Measures mentions



some legal consequences of non-compliance with the pre-issuance registration requirement. For example, if the enterprise borrows foreign debt in violation of the NDRC Measures, the examination and registration authority shall take disciplinary actions such as holding an interview and giving a public warning against the relevant enterprise and its principal person-in-charge according to the seriousness of the circumstances, and if any intermediary agency knows or should have known that an enterprise is borrowing foreign debt in violation of the relevant provision of the NDRC Measures but still provides the relevant intermediary services to the enterprise, the examination and registration authority shall circulate a notification of violation of regulations, and consult the relevant department on punishing the relevant intermediary agency and relevant liable persons in accordance with the applicable laws and regulations. In the worst-case scenario, if pre-issuance registration is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the relevant Notes and the relevant Notes might be subject to enforcement as provided in Condition 15 (Events of Default). Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

Similarly, the NDRC Measures mentions some legal consequences of non-compliance with the post-issue reporting requirement. Failure to comply with the NDRC post-issue and continuing filing obligations (such as post-issue filing, pre-issuance approval expiration filing, periodical filing and major event filing, etc.) under Articles 24 and 26 of the NDRC Measures may result in the relevant entities being ordered to make corrections within a time limit, and in the case of aggravating circumstances or in the case that such corrections are not made within the prescribed time limit, relevant entities and their main person-in-charge will be warned. The aforesaid regulatory violations committed by enterprises shall be publicised on the “Credit China” website and the national enterprise credit information publicity system, among others.

The Issuer undertakes to (i) file or cause to be filed with the NDRC the requisite information and documents within the relevant prescribed timeframes from time to time after the Issue Date in accordance with the NDRC Measures; and (ii) comply with the NDRC Measures and other obligations required by the NDRC as it applies to the Notes. However, the NDRC Measures is new and its implementation may involve uncertainty. While the NDRC Measures has set out the legal consequences for debtors and involved professional parties in cases of non-compliance of the NDRC Measures, the NDRC Measures is silent on whether any such non-compliance would affect the validity and enforceability of the Notes. There is no assurance that the failure to comply with the NDRC Measures would not result in adverse consequences on the Issuer’s or the Bank’s ability to perform in accordance with the Terms and Conditions of the Notes or the enforceability of the Notes.

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

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

In connection with the establishment of the Programme or any issuance by the Issuer, the Bank has not made and does not intend to make any filing with PBOC under the 2017 Macro-prudential Management Circular.

The establishment of the Programme and an issuance by the Issuer, as an overseas branch, do not involve any “cross-border financing activities” under the 2017 Macro-prudential Management Circular given the proceeds will not be remitted into the Mainland China. Accordingly, the filing requirements under the 2017 Macro-prudential Management Circular do not apply for issuance made by the Issuer.

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

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

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

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

Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. According to the Civil Procedure Law of the PRC (as amended in 2021), the PRC courts can recognise and enforce foreign judgments in accordance with the principal of reciprocity in the absence of international treaties. In addition, pursuant to the Arrangement of the Supreme People’s Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), if the parties have expressly agreed in writing that the Hong Kong Court has sole jurisdiction over civil and commercial cases, the Chinese courts may recognise and enforce final judgments made by specific courts in Hong Kong (including the Court of Final Appeal, Court of Appeal, Court of First Instance and District Court) in relation to payments if such judgments have come into effect without fraud or any other procedural problems and the enforcement of which is not considered to be contrary to the social and public interest of the PRC. Other than that, judgments made by courts in the United States and other courts in Hong Kong may not be recognised or enforced in the PRC.

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

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

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

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

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

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

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

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

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

The exchange rate of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's, as well as international, political and economic conditions and the PRC government's fiscal and currency policies. Starting from 1994, the conversion of Renminbi into foreign

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

***There is foreign exchange control in the PRC.***

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

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

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

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

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

Any occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, Severe Acute Respiratory Syndrome ("SARS"), Ebola virus disease ("Ebola"), Middle East Respiratory Syndrome corona virus ("MERS"), H5N1 influenza, H1N1 influenza, H7N9 influenza or

COVID-19, may adversely affect the Bank's business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business, financial condition and results of operations.

In particular, the COVID-19 pandemic has been one of the most significant global health crises in recent times. COVID-19 and the administrative actions taken by governments have caused substantial disruptions in the PRC and international economies and markets as well as additional uncertainties in the Group's operating environment. The prices of certain financial assets have been artificially supported through the COVID-19 pandemic following multi-trillion dollar central bank asset purchases and record low interest rates. Beginning in the second half of 2022, governments began to withdraw fiscal and monetary support and raise interest rates. As a result, price corrections and volatility occurred in 2022. Furthermore, the impact of COVID-19, including changes in customer behaviour and pandemic fears and restrictions on business and individual activities, has led to significant volatility in global and PRC financial markets and a significant decrease in global and PRC economic activity. While the WHO has in May 2023 declared that COVID-19 is no longer a global health emergency and there has been a gradual recovery in economic activity due to governments gradually loosening up the COVID-19 pandemic restrictions including lockdowns and social distancing measures and the roll out of vaccination programmes, regional resurgence of COVID-19 may occur in the future and it is difficult to predict the extent to which the Bank may be affected. In addition, while a number of vaccine candidates have announced high efficacy rates, raising hopes of widespread immunisation from COVID-19, the rollout of vaccination programmes is uneven across markets, which hampers the global pace of recovery to pre-pandemic levels. Depending on the time taken for economic activity to return to previous levels, there could be further adverse impacts on the Bank income due to lower lending and transaction volumes, and it may also adversely affect the level of non-performing loans. Furthermore, the emergence of new COVID-19 variants could lead to resurgence in infection rates. Should the Group's operations be disrupted again by any resurgence of COVID-19 or its variants and such disruption become extended, it may materially and adversely affect the Group's results of operations and financial condition. In addition, any further disruption to the Group's business activities may negatively affect its liquidity and access to capital.

Moreover, the PRC has experienced natural disasters such as earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Bank's business, financial condition and results of operations. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, Ebola, SARS, MERS, H5N1 influenza, H1N1 influenza, H7N9 influenza, COVID-19 or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of these epidemics, will not seriously interrupt the Bank's operations or those of the Bank's customers, which may have a material adverse effect on the Bank's business, financial condition and results of operations.

## **RISKS RELATING TO FINANCIAL INFORMATION**

***Potential investors should not place undue reliance on the unaudited and unreviewed financial information included elsewhere in this Offering Circular and the financial information incorporated by reference that is not audited nor reviewed.***

This Offering Circular also incorporates the most recently published audited annual consolidated financial statements and any interim, semi-annual or quarterly consolidated financial statements (whether audited or unaudited and reviewed or unreviewed) of the Bank published from time to time after the date of this Offering Circular in each case together with any reports prepared in connection therewith. The Bank publishes its consolidated quarterly interim reports in respect of periods ended 31 March and 30 September of each financial year on the official websites of the Shanghai Stock Exchange and HKSE.

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

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

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

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

The Bank has applied new standards and amendments starting from 1 January 2022, including Amendments to IFRS 3 - Reference to the Conceptual Framework, Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use, Amendments to IAS 37 - Onerous Contracts – Costs of Fulfilling a Contract and Annual Improvements to IFRSs 2018-2020 - Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. The adoption of the above amendments did not have any significant impact on the operating results, financial position and comprehensive income of the Group. The Bank's financial information for the year ended 31 December 2020 was restated in the Bank's audited consolidated financial statements as at and for the year ended 31 December 2021 due to the retrospective adjustments made pursuant to a business combination under common control of the Group on 29 June 2021.

## **RISKS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME**

***The Notes are unsecured obligations.***

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

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

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

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

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

if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

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

Any adverse revision to the Bank's corporate ratings, or those of its subsidiaries, for domestic and international debt by rating agencies such as Fitch, Moody's Investors Service, Inc. and S&P 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.

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

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

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

Effective from 10 February 2023, NDRC Measures superseded the NDRC Circular. Under the NDRC Measures, the Issuer shall, (i) file or cause to be filed with the NDRC the requisite information and documents within ten PRC business days after each foreign debt issuance and the expiration of the Certificate with respect to the relevant Notes in accordance with the NDRC Measures, (ii) file or cause to be filed with the NDRC the requisite information and documents within five PRC business days before the end of January and the end of July each year, and (iii) file or cause to be filed the requisite information and documents upon the occurrence of any material event that may affect the enterprise's due performance of its debt obligations.

The NDRC Measures mentions some legal consequences of non-compliance with the post-issue reporting requirement. Failure to comply with the NDRC post-issue and continuing filing obligations (such as post-issue filing, pre-issuance approval expiration filing, periodical filing and major event filing, etc.) under Articles 24 and 26 of the NDRC Measures may result in the relevant entities being ordered to make corrections within a time limit, and in the case of aggravating circumstances or in the case that such corrections are not made within the prescribed time limit, relevant entities and their main person-in-charge will be warned. The aforesaid regulatory violations committed by enterprises shall be publicised on the "Credit China" website and the national enterprise credit information publicity system, among others.

The Issuer undertakes to file or cause to be filed with the NDRC within the relevant prescribed timeframes after the relevant Issue Date the requisite information and documents in respect of the relevant Notes in accordance with the NDRC Measures. However, the NDRC Measures is new and its implementation may involve uncertainty. While the NDRC Measures has set out the legal consequences for debtors and involved professional parties in cases of non-compliance of the NDRC Measures, the NDRC Measures is silent on whether any such non-compliance would affect the validity and enforceability of the Notes. There is no assurance that the failure to comply with the NDRC Measures would not result in adverse consequences on the Issuer's or the Bank's ability to perform in accordance with the Terms and Conditions of the Notes or the enforceability 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 include the Bank and other members of the Bank (a

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

***Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts and the Noteholders would need to be subject to the exclusive jurisdiction of the Hong***

***Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters.***

The Terms and Conditions of the Notes and the Programme documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and the Hong Kong SAR, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside Hong Kong will be limited.

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

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

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

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note or a Global Certificate and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (i) equal to, or integral multiples of, the minimum denomination, and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued if (a) the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce(s) an intention to permanently cease business; or (b) any of the circumstances described in Condition 15 (*Events of Default*) occurs. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum

denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

***Risk factors relating to potential conflicts of interest.***

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

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

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

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

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

***United States' Foreign Account Tax Compliance Act Tax Provisions.***

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the British Virgin Islands, Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes and the Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes and the Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or

an IGA with respect to payments on instruments such as the Notes and the Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Instruments. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Instruments, no person will be required to pay additional amounts as a result of the withholding.

## **RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES**

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong, the PRC, the jurisdiction where the Issuer is located or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions. A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

### ***Certain benchmark interbank offered rates, including EURIBOR, may be discontinued or reformed in the future***

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

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

As an example of such benchmark reforms, on 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a “risk free overnight rate” which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate (“**€STR**”) as the new risk-free rate for the euro area. The **€STR** was published for the first time on 2 October 2019. Although EURIBOR has subsequently been reformed in order to comply with the terms of the **EU Benchmarks Regulation**, it remains uncertain as to

how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

The elimination of any benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(m) (*Floating Rate Note and Index Linked Interest Note Provisions – Benchmark Replacement (Independent Adviser) (other than Floating Rate Notes which reference SOFR)*), or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The “Terms and Conditions of the Notes” provide for certain fallback arrangements in the event that a published benchmark (including any page on which such benchmark may be published (or any other successor service)) becomes unavailable or a Benchmark Event otherwise occurs. Such an event may be deemed to have occurred prior to the issue date for a Series of Notes. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions) in certain circumstances, the relevant fallback provisions may not operate as intended at the relevant time.

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

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation and the UK Benchmarks Regulation reforms or arising from the possible cessation or reform of certain reference rates in making any investment decision with respect to any Notes linked to or referencing a benchmark.

***The market continues to develop in relation to risk-free rates (including overnight rates) as reference rates for Floating Rate Notes***

The use of risk-free rates - including those such as the Secured Overnight Financing Rate (“**SOFR**”), as reference rates for Eurobonds continues to develop. This relates not only to the substance of the calculation and the development and adoption of market infrastructure for the issuance and trading of bonds referencing such rates, but also how widely such rates and methodologies might be adopted.

The market or a significant part thereof may adopt an application of risk-free rates that differs significantly from that set out in the terms and conditions of the Notes and used in relation to Notes that reference risk-free rates issued under this Programme. The Issuer may in the future also issue Notes referencing SOFR or the SOFR Compounded Index that differ materially in terms of interest determination when compared with any previous Notes issued by it under this Programme. The development of risk-free rates for the Eurobond

markets could result in reduced liquidity or increased volatility, or could otherwise affect the market price of any Notes that reference a risk-free rate issued under this Programme from time to time.

In addition, the manner of adoption or application of risk-free rates in the Eurobond markets may differ materially compared with the application and adoption of risk-free rates in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of such reference rates in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing such risk-free rates.

In particular, investors should be aware that several different methodologies have been used in risk-free rate notes issued to date. No assurance can be given that any particular methodology, including the compounding formula in the terms and conditions of the Notes, will gain widespread market acceptance. In addition, market participants and relevant working groups are still exploring alternative reference rates based on risk-free rates, including various ways to produce term versions of certain risk-free rates (which seek to measure the market's forward expectation of an average of these reference rates over a designated term, as they are overnight rates) or different measures of such risk-free rates. If the relevant risk-free rates do not prove to be widely used in securities like the Notes, the trading price of such Notes linked to such risk-free rates may be lower than those of Notes referencing indices that are more widely used.

Investors should consider these matters when making their investment decision with respect to any Notes which reference SOFR or any related indices.

***Risk-free rates may differ from LIBOR and other inter-bank offered rates in a number of material respects and have a limited history***

Risk-free rates may differ from the London Interbank Offered Rate (“**LIBOR**”) and other inter-bank offered rates in a number of material respects. These include (without limitation) being backwards-looking, in most cases, calculated on a compounded or weighted average basis, risk-free, overnight rates and, in the case of SOFR, secured, whereas such interbank offered rates are generally expressed on the basis of a forward-looking term, are unsecured and include a risk-element based on interbank lending. As such, investors should be aware that risk-free rates may behave materially differently to interbank offered rates as interest reference rates for the Notes. Furthermore, SOFR is a secured rate that represents overnight secured funding transactions, and therefore will perform differently over time to an unsecured rate. For example, since publication of SOFR began on 3 April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmarks or other market rates.

Risk-free rates offered as alternatives to interbank offered rates also have a limited history. For that reason, future performance of such rates may be difficult to predict based on their limited historical performance. The level of such rates during the term of the Notes may bear little or no relation to historical levels. Prior observed patterns, if any, in the behaviour of market variables and their relation to such rates such as correlations, may change in the future. Investors should not rely on historical performance data as an indicator of the future performance of such risk-free rates nor should they rely on any hypothetical data.

Furthermore, interest on Notes which reference a backwards-looking risk-free rate is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference such risk-free rates reliably to estimate the amount of interest which will be payable on such Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which could adversely impact the liquidity of such Notes. Further, in contrast to Notes linked to interbank offered rates, if Notes referencing backwards-looking rates become due and payable as a result of an Event of Default under Condition 15 (Events of *Default*), or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such Notes shall be determined by reference to a shortened period ending immediately prior to the date on which the Notes become due and payable or are scheduled for redemption.

***The administrator of SOFR or any related indices may make changes that could change the value of SOFR or any related index, or discontinue SOFR or any related index***

The Federal Reserve or the Bank of New York (or their successors) as administrators of SOFR (and the SOFR Compounded Index) may make methodological or other changes that could change the value of these risk-free rates and/or indices, including changes related to the method by which such risk-free rate is calculated, eligibility criteria applicable to the transactions used to calculate SOFR, or timing related to the publication of SOFR or any related indices. In addition, the administrator may alter, discontinue or suspend calculation or dissemination of SOFR or any related index (in which case a fallback method of determining the interest rate on the Notes will apply). The administrator has no obligation to consider the interests of Noteholders when calculating, adjusting, converting, revising or discontinuing any such risk-free rate.

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

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

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

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

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

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

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

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

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

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

at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than the then prevailing rates on its Notes.

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

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

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected; and
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

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

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

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

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

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (iv) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates or other indices;
- (v) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (vi) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

***Credit Ratings May Not reflect All Risks.***

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



above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

### ***Risks Relating to Credit-Linked Notes***

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

#### ***Credit risk on Reference Entity.***

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

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

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

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

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

#### ***No interest in obligations of Reference Entity.***

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

#### ***Rights of the Calculation Agent and the Issuer.***

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

Reference Entity having the lowest possible market value, may result in an increased loss for holders of the Notes.

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

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

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

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

#### ***Credit Observation Period.***

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

#### ***Deferral of Payments.***

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

#### ***Valuation.***

If the Notes are cash settled, then, following the occurrence of a Credit Event, the Calculation Agent will be required to seek quotations in respect of selected obligations of the affected Reference Entity. Quotations obtained will be “bid-side” — that is, they will be reduced to take account of a bid-offer spread charged by the relevant dealer. Such quotations may not be available, or the level of such quotations may be substantially reduced as a result of illiquidity in the relevant markets or as a result of factors other than the credit risk of the affected Reference Entity (for example, liquidity constraints affecting market dealers). Accordingly, any

quotations so obtained may be significantly lower than the value of the relevant obligation which would be determined by reference to (for example) the present value of related cashflows. Quotations will be deemed to be zero in the event that no such quotations are available. Where credit losses are determined on the basis of a market protocol, such losses may be greater than the losses which would have been determined in the absence of such protocol. If the Issuer, the Calculation Agent or any affiliate thereof participates in any auction for the purposes of such a protocol, then it will do so without regard to the interests of the holders of the Notes. Such participation may have a material effect on the outcome of the relevant auction and the value of the Notes.

***“Cheapest-to-Deliver” risk.***

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

***Credit Derivatives Determination Committee and Market Auctions.***

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

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

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

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

Noteholders are responsible for obtaining information relating to deliberations of the Credit Derivatives Determinations Committee. Notices of questions referred to the Credit Derivatives Determinations Committee, meetings held to deliberate such questions and the results of binding votes will be published on the ISDA website and neither the Issuer, the Calculation Agent nor any of their respective affiliates shall be obliged to inform the Noteholders of such information (other than as expressly provided in respect of the

Notes). Failure by the Noteholders to be aware of information relating to deliberations of a Credit Derivatives Determinations Committee will have no effect under the Notes and Noteholders are solely responsible for obtaining any such information.

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

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

***Modification of the terms of the Notes.***

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

***Historical performance may not predict future performance.***

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

**RISKS RELATING TO THE MARKET GENERALLY**

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

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Series, such Series is to be consolidated with and form a single series with a Series of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. If the Notes are traded at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the HKSE for the Programme to be admitted to

listing on the HKSE in respect of the listing of the Programme, there is no assurance that such application will be accepted, that any particular Series of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade securities has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Series of Notes.

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

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

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

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

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

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

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

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

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

## **RISKS RELATING TO RENMINBI-DENOMINATED NOTES**

Notes denominated in Renminbi (the “**Renminbi Notes**”) may be issued under the Programme. Renminbi Notes contain particular risks for potential investors. A description of risks which may be relevant to an investor in Renminbi Notes are set out below.

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

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

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

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are being developed.

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

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

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

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

services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

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

***Investment in Renminbi Notes is subject to exchange rate risks.***

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

***Investment in Renminbi Notes is subject to interest rate risks.***

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

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

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

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

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

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

government will continue gradually to liberalise the control over cross-border Renminbi remittances in the future, that the PRC government will not impose any interim or long-term restrictions on capital inflow or outflow which may restrict cross-border Renminbi remittances, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently is not able to repatriate funds out of the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the Renminbi Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.



## **USE OF PROCEEDS**

Subject to compliance with applicable laws, regulations and rules, the net proceeds from each issue of Notes will be used for repaying matured overseas debts and supplementing working capital. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

## FORMS OF THE NOTES

### BEARER NOTES

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

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

#### **Temporary Global Note exchangeable for Permanent Global Note**

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

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

- (a) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and
- (b) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership or the CMU Issue Position Report (as defined in the Agency Agreement) **provided, however, that** in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

- (a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5:00 p.m. (Hong Kong time) on the seventh day after the bearer has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

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

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

- (a) on the expiry of such period of notice as may be specified in the Pricing Supplement; or
- (b) at any time, if so specified in the Pricing Supplement; or
- (c) if the Pricing Supplement specifies “in the limited circumstances described in the Permanent Global Note”, then if either of the following events occurs:
  - (i) Euroclear or Clearstream or the HKMA as operator of the CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
  - (ii) any of the circumstances described in Condition 15 (*Events of Default*) occurs.

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

If:

- (a) Definitive Notes have not been duly delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or
- (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

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

#### **Temporary Global Note exchangeable for Definitive Notes**

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Notes will initially be in the form of a

Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

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

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

If:

- (a) Definitive Notes have not been duly delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or
- (b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

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

#### **Permanent Global Note exchangeable for Definitive Notes**

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

- (a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (b) at any time, if so specified in the relevant Pricing Supplement; or
- (c) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Permanent Global Note”, then if either of the following events occurs:
  - (i) Euroclear or Clearstream or the HKMA as operator of the CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
  - (ii) any of the circumstances described in Condition 15 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent

Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been duly delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or
- (c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

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

#### **Rights under Deed of Covenant**

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

#### **Terms and Conditions applicable to the Notes**

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

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

#### **Legend concerning United States persons**

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

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

## Registered Notes

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

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

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

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

- (a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (b) at any time, if so specified in the relevant Pricing Supplement; or
- (c) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Global Note Certificate”, then if either of the following events occurs:
  - (i) Euroclear or Clearstream or the CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or
  - (ii) any of the circumstances described in Condition 15 (*Events of Default*) occurs.

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

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

If:

- (a) Individual Note Certificates have not been issued and delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or
- (b) any of the Notes evidenced by a Global Note Certificate has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate on the due date for payment in accordance with the terms of the Global Note Certificate,

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

**Terms and Conditions applicable to the Notes**

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

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

## TERMS AND CONDITIONS OF THE NOTES

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

### 1 INTRODUCTION

- (a) *Programme:* China Everbright Bank Co., Ltd., Hong Kong Branch (the “**Issuer**”) has established a Medium Term Note Programme (the “**Programme**”) for the issuance of up to U.S.\$5,000,000,000 in aggregate principal amount of notes (the “**Notes**”). Notes under the Programme may be issued by the Issuer, which is a branch of China Everbright Bank Company Limited (the “**Bank**”).
- (b) *Pricing Supplement:* Notes issued under the Programme are issued in series (each a “**Series**”) and each Series may comprise one or more tranches (each a “**Tranche**”) of Notes issued by the Issuer. Each Tranche is the subject of a pricing supplement (the “**Pricing Supplement**”) which supplements, amends and/or replaces these terms and conditions (the “**Conditions**”). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.
- (c) *Agency Agreement:* The Notes are the subject of an amended and restated issue and paying agency agreement dated 7 September 2022, and otherwise as further amended and/or supplemented from time to time (the “**Agency Agreement**”) between the Issuer, Citicorp International Limited as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and registrar in respect of Notes to be cleared through the CMU (the “**CMU Registrar**”, which expression includes any successor CMU registrar appointed from time to time in connection with the Notes), Citicorp International Limited as CMU lodging and paying agent (the “**CMU Lodging and Paying Agent**”, which expression includes any successor CMU lodging and paying agent appointed from time to time in connection with the Notes), any registrar appointed in respect of Credit Linked Notes or Index Linked Notes, Citibank, N.A., London Branch as registrar in respect of Notes other than Credit Linked Notes, Index Linked Notes and Notes to be cleared through the CMU (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes) and, together with the CMU Registrar, any such registrar appointed in respect of Credit Linked Notes or Index Linked Notes, the “**Registrars**” and each a Registrar), the issuing and paying agents named therein (together with the Fiscal Agent and the CMU Lodging and Paying Agent, the “**Issuing and Paying Agents**”, which expression includes any successor or additional issuing and paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the “**Agents**” are to the Issuing and Paying Agents and the Transfer Agents and any reference to an “**Agent**” is to any one of them. For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent and all such reference shall be construed accordingly.
- (d) *Deed of Covenant:* The Notes may be issued in bearer form (“**Bearer Notes**”), or in registered form (“**Registered Notes**”). Registered Notes are constituted by an amended and restated deed of covenant



dated 7 September 2022 and otherwise as further amended and/or restated from time to time (the “**Deed of Covenant**”) entered into by the Issuer.

- (e) *The Notes*: All subsequent references in these Conditions to “**Notes**” are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from the Specified Office of each of the Issuing and Paying Agents and Transfer Agents.
- (f) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons, if any, (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

## 2 INTERPRETATION

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

“**2006 ISDA Definitions**” means, in relation to a Series of Notes, the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Notes of such Series) as published by ISDA (copies of which may be obtained from ISDA at [www.isda.org](http://www.isda.org));

“**2021 ISDA Definitions**” means, in relation to a Series of Notes, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions (including each Matrix (and any successor Matrix thereto), as defined in such 2021 ISDA Interest Rate Derivatives Definitions) as at the date of issue of the first Tranche of Notes of such Series, as published by ISDA on its website ([www.isda.org](http://www.isda.org));

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

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

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

“**Business Day**” means:

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;
- (ii) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and
- (iii) for the purposes of Notes denominated in Renminbi only, any day (other than a Saturday, a Sunday and any public holiday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed;

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different

meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) **“Following Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) **“FRN Convention”, “Floating Rate Convention”** or **“Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that:**
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

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

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

**“Clearstream”** means Clearstream Banking S.A.;

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

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

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

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

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

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

- (a) if “**Actual/Actual (ICMA)**” is so specified, means:
  - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (b) if “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (d) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (e) if “**30/360**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

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

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

where:

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

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

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

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

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

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

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

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

where:

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

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

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

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

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30,

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

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

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

**“Euroclear”** means Euroclear Bank SA/NV;

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

**“Extraordinary Resolution”** has the meaning given in the Agency Agreement;

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

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

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

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

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

**“Hong Kong”** means the Hong Kong Special Administrative Region of the PRC;

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

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

**“Interest Determination Date”** has the meaning given in the relevant Pricing Supplement or, in the case of Notes to which Condition 7(f) (*Floating Rate Note and Index Linked Interest Note Provisions – Interest – Floating Rate Notes referencing SOFR (Screen Rate Determination)*) or Condition 7(g) (*Floating Rate Note and Index Linked Interest Note Provisions – SOFR Compounded Index (Screen Rate Determination)*) applies, as otherwise specified in Condition 7(f) (*Floating Rate Note and Index Linked Interest Note Provisions – Interest – Floating Rate Notes referencing SOFR (Screen Rate Determination)*) or Condition 7(g) (*Floating Rate Note and Index Linked Interest Note Provisions – SOFR Compounded Index (Screen Rate Determination)*), as the case may be;

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

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

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

“**Interest Period**” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date (or, if the Notes are redeemed on any earlier date, the relevant redemption date);

“**ISDA**” means the International Swaps and Derivatives Association, Inc. (or any successor);

“**ISDA Definitions**” has the meaning given in the relevant Pricing Supplement;

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

“**Margin**” has the meaning given in the relevant Pricing Supplement;

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

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

“**Member State**” means a member state of the European Union which adopts the euro as its lawful currency in accordance with the Treaty;

“**Moody’s**” means Moody’s Investors Service, Inc. and its successors;

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

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

“**NDRC Measures**” means the Administrative Measures for the Review and Registration of Medium and Long-Term Foreign Debt of Enterprises (企業中長期外債審核登記管理辦法 (國家發展和改革委員會令第 56 號)) issued by the NDRC on 5 January 2023 and which came into effect on 10 February 2023, and any implementation rules, reports, certificates and guidelines and applicable policies issued by the NDRC from time to time;

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

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

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

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

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

“**Payment Business Day**” means:

- (a) if the currency of payment is euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

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

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

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

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

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (c) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the relevant Pricing Supplement;

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

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

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

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

“**Redemption Amount**” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the

Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

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

“**Reference Rate**” means SOFR, SOFR Compounded Index or any other applicable benchmarks as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement;

“**Regular Period**” means:

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

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

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

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

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

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

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



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

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

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

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

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

“**Specified Office**” has the meaning given in the Agency Agreement;

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

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

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

“**Talon**” means a talon for further Coupons;

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

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system or any successor thereto;

“**Treaty**” means the Treaty on the Functioning of the European Union, as amended; and

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

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes or are Registered Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 14 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 14 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

- (vi) references to Notes being “**outstanding**” shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) (*Interpretation – Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes;
- (viii) any reference to the Agency Agreement and the Deed of Covenant shall be construed as a reference to the Agency Agreement or, as the case may be, the Deed of Covenant as amended and/or supplemented up to and including the Issue Date of the Notes; and
- (ix) any reference in these Conditions to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

### 3 FORM, DENOMINATION, TITLE AND TRANSFER

- (a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.
- (b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, “**Holder**” means the holder of such Bearer Note and “**Noteholder**” and “**Couponholder**” shall be construed accordingly.
- (c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.
- (d) *Title to Registered Notes*: The relevant Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Note Certificate**”) will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, “**Holder**” means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.
- (e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.
- (f) *Transfers of Registered Notes*: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as such Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that**

a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

- (g) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph (g), “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the relevant Registrar or any Transfer Agent but against such indemnity as such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) *Closed periods:* Noteholders may not require transfers to be registered:
  - (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes;
  - (ii) during the period of 15 days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 11(c) (*Redemption and Purchase – Redemption for tax reasons*) or Condition 11(d) (*Redemption and Purchase – Redemption at the option of the Issuer*); and
  - (iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 11(f) (*Redemption and Purchase – Redemption at the option of Noteholders*).
- (j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the relevant Registrar. A copy of the current regulations will be mailed (free of charge) by such Registrar to any Noteholder who requests in writing a copy of such regulations.

#### 4 STATUS

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

#### 5 COVENANTS

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

- (b) *Reporting to the NDRC:* Where the NDRC Measures applies to the Tranche of Notes to be issued in accordance with these Conditions and the Agency Agreement, the Issuer undertakes to:
  - (i) file or cause to be filed with the NDRC the requisite information and documents within the relevant prescribed timeframes from time to time after the Issue Date in accordance with the NDRC Measures; and
  - (ii) comply with the NDRC Measures and other obligations required by the NDRC as it applies to the Notes.

## 6 FIXED RATE NOTE PROVISIONS

- (a) *Application:* This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and, in respect of Credit Linked Notes, is subject to Condition 10 (*Occurrence of Credit Event*).
- (b) *Accrual of interest:* The Notes bear interest from and including the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 12 (*Payments – Bearer Notes*) and Condition 13 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Fixed Coupon Amount:* Subject to Condition 6(d) (*Notes accruing interest otherwise than a Fixed Coupon Amount*) below, the amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) *Notes accruing interest otherwise than a Fixed Coupon Amount:* This Condition 6(d) shall apply to Notes which are Fixed Rate Notes only where the Pricing Supplement for such Notes specify that the Interest Payment Dates are subject to adjustment in accordance with the Business Day Convention specified therein. The amount of interest payable in respect of each Note for any Interest Period for such Notes shall be calculated by the Calculation Agent by multiplying the product of the Rate of Interest for such Interest Period and the Calculation Amount by the relevant Day Count Fraction, and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. The Calculation Agent shall cause the relevant amount of interest and the relevant Interest Payment Date to be notified to the Issuer, the Issuing and Paying Agents, the Registrar (in the case of Registered Notes) and the Noteholders in accordance with Condition 21 (*Notices*) and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so requires, such exchange or other relevant authority as soon as possible after their determination or calculation but in no event later than the fourth Business Day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the rules of the relevant stock exchange or other relevant authority.
- (e) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the

resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a “sub-unit” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

## 7 FLOATING RATE NOTE AND INDEX LINKED INTEREST NOTE PROVISIONS

- (a) *Application*: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable and, in respect of Credit Linked Notes only, is subject to Condition 10 (*Occurrence of Credit Event*).
- (b) *Accrual of interest*: The Notes bear interest from and including the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 12 (*Payments – Bearer Notes*) and Condition 13 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination (other than Floating Rate Notes which reference SOFR)*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be (other than in respect of Notes for which SOFR or any related index is specified as the Reference Rate in the relevant Pricing Supplement) determined by the Calculation Agent on the following basis:
  - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
  - (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
  - (iii) if, in the case of sub-paragraph (i) above, such rate does not appear on that page or, in the case of sub-paragraph (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.
  - (iv) notwithstanding the foregoing, if the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:
    - (A) the Rate of Interest for each Interest Period will, subject as provided below, be either:
      - (1) the offered quotation; or
      - (2) the arithmetic mean of the offered quotations,

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

- (B) if the Relevant Screen Page is not available or, if sub-paragraph (iv)(A)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (iv)(A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period).

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

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

- (i) if the Pricing Supplement specify either “2006 ISDA Definitions” or “2021 ISDA Definitions” as the applicable ISDA Definitions:
  - (A) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;
  - (B) the Designated Maturity (as defined in the ISDA Definitions), if applicable, is a period specified in the relevant Pricing Supplement;
  - (C) the relevant Reset Date (as defined in the ISDA Definitions), unless otherwise specified in the relevant Pricing Supplement, has the meaning given to it in the ISDA Definitions;
  - (D) if the specified Floating Rate Option is an Overnight Floating Rate Option (as defined in the ISDA Definitions), Compounding is specified to be applicable in the relevant Pricing Supplement and:
    - (1) if Compounding with Lookback is specified as the Compounding Method in the relevant Pricing Supplement then (a) Compounding with Lookback is the Overnight Rate Compounding Method (as defined in the ISDA Definitions) and (b) Lookback is the number of Applicable Business Days (as defined in the ISDA Definitions) specified in the relevant Pricing Supplement;
    - (2) if Compounding with Observation Period Shift is specified as the Compounding Method in the relevant Pricing Supplement then (a) Compounding with Observation Period Shift is the Overnight Rate Compounding Method, (b) Observation Period Shift is the number of Observation Period Shift Business

Days (as defined in the ISDA Definitions) specified in the relevant Pricing Supplement and (c) Observation Period Shift Additional Business Days (as defined in the ISDA Definitions), if applicable, are the days specified in the relevant Pricing Supplement; or

- (3) if Compounding with Lockout is specified as the Compounding Method in the relevant Pricing Supplement then (a) Compounding with Lockout is the Overnight Rate Compounding Method, (b) Lockout is the number of Lockout Period Business Days (as defined in the ISDA Definitions) specified in the relevant Pricing Supplement and (c) Lockout Period Business Days, if applicable, are the days specified in the relevant Pricing Supplement; and
- (E) if the specified Floating Rate Option is an Index Floating Rate Option (as defined in the ISDA Definitions) and Index Provisions are specified to be applicable in the relevant Pricing Supplement, the Compounded Index Method with Observation Period Shift (as defined in the ISDA Definitions) shall be applicable and, (a) Observation Period Shift is the number of Observation Period Shift Business Days (as defined in the ISDA Definitions) specified in the relevant Pricing Supplement and (b) Observation Period Shift Additional Business Days, if applicable, are the days specified in the relevant Pricing Supplement;
- (ii) references in the ISDA Definitions to:
  - (A) “**Confirmation**” shall be references to the relevant Pricing Supplement;
  - (B) “**Calculation Period**” shall be references to the relevant Interest Period;
  - (C) “**Termination Date**” shall be references to the Maturity Date; and
  - (D) “**Effective Date**” shall be references to the Interest Commencement Date; and
- (iii) if the Pricing Supplement specify “2021 ISDA Definitions” as being applicable:
  - (A) “**Administrator/Benchmark Event**” shall be disappplied; and
  - (B) if the Temporary Non-Publication Fallback in respect of any specified Floating Rate Option is specified to be “Temporary Non-Publication Fallback – Alternative Rate” in the Floating Rate Matrix of the 2021 ISDA Definitions the reference to “Calculation Agent Alternative Rate Determination” in the definition of “**Temporary Non-Publication Fallback – Alternative Rate**” shall be replaced by “Temporary Non-Publication Fallback – Previous Day’s Rate”.
- (e) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.
- (f) *Interest – Floating Rate Notes referencing SOFR (Screen Rate Determination)*:
  - (i) This Condition 7(f) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable, Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, and the “Reference Rate” is specified in the relevant Pricing Supplement as being “Compounded SOFR”.
  - (ii) Where “Compounded SOFR” is specified as the Reference Rate in the Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be the Benchmark

plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent on each Interest Determination Date.

(iii) For the purposes of this Condition 7(f):

“**Benchmark**” means Compounded SOFR, which is a compounded average of daily SOFR, as determined for each Interest Period in accordance with the specific formula and other provisions set out in this Condition 7(f).

*Daily SOFR rates will not be published in respect of any day that is not a U.S. Government Securities Business Day, such as a Saturday, Sunday or holiday. For this reason, in determining Compounded SOFR in accordance with the specific formula and other provisions set forth herein, the daily SOFR rate for any U.S. Government Securities Business Day that immediately precedes one or more days that are not U.S. Government Securities Business Days will be multiplied by the number of calendar days from and including such U.S. Government Securities Business Day to, but excluding, the following U.S. Government Securities Business Day.*

*If the Issuer determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of Compounded SOFR (or the daily SOFR used in the calculation hereof) prior to the relevant SOFR Determination Time, then the provisions under Condition 7(f)(iv) below will apply.*

“**Compounded SOFR**” with respect to any Interest Period, means the rate of return of a daily compound interest investment computed in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards to 0.00001 per cent.):

$$\left[ \prod_{i=1}^{d_o} \left( 1 + \frac{SOFR_i \times n_i}{D} \right) - 1 \right] \times \frac{D}{d}$$

“**d**” is the number of calendar days in:

- (i) where “Lag” is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or
- (ii) where “Observation Shift” is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period;

“**D**” is the number specified in the relevant Pricing Supplement (or, if no such number is specified, 360);

“**d<sub>o</sub>**” is the number of U.S. Government Securities Business Days in:

- (i) where “Lag” is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or
- (ii) where “Observation Shift” is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period;

“**i**” is a series of whole numbers from one to d<sub>o</sub>, each representing the relevant U.S. Government Securities Business Day in chronological order from, and including, the first U.S. Government Securities Business Day in:

- (i) where “Lag” is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or



- (ii) where “Observation Shift” is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period,

to and including the last U.S. Government Securities Business Day in such period;

“**Interest Determination Date**” means, in respect of any Interest Period, the date falling “p” U.S. Government Securities Business Days prior to the Interest Payment Date for such Interest Period (or the date falling “p” U.S. Government Securities Business Days prior to such earlier date, if any, on which the Notes are due and payable);

“**n**” for any U.S. Government Securities Business Day “i” in the relevant Interest Period or Observation Period (as applicable), is the number of calendar days from, and including, such U.S. Government Securities Business Day “i” to, but excluding, the following U.S. Government Securities Business Day (“i+1”);

“**Observation Period**” in respect of an Interest Period means the period from, and including, the date falling “p” U.S. Government Securities Business Days preceding the first day in such Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) to, but excluding, the date falling “p” U.S. Government Securities Business Days preceding the Interest Payment Date for such Interest Period (or the date falling “p” U.S. Government Securities Business Days prior to such earlier date, if any, on which the Notes become due and payable);

“**p**” for any Interest Period or Observation Period (as applicable) means the number of U.S. Government Securities Business Days specified as the “Lag Period” or the “Observation Shift Period” (as applicable) in the relevant Pricing Supplement or if no such period is specified, five U.S. Government Securities Business Days;

“**SOFR**” with respect to any U.S. Government Securities Business Day, means:

- (i) the Secured Overnight Financing Rate published for such U.S. Government Securities Business Day as such rate appears on the SOFR Administrator’s Website at 3:00 p.m. (New York time) on the immediately following U.S. Government Securities Business Day (the “**SOFR Determination Time**”); or
- (ii) Subject to Condition 7(f)(iv) below, if the rate specified in paragraph (i) above does not so appear, the Secured Overnight Financing Rate as published in respect of the first preceding U.S. Government Securities Business Day for which the Secured Overnight Financing Rate was published on the SOFR Administrator’s Website;

“**SOFR Administrator**” means the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate);

“**SOFR Administrator’s Website**” means the website of the Federal Reserve Bank of New York, or any successor source;

“**SOFR<sub>i</sub>**” means the SOFR for:

- (i) where “Lag” is specified as the Observation Method in the applicable Pricing Supplement, the U.S. Government Securities Business Day falling “p” U.S. Government Securities Business Days prior to the relevant U.S. Government Securities Business Day “i”; or
- (ii) where “Observation Shift” is specified as the Observation Method in the relevant Pricing Supplement, the relevant U.S. Government Securities Business Day “i”; and

“**U.S. Government Securities Business Day**” means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

- (iv) If the Issuer determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates. In connection with the implementation of a Benchmark Replacement, the Issuer will have the right to make Benchmark Replacement Conforming Changes from time to time, without any requirement for the consent or approval of the Noteholders.

Any determination, decision or election that may be made by the Issuer pursuant to this Condition 7(f)(iv), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection:

- (i) will be conclusive and binding absent manifest error;
- (ii) will be made in the sole discretion of the Issuer; and
- (iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

For the purposes of this Condition 7(f)(iv):

“**Benchmark**” means, initially, Compounded SOFR, as such term is defined above; **provided that** if the Issuer determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to Compounded SOFR (or the published daily SOFR used in the calculation thereof) or the then-current Benchmark, then “**Benchmark**” shall mean the applicable Benchmark Replacement.

“**Benchmark Replacement**” means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

- (i) the sum of: (A) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark and (B) the Benchmark Replacement Adjustment;
- (ii) the sum of: (A) the ISDA Fallback Rate and (B) the Benchmark Replacement Adjustment; or
- (iii) the sum of: (A) the alternate rate of interest that has been selected by the Issuer as the replacement for the then-current Benchmark giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated floating rate notes at such time and (B) the Benchmark Replacement Adjustment;

“**Benchmark Replacement Adjustment**” means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or

recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

- (ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or
- (iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

**“Benchmark Replacement Conforming Changes”** means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary);

**“Benchmark Replacement Date”** means the earliest to occur of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

- (i) in the case of clause (i) or (ii) of the definition of **“Benchmark Transition Event”**, the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or
- (ii) in the case of clause (iii) of the definition of **“Benchmark Transition Event”**, the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

**“Benchmark Transition Event”** means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

- (i) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, **provided that**, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
- (ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for

the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, **provided that**, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

- (iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

**“ISDA Fallback Adjustment”** means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the 2006 ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

**“ISDA Fallback Rate”** means the rate that would apply for derivatives transactions referencing the 2006 ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

**“Reference Time”** with respect to any determination of the Benchmark means (i) if the Benchmark is Compounded SOFR, the SOFR Determination Time, and (ii) if the Benchmark is not Compounded SOFR, the time determined by the Issuer after giving effect to the Benchmark Replacement Conforming Changes;

**“Relevant Governmental Body”** means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

**“Unadjusted Benchmark Replacement”** means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

- (v) Any Benchmark Replacement, Benchmark Replacement Adjustment and the specific terms of any Benchmark Replacement Conforming Changes, determined under Condition 7(f)(iv) above will be notified promptly by the Issuer to the Fiscal Agent, the Calculation Agent, the Issuing and Paying Agents and, in accordance with Condition 21 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date on which such changes take effect.
- (g) SOFR Compounded Index (Screen Rate Determination):

This Condition 7(g) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable, Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, and “SOFR Compounded Index Determination” is specified in the relevant Pricing Supplement as being applicable.

Where “SOFR Compounded Index Determination” is specified in the relevant Pricing Supplement as being applicable, the Rate of Interest for each Interest Period will be the compounded daily reference rate for the relevant Interest Period, calculated in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 per cent. being rounded upwards to 0.00001 per cent.):

$$\frac{(SOFR\ Compounded\ Index\ End}{SOFR\ Compounded\ Index\ Start} - 1) \times \frac{Numerator}{d}$$

and plus or minus the Margin (if any), all as determined and calculated by the Calculation Agent on each Interest Determination Date, where:

“**d**” is the number of calendar days from (and including) the day on which the relevant SOFR Compounded Index Start is determined to (but excluding) the day on which the relevant SOFR Compounded Index End is determined;

“**Index Days**” means U.S. Government Securities Business Days;

“**Interest Determination Date**” is as specified in the applicable Pricing Supplement, but, unless otherwise specified, means in respect of any Interest Period, the date falling the Relevant Number of Index Days prior to the Interest Payment Date for such Interest Period (or the date falling the Relevant Number of Index Days prior to the Interest Payment Date prior to such earlier date, if any, on which the Notes are due and payable);

“**Numerator**” means 360;

“**Relevant Number**” is as specified in the applicable Pricing Supplement, but, unless otherwise specified shall be five;

“**SOFR Compounded Index**” means the Compounded SOFR rate as published at 15:00 (New York time) by Federal Reserve Bank of New York (or a successor administrator of SOFR) on the website of the Federal Reserve Bank of New York, or any successor source;

“**SOFR Compounded Index End**” means the relevant SOFR Compounded Index value on the day falling the Relevant Number of Index Days prior to the Interest Payment Date for such Interest Period, or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period); and

“**SOFR Compounded Index Start**” means the relevant SOFR Compounded Index value on the day falling the Relevant Number of Index Days prior to the first day of the relevant Interest Period.

If, with respect to any Interest Period, the relevant rate is not published for the SOFR Compounded Index either on the relevant SOFR Compounded Index Start or SOFR Compounded Index End date, then the Calculation Agent shall calculate the rate of interest for that Interest Period as if SOFR Compounded Index Determination was not specified in the applicable Pricing Supplement and as if Compounded SOFR (as defined in Condition 7(f)) had been specified instead in the relevant Pricing Supplement, and “Observation Shift” had been specified as the Observation Method in the relevant Pricing Supplement, and where the Observation Period for the purposes of that definition in Condition 7(f) shall be deemed to be the same as the Relevant Number specified in the relevant Pricing Supplement. For the avoidance of doubt, if a Benchmark Transition Event and its related Benchmark Replacement Date has occurred in respect of SOFR, the provisions of Condition 7(f)(iv) shall apply.

- (h) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (i) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided

by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

- (j) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuing and Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (k) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Issuing and Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (l) *Determination of Rate of Interest following acceleration*: If (i) the Notes become due and payable in accordance with Condition 15 (*Events of Default*) and (ii) the Rate of Interest for the Interest Period during which the Notes become due and payable is to be determined by reference to any of Conditions 7(f) (*Floating Rate Note and Index Linked Interest Note Provisions – Interest – Floating Rate Notes referencing SOFR (Screen Rate Determination)*) and 7(g) (*Floating Rate Note and Index Linked Interest Note Provisions – SOFR Compounded Index (Screen Rate Determination)*), then the final Interest Determination Date shall be the date on which the Notes become so due and payable, and such Rate of Interest shall continue to apply to the Notes for so long as interest continues to accrue thereon as provided in the Conditions.
- (m) *Benchmark Replacement (Independent Adviser) (other than Floating Rate Notes which reference SOFR)*:

Other than in respect of Notes for which SOFR is specified as the Reference Rate in the relevant Pricing Supplement, notwithstanding the provisions of this Condition 7, if the Issuer (in consultation with the Calculation Agent) determines that a Benchmark Event has occurred (or will occur on or prior to the Interest Determination Date relating to the next succeeding Interest Period), when the Rate of Interest (or any relevant component part thereof) remains to be determined by reference to the Reference Rate, then the following provisions shall apply:

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

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

- (ii) the Alternative Benchmark Rate shall be such rate as the Independent Adviser and the Issuer acting in good faith agree has replaced the Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of eurobonds denominated in the Specified Currency, or, if the Independent Adviser and the Issuer agree that there is no such rate, such other rate as the Independent Adviser and the Issuer acting in good faith agree is most comparable to the Reference Rate, and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate;
- (iii) if the Issuer is unable to appoint an Independent Adviser, or if the Independent Adviser and the Issuer cannot agree upon, or cannot select a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page prior to the Interest Determination Cut-off Date in accordance with sub-paragraph (i) and (ii) above, then the Issuer (acting in good faith and in a commercially reasonable manner) may determine which (if any) rate has replaced the Reference Rate in customary market usage for purposes of determining floating rates of interest in respect of eurobonds denominated in the Specified Currency, or, if it determines that there is no such rate, which (if any) rate is most comparable to the Reference Rate, and the Alternative Benchmark Rate shall be the rate so determined by the Issuer and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate; *provided, however*, that if this sub-paragraph (iii) applies and the Issuer is unable or unwilling to determine an Alternative Benchmark Rate and Alternative Relevant Screen Page prior to the Interest Determination Date relating to the next succeeding Interest Period in accordance with this sub-paragraph (iii), the Reference Rate applicable to such Interest Period shall be equal to the Reference Rate for a term equivalent to the relevant Interest Period published on the Relevant Screen Page as at the last preceding Interest Determination Date. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period, and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 7(m);
- (iv) if a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page is determined in accordance with the preceding provisions, such Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page (in each case as adjusted by the applicable Adjustment Spread determined as provided in sub-paragraph (v) below) shall subsequently be used in place of the Reference Rate to determine the Rate of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of this Condition 7(m));
- (v) if a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page is determined in accordance with the preceding provisions, the Issuer, following consultation with the Independent Adviser (if appointed) and acting in good faith, shall determine (A) the Adjustment Spread to be applied to the Successor Rate or Alternative Benchmark Rate (as applicable) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, and such Adjustment Spread shall be applied to the Successor Rate or Alternative Benchmark Rate for each subsequent determination of the Rate of Interest and Interest Amount(s) (or a component part thereof) by reference to such Successor Rate or Alternative Benchmark Rate;
- (vi) if a Successor Rate or an Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread is determined in accordance with the above provisions, the Independent

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

(vii) the Issuer shall promptly following the determination of any Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page and Adjustment Spread give notice thereof and of any Benchmark Amendments pursuant to sub-paragraph (vi) above to the Calculation Agent, the Fiscal Agent and the Noteholders in accordance with Condition 21 (*Notices*); and the Successor Rate or Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread and the Benchmark Amendments (if any) specified in such notice will (in the absence of manifest error or bad faith in the determination thereof) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the other Agents and the Noteholders.

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

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

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

"**Benchmark Event**" means:

- (A) the Reference Rate has ceased to be published for a period of at least five Business Days; or
- (B) the making of a public statement by the administrator of the Reference Rate that it has ceased, or will cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or
- (C) the making of a public statement by the supervisor of the administrator of the Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued; or
- (D) the making of a public statement by the supervisor of the administrator of the Reference Rate that means that such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in circumstances where the same shall be applicable to the Notes; or



- (E) the making of a public statement by the supervisor of the administrator of the Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of its underlying market, in circumstances where the same shall be applicable to the Notes; or
- (F) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Reference Rate (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable),

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

- (1) in the case of (B) above, the date of the cessation of the publication of the Reference Rate;
- (2) in the case of (C) above, the discontinuation of the Reference Rate;
- (3) in the case of (D) above, the date on which the Reference Rate is prohibited from use or becomes subject to restrictions or adverse consequences (as applicable); or
- (4) in the case of (E) above, the date on which the Reference Rate is deemed no longer to be representative,
- (5) and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (1), (2), (3) or (4) above, as applicable);

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

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

- (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (2) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (3) a group of the aforementioned central banks or other supervisory authorities or (4) the Financial Stability Board or any part thereof; and

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

## 8 ZERO COUPON NOTE PROVISIONS

- (a) *Application*: This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero-Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
  - (i) the Reference Price; and

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

## 9 DUAL CURRENCY NOTE PROVISIONS

- (a) *Application*: This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

## 10 OCCURRENCE OF CREDIT EVENT

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

## 11 REDEMPTION AND PURCHASE

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

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

- (b) *Redemption of Credit Linked Notes following a Credit Event*
  - (i) Upon the occurrence of a Credit Event and the satisfaction of any conditions that may be specified in the Credit Linked Derivatives Annex as completed by the Pricing Supplement, the Issuer may redeem all but not some only of the Notes in accordance with the Settlement Basis and the terms of the Credit Linked Derivatives Annex.
  - (ii) If the Notes are redeemed in accordance with this Condition 11(b), upon redemption of each Note in accordance with the terms thereof the Issuer shall have discharged its obligations in respect of such Note and shall have no other liability or obligation whatsoever in respect thereof.
  - (iii) Each holder of Notes or Coupons, by subscribing for or purchasing such Notes or Coupons (if any), will be deemed to accept and acknowledge that it is fully aware that:
    - (A) upon the occurrence of a Credit Event, the obligations of the Issuer to make payments in respect of the Notes and Coupons (if any) may be limited to the amount payable or

the value of the assets deliverable by the Issuer and the holder of the Notes and Coupons (if any) shall have no further recourse to the Issuer in respect of the Notes and Coupons (if any), respectively;

- (B) without prejudice to the foregoing, any right of the holder of the Notes and Coupons (if any) to claim payment of any amount exceeding the amount so payable or the value of the assets so deliverable shall be automatically extinguished; and
- (C) the holder of the Notes and Coupons (if any) shall not be able to petition for the winding up of the Issuer as a consequence of the non-payment by the Issuer of any sum which but for this Condition 11(b) would have been payable by the Issuer in respect of the Notes and Coupons (if any).

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

- (i) at any time (if neither the Floating Rate Note Provisions nor the Index Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or
- (ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if (1) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 14 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Hong Kong, the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

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

- (1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due.

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

(d) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Pricing Supplement as being applicable, **provided that** no Credit Event has occurred, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement,

in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

- (e) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 11(d) (*Redemption and Purchase – Redemption at the option of the Issuer*) above, in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 11(d) (*Redemption and Purchase – Redemption at the option of the Issuer*) above shall specify the serial numbers of the Notes so to be redeemed and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, **provided that** no Credit Event has occurred, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 11(f), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Issuing and Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Issuing and Paying Agent. The Issuing and Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 11(f), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Issuing and Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by an Issuing and Paying Agent in accordance with this Condition 11(f), the depositor of such Note and not such Issuing and Paying Agent shall be deemed to be the Holder of such Note for all purposes.
- (g) *No other redemption*: Neither the Issuer nor the Bank shall be entitled to redeem the Notes otherwise than as provided in Conditions 11(a) (*Redemption and Purchase – Scheduled redemption*) to (d) (*Redemption and Purchase – Redemption at the option of the Issuer*) above.
- (h) *Early redemption of Zero-Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
  - (i) the Reference Price; and

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

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

- (i) *Purchase*: The Bank or any of its Subsidiaries or branches may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith. The Notes so purchased, while held by or on behalf of the Bank or any such branch or Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 19 (*Meetings of Noteholders and Modification*).
- (j) *Cancellation*: All Notes so redeemed or purchased by the Bank or any of its Subsidiaries or branches and any unmatured Coupons attached to or surrendered with them may be reissued, resold or surrendered to the Fiscal Agent for cancellation. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

## 12 PAYMENTS – BEARER NOTES

This Condition 12 is only applicable to Bearer Notes.

- (a) *Principal*: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Issuing and Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the relevant Principal Financial Centre.
- (b) *Interest*: Payments of interest shall, subject to Condition 12(h) (*Payments – Bearer Notes – Payments other than in respect of matured Coupons*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Issuing and Paying Agent outside the United States in the manner described in Condition 12(a) (*Payments – Bearer Notes – Principal*) above.

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

- (c) *Payments subject to fiscal laws*: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 14 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 14 (*Taxation*)) any law implementing an intergovernmental approach thereto.

- (d) *Commissions or Expenses*: No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
  - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
  - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
    - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph (A) would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
    - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 12(a) (*Payments – Bearer Notes – Principal*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

- (f) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 12(f) is applicable or that the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 11(b) (*Redemption and Purchase – Redemption of Credit Linked Notes following a Credit Event*), Condition 11(c) (*Redemption and Purchase – Redemption for tax reasons*), Condition 11(d) (*Redemption and Purchase – Redemption at the option of the Issuer*), Condition 11(f) (*Redemption and Purchase – Redemption at the option of Noteholders*) or Condition 15 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Issuing and Paying Agent outside the United States.

- (i) *Partial payments:* If an Issuing and Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment other than by reason of the operation of Condition 11(b) (*Redemption and Purchase – Redemption of Credit Linked Notes following a Credit Event*) in the case of Credit Linked Notes, such Issuing and Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 16 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

### 13 PAYMENTS – REGISTERED NOTES

This Condition 13 is only applicable to Registered Notes.

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

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

- (c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 14 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any

regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 14 (*Taxation*)) any law implementing an intergovernmental approach thereto.

- (d) *Commissions or Expenses*: No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (e) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of an Issuing and Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 13 (*Payments – Registered Notes*) arriving after the due date for payment or being lost in the mail.
- (f) *Partial payments*: If an Issuing and Paying Agent makes a partial payment in respect of any Registered Note (otherwise than by reason of the operation of Condition 11(b) (*Redemption and Purchase – Redemption of Credit Linked Notes following a Credit Event*) in the case of Credit-Linked Notes), the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (g) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the relevant Registrar’s Specified Office on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

## 14 TAXATION

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

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

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



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

- (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
  - (ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such Additional Amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.
- (b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than Hong Kong or the PRC, references in these Conditions to Hong Kong or the PRC shall be construed as references to Hong Kong, the PRC and/or such other jurisdiction.

## 15 EVENTS OF DEFAULT

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

- (a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Agency Agreement and such default is incapable of remedy, or if capable of remedy, remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or
- (c) *Cross-acceleration of Bank, Issuer or Subsidiary:*
  - (i) any Relevant Indebtedness of the Bank or any of its Subsidiaries or of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period;
  - (ii) any Relevant Indebtedness becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described) in respect of the terms thereof; or
  - (iii) the Bank or any of its Subsidiaries or the Issuer fails to pay when due (or (as the case may be) within any originally applicable grace period) any amount payable by it under any guarantee or indemnity of any Relevant Indebtedness,

**provided that** the amount of the Relevant Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above, individually or in the aggregate (without duplication), exceeds U.S.\$25,000,000 (or its equivalent in any other currency or currencies); or
- (d) *Security enforced:* a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any material part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary and such action is not discharged or stayed within 45 days; or
- (e) *Insolvency, etc:* (i) the Bank or any of its Material Subsidiaries becomes insolvent or is unable to pay all or any material part of its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Bank or any of its Material

Subsidiaries or the whole or any material part of the undertaking, assets and revenues of the Bank or any of its Material Subsidiaries, (iii) the Bank or any of its Material Subsidiaries takes any action for a readjustment or deferment of all or any material part of its debts or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of all or any material part of its indebtedness or any guarantee or indemnity of all or any material part of indebtedness given by it or (iv) the Bank or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any material part of its business, except (x) in the case of any Material Subsidiary of the Bank, where the cessation is for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Bank and/or another Material Subsidiary, or (y) on terms approved by an Extraordinary Resolution of the Noteholders; or

- (f) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Bank or any of its Material Subsidiaries or the Issuer except for (A) the purpose of and followed by a solvent winding-up, dissolution, a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of any Material Subsidiary, whereby all or substantially all the undertaking, assets and revenues of such Material Subsidiary are transferred or otherwise vested in the Issuer or any of the Bank's Subsidiaries; or (B) a solvent winding up of any Material Subsidiary; or (C) a disposal of or by a Material Subsidiary on an arm's length basis where the assets (whether in cash or otherwise) from such disposal shall be transferred to or otherwise vested in the Issuer or any of the Bank's Subsidiaries; or
- (g) *Analogous event*: any event occurs which under the laws of Hong Kong or the PRC has an analogous effect to any of the events referred to in Conditions 15(d) (*Events of Default – Security enforced*) to (f) (*Events of Default – Winding up, etc.*) above; or
- (h) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Deed of Covenant; or

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

In these Conditions:

**“Material Subsidiary”** means any Subsidiary of the Bank:

- (i) whose gross revenue (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries), whose gross assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose net profit (consolidated in the case of Subsidiary which itself has consolidated Subsidiaries) represent not less than 5 per cent. of the consolidated gross revenue, the consolidated gross assets, or, as the case may be, the consolidated net profit of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Bank, **provided that:**
  - (A) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Bank relate for the purpose of applying each of the foregoing tests, the reference to the Bank's latest audited or reviewed

consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Bank;

- (B) if at any relevant time in relation to the Bank or any Subsidiary no financial statements are prepared and audited, its gross revenue, gross assets and net profit (consolidated, if applicable) shall be determined on the basis of *pro forma* consolidated financial statements (consolidated, if applicable) prepared for this purpose; and
  - (C) if the financial statements of any Subsidiary (not being a Subsidiary referred to in subparagraph (A) above) are not consolidated with those of the Bank, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Bank; or
- (ii) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (i) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (ii) the transferee Subsidiary shall immediately become a Material Subsidiary, **provided that** on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (i) above.

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

## 16 PRESCRIPTION

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

## 17 REPLACEMENT OF NOTES AND COUPONS

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

## 18 AGENTS

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

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor issuing and paying agents; **provided, however, that:**

- (a) the Issuer shall at all times maintain a fiscal agent and a registrar; and
- (b) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent;
- (c) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU; and
- (d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of an Issuing and Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain an Issuing and Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

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

## 19 MEETINGS OF NOTEHOLDERS AND MODIFICATION

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

Any such meeting of the Noteholders may be convened at a physical location, or such other method (which may include, without limitation, a conference call or video conference) as the Fiscal Agent may determine in accordance with the provisions of the Agency Agreement.

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

*So long as the Global Note or the Global Note Certificate is held on behalf of Euroclear and Clearstream or any other clearing system, pursuant to the Agency Agreement, a resolution may be passed by way of electronic consents communicated through the electronic communication systems of the relevant clearing system(s) to the Fiscal Agent in accordance with their operating rules and procedures by or on behalf of holders of not less than 90 per cent. in aggregate principal amount of the Notes outstanding. Any resolution passed in such manner prescribed in the Agency Agreement shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. None of the Issuer or the Fiscal Agent shall be liable or responsible to anyone for such reliance.*

- (b) *Modification:* The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

In addition, pursuant to Condition 7(f) (*Floating Rate Note and Index Linked Interest Note Provisions – Interest – Floating Rate Notes referencing SOFR (Screen Rate Determination)*) and Condition 7(m) (*Floating Rate Note and Index Linked Interest Note Provisions – Benchmark Replacement (Independent Adviser) (other than Floating Rate Notes which reference SOFR)*), certain changes may be made to the interest calculation provisions of the Floating Rate Notes in the circumstances and as otherwise set out in such Condition, without the requirement for consent of the Noteholders.

## **20 FURTHER ISSUES**

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

## **21 NOTICES**

- (a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (b) *Registered Notes:* Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

*So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of (i) Euroclear or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by these Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Note Certificate and shall be deemed to have been given on the date of delivery to*

such clearing system; or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the CMU.

## 22 CURRENCY INDEMNITY

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

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

## 23 ROUNDING

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

## 24 GOVERNING LAW AND JURISDICTION

- (a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.
- (b) *Jurisdiction:* The Issuer has in the Deed of Covenant and the Agency Agreement (i) agreed that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Deed of Covenant and the Agency Agreement and the Notes (including any non-contractual obligation arising out of or in connection with the Notes); and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.
- (c) *Waiver of immunity:* To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

## **Annex to the Terms and Conditions of the Notes – Credit-Linked Derivatives Annex**

Where specified as applicable in any Pricing Supplement relating to the issue of Notes under the Programme, the provisions of this Credit Linked Derivatives Annex shall apply to such Notes as if expressly set out in the relevant Pricing Supplement.

### **1 AMENDMENT TO THE CONDITIONS**

The following shall be inserted as Conditions 11(a)A, 11(a)B, 11(a)C, 11(a)D, 11(a)E, 11(a)F, 11(a)G, 11(a)H, 11(a)I, 11(a)J, 11(a)K and 11(a)L (together, the “**Additional Conditions**”):

#### **11(a)A. Redemption**

##### **(a) *Redemption absent Satisfaction of Conditions to Settlement***

Unless previously redeemed, purchased and/or cancelled and notwithstanding Condition 11(a) (*Scheduled redemption*), if the Conditions to Settlement have not been satisfied, the Issuer shall redeem the Notes at the Final Redemption Amount of each Note (together with interest, if any, accrued to the Scheduled Termination Date) on:

- (i) the Scheduled Termination Date; or
- (ii) the Termination Date, if the Calculation Agent determines a Potential Credit Event has occurred.

##### **(b) *Redemption following Satisfaction of Conditions to Settlement***

Unless previously redeemed, purchased and/or cancelled, upon satisfaction of the Conditions to Settlement, no further amounts in respect of interest or principal will become due or payable and interest will cease to accrue in respect of the Notes with effect from the immediately preceding Interest Payment Date (or, if none, the Interest Commencement Date) and the Issuer will instead redeem the Notes:

- (i) if Auction Settlement applies, in accordance with Condition 11(a)E (*Auction Settlement*), unless a Fallback Settlement Event occurs, in which event the Issuer will instead redeem the Notes in accordance with the applicable Fallback Settlement Method;
- (ii) if Cash Settlement applies, in accordance with Condition 11(a)F (*Cash Settlement*); or
- (iii) if Physical Settlement applies, in accordance with Condition 11(a)G (*Physical Settlement*).

Upon discharge by the Issuer of such payment or delivery obligation on or by the relevant Settlement Date (or, if the Auction Settlement Amount or Cash Settlement Amount is zero, upon the occurrence of the Auction Settlement Date or Cash Settlement Date), or otherwise as provided herein, the Issuer’s obligations in respect of the Notes shall be discharged.

#### **11(a)B. Suspension of the Issuer’s Payment Obligations in relation to a Potential Credit Event or a Credit Event Resolution Request Date**

##### **(a) *Potential Credit Events***

Where the Calculation Agent determines that a Potential Credit Event (including without limitation, a Potential Failure to Pay or Potential Repudiation/Moratorium) has occurred on or prior to the Scheduled Termination Date (or in the case of paragraph (d) of the definition of Potential Credit Event, on or prior to the last day of the Notice Delivery Period), no further payments shall become due hereunder (whether of principal or interest) unless the Calculation Agent determines that such Potential Credit Event is cured (a “**Cure Event**”) or that the Conditions to Settlement have not been satisfied in accordance with Condition 11(a)C (*Satisfaction of the Conditions to Settlement*) in which

event any amounts which would have already fallen due but for this Condition 11(a)B(a) shall become payable (without any additional interest thereon) on or prior to the second Local Business Day after the date of such Cure Event and all other amounts shall remain payable in accordance with the Terms and Conditions of the Notes.

The Calculation Agent may give a Potential Credit Event Notice at any time specified in the definition of “**Potential Credit Event Notice**” (including after the occurrence of a Potential Credit Event) but failure to give a Potential Credit Event Notice shall not render invalid the determination of the Calculation Agent that a Potential Credit Event has occurred.

(b) ***Settlement Suspension following Credit Event Resolution Request Date***

If, at any time after the delivery of a Credit Event Notice and, if applicable, a Notice of Publicly Available Information but prior to the Cash Settlement Date or Physical Settlement Date, a Credit Derivatives Determinations Committee is requested to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event with respect to the Reference Entity in respect of which such Credit Event Notice has been served, the Issuer may elect (in its sole discretion) to suspend settlement of the Notes and if so, the timing requirements of Condition 11(a)D (*Auction or Cash or Physical Settlement at the Issuer’s Option*), Condition 11(a)G(a) (*Delivery of Notice of Physical Settlement*), Condition 11(a)G(b) (*Delivery on the Physical Settlement Date*), Condition 11(a)G(c) (*Partial Cash Settlement following Extended Physical Settlement Date*), the Cash Settlement Date, the Valuation Date, the Physical Settlement Period, the Physical Settlement Date, the Notice of Physical Settlement, the Extension Date, the Notice Delivery Period, as applicable, and any other provision in this Credit Linked Derivatives Annex that pertains to valuation or settlement, and any obligation of the Issuer to redeem any Note (including pursuant to Condition 11(a)A (*Redemption*)) or pay any amount of interest which would otherwise be due thereon, shall, in each case insofar as they relate to the relevant Reference Entity, be and remain suspended until:

- (i) a DC Credit Event Announcement or a DC No Credit Event Announcement has occurred; or
- (ii) the Credit Derivatives Determinations Committee has Resolved not to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event,

after which such suspension shall terminate and any obligations so suspended shall resume on the Business Day following public announcement by ISDA of paragraph (i) or (ii) above, with the Issuer having the benefit of the full day notwithstanding when the suspension began.

Any amount of interest so suspended shall, subject always to Condition 11(a)A (*Redemption*), become due on the date designated by the Calculation Agent, in its sole discretion but not later than 15 Business Days following such public announcement by ISDA.

During the period of any suspension of settlement as contemplated herein, the Issuer shall not be obliged to take any action in connection with the settlement of the Notes, (to the extent only that the Notes relate to the relevant Reference Entity) and no interest shall accrue on any payment of interest or principal which is deferred in accordance with this Condition 11(a)B(b).

**11(a)C. Satisfaction of the Conditions to Settlement**

The “**Conditions to Settlement**” will be satisfied:

- (i) if, at any time during either:
  - (A) the Notice Delivery Period; or
  - (B) at the Issuer’s option, the period (I) from, and including, the date on which ISDA publicly announces (1) that the relevant Credit Derivatives Determinations Committee



has Resolved not to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event or (2) the occurrence of a DC Credit Event Announcement (II) to, and including, the date that is 14 calendar days thereafter (**provided that** the relevant Credit Event Resolution Request Date occurred on or prior to the end of the last day of the Notice Delivery Period (including prior to the Trade Date)),

the Calculation Agent sends Noteholders a Credit Event Notice and (if (1) Notice of Publicly Available Information is specified as a Condition to Settlement in the Pricing Supplement, (2) where required by the Calculation Agent in its discretion, each Noteholder has provided to the Issuer a confidentiality undertaking in the form (if any) required by the Calculation Agent, and (3) no DC Credit Event Announcement has occurred) a Notice of Publicly Available Information; or

- (ii) if a DC Credit Event Announcement occurs (**provided that** the Issuer may in its sole discretion determine that any DC Credit Event Announcement does not fulfil the Conditions to Settlement for the purposes of any Notes).

The Issuer will not be obliged to send such notices or to redeem the Notes following any occurrence or event which would otherwise permit it to do so. The date on which the Conditions to Settlement have been satisfied (or, at the Issuer's option in the case of a DC Credit Event Announcement, the Credit Event Resolution Request Date) is the "**Event Determination Date**".

If, pursuant to the above, different Event Determination Dates have been determined with respect to different portions of the relevant Reference Entity Notional Amount or an Event Determination Date has been determined with respect to only a portion of the Reference Entity Notional Amount, the provisions of this Credit Linked Derivatives Annex shall, with effect from each such Event Determination Date, be deemed to apply separately to an aggregate outstanding principal amount of the Notes equal to each such portion and all the provisions hereof shall be construed accordingly with such modifications as the Calculation Agent shall determine are required in order to preserve the economic effects of the Notes considered in aggregate.

#### **11(a)D. Auction or Cash or Physical Settlement at the Issuer's Option**

If the Pricing Supplement specify that "**Settlement Method at Issuer Option**" is applicable, on or before the 30<sup>th</sup> calendar day (subject to adjustment in accordance with the Following Business Day Convention) after the Event Determination Date, the Calculation Agent shall notify the Noteholders whether the Notes will redeem in accordance with Condition 11(a)E (*Auction Settlement*), Condition 11(a)F (*Cash Settlement*) or Condition 11(a)G (*Physical Settlement*) (in each case, if specified as applicable for election in the Pricing Supplement).

Notwithstanding the foregoing, if at any time after notification by the Calculation Agent that the Notes will redeem in accordance with Condition 11(a)F (*Cash Settlement*) or Condition 11(a)G (*Physical Settlement*) but prior to the Cash Settlement Date or Physical Settlement Date, a Credit Derivatives Determinations Committee is requested to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event with respect to the Reference Entity in respect of which a Credit Event Notice has been served, the Calculation Agent may, at the Issuer's option, notify the Noteholders at any time that such notification is revoked and the Notes will instead redeem in accordance with Condition 11(a)E (*Auction Settlement*).

If Auction Settlement applies and the Pricing Supplement specify that "**Fallback Settlement Method at Issuer Option**" is applicable, on or before the 30<sup>th</sup> calendar day (subject to adjustment in accordance

with the Following Business Day Convention) after the Event Determination Date, the Calculation Agent shall notify the Noteholders whether the Fallback Settlement Method will be Cash Settlement or Physical Settlement.

Such notification(s) may be substantially in the form in the relevant Appendix hereto, contained within the Credit Event Notice or Notice of Publicly Available Information or in such other form as the Issuer or the Calculation Agent may determine from time to time.

**11(a)E. Auction Settlement**

(a) ***Auction Settlement***

If Auction Settlement applies, on the Auction Settlement Date the Issuer shall redeem each Note, upon presentation and surrender of the same in accordance with Condition 12 (*Payments – Bearer Notes*) or Condition 13 (*Payments – Registered Notes*), as the case may be, by payment of the Auction Settlement Amount.

(b) ***Auction Settlement Amount***

The “**Auction Settlement Amount**” in respect of each Note shall be:

- (i) the amount specified as such in the Pricing Supplement; or
- (ii) if no such amount is specified, an amount determined by the Calculation Agent to be the greater of (a) zero and (b) the product of (I) the outstanding principal amount of such Note divided by the aggregate outstanding principal amount of the Notes, (II) the Reference Entity Notional Amount in respect of the relevant Reference Entity, and (III) the relevant Auction Final Price or, if so determined by the Issuer in its sole discretion, a Parallel Auction Final Price.

In each case the Auction Settlement Amount shall be reduced by the value of the Break Costs.

**11(a)F. Cash Settlement**

(a) ***Cash Settlement***

If Cash Settlement applies, subject to Condition 11(a)B(b) (*Settlement Suspension following Credit Event Resolution Request Date*), on the Cash Settlement Date the Issuer shall redeem each Note, upon presentation and surrender of the same in accordance with Condition 12 (*Payments – Bearer Notes*) or Condition 13 (*Payments – Registered Notes*), by payment of the Cash Settlement Amount.

(b) ***Cash Settlement Amount***

The “**Cash Settlement Amount**” in respect of each Note shall be:

- (i) the amount specified as such in the Pricing Supplement; or,
- (ii) if no such amount is specified, an amount determined by the Calculation Agent to be the greater of (a) zero and (b) the product of (I) the outstanding principal amount of such Note divided by the aggregate outstanding principal amount of the Notes, (II) the Reference Entity Notional Amount in respect of the relevant Reference Entity (or, as the case may be, the outstanding principal balance in respect of the relevant Valuation Obligation or Deliverable Obligation thereof), and (III) the relevant Final Price or, if the Calculation Agent selects more than one Valuation Obligation with respect to a Reference Entity, the relevant Weighted Average Final Price.

In each case the Cash Settlement Amount shall be reduced by the value of the Break Costs.

(c) ***Final Price***

The “**Final Price**” shall be the Market Value of the relevant Valuation Obligations or Deliverable Obligations as determined by the Calculation Agent in accordance with the provisions below:

- (i) the Calculation Agent shall attempt to obtain Full Quotations with respect to the Valuation Date from three Dealers. If at least two such Full Quotations are not available on the Valuation Date, then on the next following Business Day (and, if necessary, on each Business Day thereafter until the fifth Business Day following the Valuation Date) the Calculation Agent shall attempt to obtain Full Quotations from three Dealers and, if at least two Full Quotations are not available, a Weighted Average Quotation;
- (ii) if the Calculation Agent is unable to obtain at least two Full Quotations or a Weighted Average Quotation on the same Business Day on or prior to the fifth Business Day following the applicable Valuation Date the Quotations shall be deemed to be zero; and
- (iii) the Market Value of the relevant Valuation Obligations or Deliverable Obligations shall be: (A) if at least two Full Quotations are obtained, the highest Full Quotation; (B) if only a Weighted Average Quotation is obtained, such Weighted Average Quotation; and (C) if the Quotations are deemed to be zero, the Calculation Agent shall determine the Market Value in good faith in its absolute discretion and this may result in the Market Value being zero.

**11(a)G. Physical Settlement**

(a) ***Delivery of Notice of Physical Settlement***

If Physical Settlement applies, the Calculation Agent will use reasonable endeavours to deliver to the Noteholders a Notice of Physical Settlement on or before:

- (i) subject to paragraph (ii) below, the later of:
  - (A) the 30<sup>th</sup> calendar day (subject to adjustment in accordance with the Following Business Day Convention) after the Event Determination Date, subject, where applicable, to Condition 11(a)B(b) (*Settlement Suspension following Credit Event Resolution Request Date*); or
  - (B) at the Issuer’s option, the 10<sup>th</sup> calendar day after (I) the date on which ISDA publicly announces that the relevant Credit Derivatives Determinations Committee has Resolved not to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event or (II) the date of the relevant DC Credit Event Announcement, if any; or
- (ii) if so determined by the Issuer in its sole discretion, the (A) 30<sup>th</sup> calendar day after an Auction Cancellation Date or No Auction Announcement Date or (B) the Relevant City Business Day immediately following the later of the Parallel Auction Final Price Determination Date, if any (or, if more than one should occur, the last Parallel Auction Final Price Determination Date), and the Parallel Auction Cancellation Date, if any (or, if more than one should occur, the last Parallel Auction Cancellation Date).

For the purposes of determining whether a Notice of Physical Settlement has been delivered, the effective date of delivery of the first Notice of Physical Settlement (whether or not subsequently re-issued or changed) shall be used.

(b) ***Delivery on the Physical Settlement Date***

If Physical Settlement applies, the Issuer shall use reasonable efforts, subject to Condition 11(a)G(e) (*Asset Transfer Notice*), to Deliver to each Noteholder or to the Noteholder’s order the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations. In the event that the Issuer, for

any reason whatsoever (other than as a result of an event or circumstance contemplated in Condition 11(a)G(g) (*Partial Cash Settlement due to impossibility, impracticability or illegality*)), does not affect Delivery of all or a portion of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations to any Noteholder by the Physical Settlement Date, such failure shall not constitute an Event of Default and the Issuer may continue to attempt such Delivery until the Extended Physical Settlement Date.

(c) ***Partial Cash Settlement following Extended Physical Settlement Date***

If, as at the relevant Extended Physical Settlement Date, any such Deliverable Obligations have not been Delivered, then, subject to Condition 11(a)G(e) (*Asset Transfer Notice*) and Condition 11(a)G(g) (*Partial Cash Settlement due to impossibility, impracticability or illegality*), Partial Cash Settlement shall apply with respect to such Deliverable Obligations and the Issuer shall pay to the relevant Noteholders an amount equal to the Partial Cash Settlement Amount to be apportioned *pro rata* amongst the relevant Noteholders on the Partial Cash Settlement Date.

“**Extended Physical Settlement Date**” means such date as the Calculation Agent may determine in its absolute discretion, **provided that** such date falls no later than the 180<sup>th</sup> calendar day following the Physical Settlement Date or, in the absence of such determination, such 180<sup>th</sup> calendar day.

(d) ***Delivery***

To “**Deliver**” the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations pursuant to Condition 11(a)G (*Physical Settlement*) means to deliver, novate, transfer (including in the case of a Guarantee, transfer of the benefit of the Guarantee), assign or sell, as appropriate, in the manner customary for the settlement of the applicable Deliverable Obligations, in order to convey all right, title (or, with respect to Deliverable Obligations where only equitable title is customarily conveyed, all equitable title) and interest in the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations specified in the Notice of Physical Settlement or any NOPS Amendment Notice, as applicable, to the Noteholder or its designated nominee free and clear of any and all liens, charges, claims or encumbrances (excluding any liens routinely imposed on all securities in a relevant clearance system, but including without limitation any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) (inclusive)) of the definition of “**Credit Event**” or right of set-off by or of the Reference Entity or as applicable an Underlying Obligor); **provided that** (A) if a Deliverable Obligation is a Direct Loan Participation, “**Deliver**” means to create (or procure the creation of) a participation in favour of the relevant Noteholder or its designated nominee and (B) if a Deliverable Obligation is a Guarantee, “**Deliver**” shall mean to Deliver both the Guarantee and the Underlying Obligation, **provided further that** if the Guarantee has a Fixed Cap, (X) “**Deliver**” means to Deliver the Underlying Obligation, the Guarantee and all claims to any amounts which are subject to such Fixed Cap and (Y) those claims shall be deemed to be Deliverable Obligations. “**Delivery**” and “**Delivered**” shall be construed accordingly.

In the case of a Loan, Delivery may, at the option of the Issuer, be effected by granting a participation in all or part of the Loan or such other arrangement or using documentation specified by the Calculation Agent for such purpose. Each Noteholder agrees to comply, for the purposes of the Notes, with the provisions of any such documentation. Each Noteholder is deemed to further agree, that compliance by the Issuer with the provisions of any such documentation shall, without further action, constitute, Delivery for the purposes of this definition (to the extent that such documentation contains provisions describing how Delivery should be effected) and no Noteholder shall be permitted to request that the Issuer take nor shall the Issuer be required to take, any action or make any payment in connection with such Delivery, as applicable.

If Asset Package Delivery applies, (i) Delivery of a Prior Deliverable Obligation or a Package Observable Bond specified in the Notice of Physical Settlement or NOPS Amendment Notice, as applicable, may be satisfied by Delivery of the related Asset Package, and such Asset Package shall be treated as having the same currency, Outstanding Principal Balance or Due and Payable Amount, as applicable, as the Prior Deliverable Obligation or Package Observable Bond to which it corresponds had immediately prior to the Asset Package Credit Event, (ii) each Asset in the Asset Package shall be Delivered **provided that** if any such Asset is not a Bond, it shall be treated as if it were a Loan for these purposes, (iii) if the Asset Package is zero, the Outstanding Amount of the Prior Deliverable Obligation or Package Observable Bond shall be deemed to have been Delivered in full three Business Days following the date on which the Calculation Agent has notified the Noteholders of the detailed description of the Asset Package that the Issuer shall Deliver in the Notice of Physical Settlement, (iv) the Issuer may satisfy its obligation to make Delivery of the Prior Deliverable Obligation or Package Observable Bond in part by Delivery of each Asset in the Asset Package in the correct proportion and (v) if the relevant Asset is a Non- Transferable Instrument or Non-Financial Instrument, the Asset shall be deemed to be an amount of cash equal to the Asset Market Value.

(e) *Asset Transfer Notice*

In order to obtain Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations each Noteholder must deliver to the Issuer or the Registrar (if different) within five Business Days of the date of delivery of the Notice of Physical Settlement or, if there is any NOPS Amendment Notice, the most recent NOPS Amendment Notice (the “**Cut-Off Date**”), a duly completed Asset Transfer Notice in accordance with Condition 11(a)G(f) (*Asset Transfer Notice Requirements*) and, in the case of a holding of a Definitive Note or Registered Note, the Note (which expression shall, for the purposes of this Condition 11(a)G(e) (*Asset Transfer Notice*), include Certificate(s) and, if applicable, all unmatured Coupons and unmatured and unexchanged Talons, in accordance with the provisions of Conditions 12(e) (*Deduction for unmatured Coupons*) and (f) (*Unmatured Coupons void*)). In the event that the Note is represented by a Global Note, an Asset Transfer Notice must be delivered to the Issuer via the relevant Clearing System, by such method of delivery as the relevant Clearing System shall have approved.

After delivery of an Asset Transfer Notice, no transfers of the Notes specified therein which are represented by a Global Note will be effected by any relevant Clearing System and no transfers of Registered Notes specified therein will be effected by the Registrar.

Upon receipt of a duly completed Asset Transfer Notice and, in the case of Definitive Notes or Registered Notes, the Note to which such notice relates, the Issuer, any relevant Clearing System or the Registrar, as the case may be, shall verify that the person specified therein as the accountholder or registered holder, as the case may be, is the Holder of the Note referred to therein according to its books or the Register, as the case may be.

Subject as provided herein, in relation to each Note, the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations will be Delivered to the relevant Noteholder at the risk of such Noteholder.

If the Asset Transfer Notice and (with respect to Definitive Notes and Registered Notes) the relevant Note are delivered to the Issuer later than close of business in London on the Cut-Off Date, then the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations will be Delivered as soon as practicable after the date on which Delivery of the same would otherwise be made, at the risk of such Noteholder in the manner provided above. For the avoidance of doubt, such Noteholder shall not be entitled to any payment or to other assets, whether in respect of interest or otherwise, in the event of the Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations taking place after the date on which Delivery of the same would otherwise be made

pursuant to the provisions of this Condition 11(a)G or otherwise due to circumstances beyond the control of the Issuer.

If any Noteholder fails to deliver an Asset Transfer Notice in the manner set out herein or delivers an Asset Transfer Notice on any day falling after the day that is 180 calendar days after the date of delivery of the Notice of Physical Settlement or, in the case of Definitive Notes or Registered Notes, fails to deliver the Note related thereto or fails to pay the Delivery Expenses as referred to in Condition 11(a)G(i) (*Costs and Expenses*), the Issuer shall be discharged from its obligations in respect of such Note and shall have no further obligation or liability whatsoever in respect thereof.

Until Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations is made to the relevant Noteholder, the Issuer or any person holding such assets on behalf of the Issuer shall continue to be the legal owner of those assets. None of the Issuer and any such other person shall (i) be under any obligation to deliver or procure delivery to such Noteholder or any subsequent transferee any letter, certificate, notice, circular or any other document or payment whatsoever received by that person in its capacity as the holder of such assets, (ii) be under any obligation to exercise or procure the exercise of any or all rights (including voting rights) attaching or appertaining to such assets until the date of Delivery or (iii) be under any liability to such Noteholder or subsequent transferee for any loss, liability, damage, cost or expense that such Noteholder or subsequent transferee may sustain or suffer as a result, whether directly or indirectly, of that person not being the legal owner of such assets until the date of Delivery. For the avoidance of doubt, each Noteholder further acknowledges and agrees that the terms of any Deliverable Obligation may be subject to amendment by the Issuer, the Calculation Agent or the parties thereto prior to Delivery or otherwise.

(f) ***Asset Transfer Notice Requirements***

An Asset Transfer Notice is irrevocable and must:

- (i) specify the account details and name of the person to whom Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligation is to be made;
- (ii) specify the number of Notes which are the subject of such notice;
- (iii) in the event such Notes are represented by a Global Note:
  - (A) specify the number of the Noteholder's account at the relevant Clearing System to be debited with such Notes; and
  - (B) irrevocably instruct and authorise the relevant Clearing System to debit the relevant Noteholder's account with such Notes on the due date for redemption of the Notes;
- (iv) in the event that such Notes are Registered Notes, irrevocably instruct and authorise the Registrar to effect the transfer of the relevant Notes;
- (v) authorise the production of such notice in any applicable administrative or legal proceedings;
- (vi) authorise the Issuer to deduct from the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations to be delivered in accordance with such notice, the Delivery Expenses as referred to in Condition 11(a)G(i) (*Costs and Expenses*); and
- (vii) must be in the form in the relevant Appendix hereto with any amendments as determined by the Issuer or the Calculation Agent from time to time or in such other form made available by the Issuer or the Calculation Agent from time to time.

Failure properly to complete and deliver an Asset Transfer Notice and, in the case of Definitive Notes or Registered Notes, to deliver the relevant Note in accordance with Condition 11(a)G(e) (*Asset Transfer Notice*), may result in such notice being treated as null and void. Any determination as to

whether such notice has been properly completed and delivered as provided in these Conditions shall be made by the Issuer in its sole and absolute discretion and shall be conclusive and binding on the relevant Noteholder.

(g) ***Partial Cash Settlement due to impossibility, impracticability or illegality***

- (i) If due to an event beyond the control of the Issuer it is impossible, impracticable or illegal for the Issuer to Deliver, or due to an event beyond the control of any Noteholder or its designated nominee, it is impossible or illegal for such Noteholder to accept Delivery of, all or a portion of the Deliverable Amount of any of the Deliverable Obligations by the Physical Settlement Date (including, without limitation, failure of the relevant Clearing System or due to any law, regulation or court order, but not including market conditions or failure to obtain any requisite consent with respect to the Delivery of Loans) then by such date the Issuer or, as the case may be, the Noteholder shall provide a description in reasonable detail of the facts giving rise to such impossibility, impracticability or illegality and the Issuer shall Deliver and such Noteholder or its designated nominee shall take Delivery of that portion (if any) of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations for which it is possible, practicable and legal to take Delivery. As soon as possible thereafter, the Issuer shall Deliver and such Noteholder, its originally designated nominee or any new designated nominee shall take Delivery of the remaining portion of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations.
- (ii) If following the occurrence of any impossibility, impracticability or illegality referred to in paragraph (i) above, all or a portion of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations is not Delivered on or prior to the Latest Permissible Physical Settlement Date, then Partial Cash Settlement pursuant to Condition 11(a)G(g)(iii) shall be deemed to apply with respect to that portion of the Deliverable Amount of the Deliverable Obligations that cannot be Delivered for the reasons specified above (and/or, together with any other Deliverable Obligation which have not been delivered under Condition 11(a)G(c) (*Partial Cash Settlement following Extended Physical Settlement Date*), the “**Undeliverable Obligations**”).
- (iii) On the Partial Cash Settlement Date, the Issuer shall pay to the relevant Noteholders the Partial Cash Settlement Amount to be apportioned *pro rata* amongst the relevant Noteholders and upon discharge by the Issuer of such payment obligation on the Partial Cash Settlement Date, the Issuer’s obligations in respect of the relevant Note shall be discharged.

(h) ***Fractional Entitlement***

If the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations comprises less than a multiple of a whole number of the Deliverable Obligations at the relevant time, then (i) the Issuer shall not Deliver and the relevant Noteholder shall not be entitled to receive in respect of its Notes that fraction of an asset which is less than a whole number (the “**Fractional Entitlement**”) and (ii) the Issuer shall pay to the relevant Noteholder a cash amount (to be paid at the same time as Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations) equal to the value (as determined by the Calculation Agent) of such Fractional Entitlement.

(i) ***Costs and expenses***

- (i) The costs and expenses (the “**Delivery Expenses**”) of effecting any delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations (except for the expenses of delivery by uninsured regular mail (if any), which shall be borne by the Issuer) shall be borne by the Noteholder and shall at the option of each Noteholder as specified in the Asset Transfer Notice either be:

- (A) paid to the Issuer by such Noteholder prior to the Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations (and, for the avoidance of doubt, the Issuer shall not be required to Deliver any portion of the Deliverable Amount of the Deliverable Obligations to such Noteholder until it has received such payment); or
  - (B) deducted by the Issuer from the amount which may be payable to such Noteholder, in accordance with Condition 11(a)G(h) (*Fractional Entitlement*).
- (ii) If there is not a cash amount owing to a Noteholder sufficient to cover the Delivery Expenses, the Issuer may convert such amount of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations into cash sufficient to cover the Delivery Expenses in respect of such Note from which the Issuer shall deduct such Delivery Expenses. Each Note will then be redeemed by delivery of the remaining portion of the Deliverable Amount of the Deliverable Obligations in respect of such Note and, if applicable, payment of a cash amount in respect of any Fractional Entitlement arising, together with any other amounts to which such Noteholder is entitled upon redemption of such Note.

(j) ***No Obligation to Register Noteholder***

The Issuer shall not be under any obligation to register or procure the registration of any Noteholder or any other person as the registered holder of any of the Deliverable Obligations to be delivered in the register of members or holders of debt securities of any company whose securities form part of the Deliverable Obligations. The Issuer shall not be obliged to account to any Noteholder for any entitlement received or receivable in respect of any of the Deliverable Obligations to be delivered if the date on which such are first traded ex such entitlement is on or prior to the date of Delivery. The Issuer shall determine, in its sole and absolute discretion, the date on which such assets are so first traded ex any such entitlement.

(k) ***Asset Package Delivery***

Asset Package Delivery will apply if an Asset Package Credit Event occurs, unless (i) such Asset Package Credit Event occurs prior to the Credit Event Backstop Date determined in respect of the Credit Event specified in the Credit Event Notice or DC Credit Event Announcement applicable to the Event Determination Date, or (ii) if the Reference Entity is a Sovereign, no Package Observable Bond exists immediately prior to such Asset Package Credit Event.

**11(a)H. Restructuring Credit Event**

(a) ***Multiple Credit Event Notices***

Where Restructuring is an applicable Credit Event in relation to any Reference Entity upon the occurrence of a Restructuring Credit Event in relation to such Reference Entity for which either “Modified Modified Restructuring Applicable”, or “Modified Restructuring Applicable” is specified in the Pricing Supplement or is applicable in respect of the Transaction Type:

- (i) the Calculation Agent may deliver multiple Credit Event Notices with respect to such Restructuring Credit Event, each such notice setting forth the amount of the relevant Reference Entity Notional Amount to which such Restructuring Credit Event applies (the “**Exercise Amount**”), **provided that** if the Credit Event Notice does not specify an Exercise Amount, the then outstanding Reference Entity Notional Amount will be deemed to have been specified as the Exercise Amount; and



- (ii) the provisions of this Credit Linked Derivatives Annex shall be deemed to apply to an aggregate outstanding principal amount of the Notes equal to the Exercise Amount only and all the provisions hereof shall be construed accordingly.

The Exercise Amount in connection with a Credit Event Notice describing a Restructuring must be an amount that is at least 1,000,000 units of the currency (or, if Japanese Yen, 100,000,000 units) in which the Reference Entity Notional Amount is denominated or any integral multiple thereof or the entire Reference Entity Notional Amount.

If any Note is subject to partial redemption in accordance with this Condition 11(a)H(a), the relevant Note or, if the Notes are represented by a Global Note, such Global Note shall be endorsed to reflect such partial redemption.

(b) ***Restructuring Maturity Limitation and Fully Transferable Obligation Applicable***

If “**Modified Restructuring Applicable**” is specified in the Pricing Supplement or is applicable in respect of the Transaction Type, and Restructuring is the only Credit Event specified in a Credit Event Notice, then a Deliverable Obligation or, as applicable, Valuation Obligation, may be specified in a Notice of Physical Settlement or specified in any NOPS Amendment Notice or, as applicable, selected by the Calculation Agent as a Valuation Obligation only if it:

- (i) is a Fully Transferable Obligation; and
- (ii) has a final maturity date not later than the Restructuring Maturity Limitation Date, in each case, as of both the NOPS Effective Date and the Delivery Date.

(c) ***Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable***

If “**Modified Modified Restructuring Applicable**” is specified in the Pricing Supplement or is applicable in respect of the Transaction Type, and Restructuring is the only Credit Event specified in a Credit Event Notice, then unless the Deliverable Obligation is a Prior Deliverable Obligation and Asset Package Delivery applies due to a Governmental Intervention, a Deliverable Obligation or, as applicable, Valuation Obligation, may be specified in the Notice of Physical Settlement or specified in any NOPS Amendment Notice or, as applicable, selected by the Calculation Agent as a Valuation Obligation, only if it:

- (i) is a Conditionally Transferable Obligation; and
- (ii) has a final maturity date not later than the applicable Modified Restructuring Maturity Limitation Date,

in each case as, of both the NOPS Effective Date and the Delivery Date. Notwithstanding the foregoing, for the purposes of this Condition 11(a)H(c), in the case of a Restructured Bond or Loan with a final maturity date on or prior to the 10 year Limitation Date, the final maturity of such Loan or Bond shall be deemed to be the earlier of such final maturity date or the final maturity date of such Bond or Loan immediately prior to the relevant Restructuring.

In the event that the requisite consent in relation to a Deliverable Obligation which is a Conditionally Transferable Obligation is refused (whether or not a reason is given for such refusal and, where a reason is given for such refusal, regardless of that reason) or is not received by the Physical Settlement Date, the Issuer shall promptly notify the relevant Noteholders of such refusal (or deemed refusal) and:

- (a) each such Noteholder may designate a third party (which may or may not be an Affiliate of such Noteholder) to take Delivery of the Deliverable Obligation on its behalf; and

- (b) if a Noteholder does not designate a third party that takes Delivery on or prior to the date which is three Business Days after the Physical Settlement Date, then the Issuer may (but shall not be obliged to) continue to attempt such Delivery until the Extended Physical Settlement Date and failing which, Condition 11(a)(G)(c) (*Partial Cash Settlement following Extended Physical Settlement Date*) shall apply.

**11(a)I. Provisions relating to Obligation Category and Characteristics and Deliverable Obligation Category and Characteristics**

(a) ***Obligation Characteristics***

If the Obligation Characteristic “Listed” or “Not Domestic Issuance” is specified in the Pricing Supplement or is applicable in respect of the applicable Transaction Type, the Pricing Supplement and this Credit Linked Derivatives Annex shall be construed as though the relevant Obligation Characteristic had been specified as an Obligation Characteristic only with respect to Bonds.

(b) ***Deliverable Obligation Category and Characteristics***

If:

- (i) any of the Deliverable Obligation Characteristics “Listed”, “Not Domestic Issuance” or “Not Bearer” is specified in the applicable Pricing Supplement or is applicable in respect of the applicable Transaction Type, the Pricing Supplement shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Bonds and shall only be relevant if Bonds are covered by the selected Deliverable Obligation Category;
- (ii) the Deliverable Obligation Characteristic “Transferable” is specified in the applicable Pricing Supplement or is applicable in respect of the applicable Transaction Type, the Pricing Supplement shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Deliverable Obligations that are not Loans;
- (iii) any of the Deliverable Obligation Characteristics “Assignable Loan”, “Consent Required Loan” or “Direct Loan Participation” is specified in the applicable Pricing Supplement or is applicable in respect of the applicable Transaction Type, the Pricing Supplement shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Loans; or
- (iv) more than one of “Assignable Loan”, “Consent Required Loan” and “Direct Loan Participation” are specified in the applicable Pricing Supplement as Deliverable Obligation Characteristics or is applicable in respect of the applicable Transaction Type, the Deliverable Obligations may include any Loan that satisfies any one of such Deliverable Obligation Characteristics specified and need not satisfy all such Deliverable Obligation Characteristics.

(c) ***Qualifying Guarantees***

If an Obligation or a Deliverable Obligation is a Relevant Guarantee, the following will apply:

- (i) for purposes of the application of the Obligation Category or the Deliverable Obligation Category, the Relevant Guarantee shall be deemed to be described by the same category or categories as those that describe the Underlying Obligation;
- (ii) for purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, both the Relevant Guarantee and the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or the Deliverable

Obligation Characteristics, if any, specified in the applicable Pricing Supplement from the following list: “Not Subordinated”, “Specified Currency”, “Not Sovereign Lender”, “Not Domestic Currency” and “Not Domestic Law”;

- (iii) for purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, only the Underlying Obligation must satisfy on the relevant date or dates each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified in the applicable Pricing Supplement or the applicable Transaction Type from the following list: “Listed”, “Not Domestic Issuance”, “Assignable Loan”, “Consent Required Loan”, “Direct Loan Participation”, “Transferable”, “Maximum Maturity”, “Accelerated” or “Matured” and “Not Bearer”;
  - (iv) for purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics to an Underlying Obligation, references to the Reference Entity shall be deemed to refer to the Underlying Obligor;
  - (v) the terms “**outstanding principal balance**” and “**Due and Payable Amount**” (as they are used in the terms of the Notes, including without limitation, the definitions of “**Cash Settlement Amount**” and “**Quotation Amount**”), when used in connection with Qualifying Guarantees are to be interpreted to be the then “**outstanding principal balance**” or “**Due and Payable Amount**”, as applicable, of the Underlying Obligation which is supported by a Qualifying Guarantee; and
  - (vi) for the avoidance of doubt the provisions of this Condition 11(a)I (*Provisions relating to Obligation Category and Characteristics and Deliverable Obligation Category and Characteristics*) apply in respect of the definitions of “Obligation” and “Deliverable Obligation” as the context admits.
- (d) ***Determinations of Deliverable Obligation Category Characteristics***
- (i) For purposes of the application of the Deliverable Obligation Characteristic “Maximum Maturity”, remaining maturity shall be determined on the basis of the terms of the Deliverable Obligation in effect at the time of making such determination and, in the case of a Deliverable Obligation that is due and payable, the remaining maturity shall be zero.
  - (ii) If “**Financial Reference Entity Terms**” and “**Governmental Intervention**” are specified as applicable in the relevant Pricing Supplement, if an obligation would otherwise satisfy a particular Obligation Characteristic or Deliverable Obligation Characteristic, the existence of any terms in the relevant obligation in effect at the time of making the determination which permit the Reference Entity’s obligations to be altered, discharged, released or suspended in circumstances which would constitute a Governmental Intervention, shall not cause such obligation to fail to satisfy such Obligation Characteristic or Deliverable Obligation Characteristic.
  - (iii) For the purposes of determining the applicability of Deliverable Obligation Characteristics and the requirements specified in Condition 11(a)H(b) (*Restructuring Maturity Limitation and Fully Transferable Obligation Applicable*) and Condition 11(a)H(c) (*Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable*) to a Prior Deliverable Obligation or a Package Observable Bond, any such determination shall be made by reference to the terms of the relevant obligation in effect immediately prior to the Asset Package Credit Event.
  - (iv) If “**Subordinated European Insurance Terms**” is specified as applicable in the relevant Pricing Supplement, if an obligation would otherwise satisfy the “**Maximum Maturity**”

Deliverable Obligation Characteristic, the existence of any Solvency Capital Provisions in such obligation shall not cause it to fail to satisfy such Deliverable Obligation Characteristic.

**11(a)J. Provisions relating to LPN Reference Entities**

The following provisions shall apply if the relevant Pricing Supplement provide that “**LPN Reference Entity**” is applicable:

- (i) Multiple Holder Obligation will not be applicable with respect to any Reference Obligation and any Underlying Loan;
- (ii) each Reference Obligation will be an Obligation notwithstanding anything to the contrary in this Credit Linked Derivatives Annex, and in particular, that the obligation is not an obligation of the Reference Entity;
- (iii) each Reference Obligations will be a Deliverable Obligation notwithstanding anything to the contrary in this Credit Linked Derivatives Annex, and in particular, that the obligation is not an obligation of the Reference Entity;
- (iv) for the avoidance of doubt, with respect to any LPN Reference Obligation that specifies an Underlying Loan or an Underlying Financial Instrument, the outstanding principal balance shall be determined by reference to the Underlying Loan or Underlying Finance Instrument (as applicable) relating to such LPN Reference Obligation; and
- (v) the “Not Subordinated” Obligation Characteristic and Deliverable Obligation Characteristic shall be construed as if no Reference Obligation was specified in respect of the Reference Entity.

**11(a)K. Succession Event**

(a) ***Single Reference Entity***

Where the Notes are linked to a single Reference Entity and more than one Successor has been identified, the following terms will apply:

- (i) each Successor will be a Reference Entity for the purposes of the Notes;
- (ii) the Reference Entity Notional Amount of each such Successor will be the Reference Entity Notional Amount applicable to the original Reference Entity divided by the number of Successors;
- (iii) the Notes will redeem or settle in part upon the occurrence of an Event Determination Date in respect of a Successor;
- (iv) the amount of interest accruing and payable in respect of the Notes will be reduced with effect from the date on which it would have been reduced upon the occurrence of an Event Determination Date in respect of the original Reference Entity but the balance on which interest is calculated shall only be reduced by the Reference Entity Notional Amount of the Successor in respect of which the relevant Event Determination Date occurred;
- (v) more than one Event Determination Date may occur but not more than one Event Determination Date may occur with respect to a single Successor; and
- (vi) upon the identification of more than one Successor, the Calculation Agent acting in its sole discretion may, without the consent of the Issuer, the Noteholders or the Paying Agent, revise the terms and conditions of the Notes to account for such Successors and the Issuer will cause such revised terms and conditions to be substituted for the original terms and conditions and

such revised terms and conditions shall be binding on the Issuer, the Noteholders, the Couponholders and the Paying Agent.

(b) *Nth-to-Default CLNs*

Where the Notes are linked to more than one Reference Entity and the Notes are issued on the basis that they will be redeemed in whole on the occurrence of an Event Determination Date in respect of a single Reference Entity and one or more Successors have been identified, the following terms will apply:

- (i) each Successor and each of the Reference Entities that do not have a Successor will be a Reference Entity for the purposes of the Notes, and the provisions of Condition 11(a)K(a) (*Single Reference Entity*) shall apply thereto;
- (ii) if “Substitution” is specified as not being applicable in the Pricing Supplement, where any Reference Entity (the “**Surviving Reference Entity**”) would be a Successor to any other Reference Entity (the “**Legacy Reference Entity**”), such Surviving Reference Entity shall be deemed to be a Successor to the Legacy Reference Entity;
- (iii) if “Substitution” is specified as being applicable in the Pricing Supplement, where any Reference Entity (the “**Surviving Reference Entity**”) would be a Successor to any other Reference Entity (the “**Legacy Reference Entity**”):
  - (A) such Surviving Reference Entity shall be deemed not to be a Successor to the Legacy Reference Entity; and
  - (B) a replacement Reference Entity selected by the Calculation Agent acting in its sole discretion shall be deemed to be a Successor to the Legacy Reference Entity; and
- (iv) the Calculation Agent acting in its sole discretion may, without the consent of the Issuer, the Noteholders or the Paying Agent, revise the terms and conditions of the Notes to account for such Successors and the Issuer will cause such revised terms and conditions to be substituted for the original terms and conditions and such revised terms and conditions shall be binding on the Issuer, the Noteholders, the Couponholders and the Paying Agent.

(c) *Basket CLNs*

Where the Notes are linked to more than one Reference Entity but the Notes are not issued on the basis that they will be redeemed in whole on the occurrence of an Event Determination Date in respect of a single Reference Entity and one or more Successors have been identified, the following terms will apply:

- (i) the Reference Entity that has one or more Successors (the “**Affected Entity**”) will no longer be a Reference Entity (unless it is a Successor as described in paragraph (ii) below);
- (ii) each Successor will be deemed a Reference Entity (in addition to each Reference Entity which is not an Affected Entity);
- (iii) the Reference Entity Notional Amount for each such Successor will equal the Reference Entity Notional Amount of the Affected Entity divided by the number of Successors; and
- (iv) the Calculation Agent acting in its sole discretion may, without the consent of the Issuer, the Noteholders or the Paying Agent, revise the terms and conditions of the Notes to account for such Successors and the Issuer will cause such revised terms and conditions to be substituted for the original terms and conditions and such revised terms and conditions shall be binding on the Issuer, the Noteholders, the Couponholders and the Paying Agent.

(d) ***Substitute Reference Obligation on determination of one or more Successors***

Where:

- (i) a Reference Obligation is specified in the applicable Pricing Supplement;
- (ii) one or more Successors to the Reference Entity have been identified; and
- (iii) any one or more such Successors have not assumed the Reference Obligation, a Substitute Reference Obligation will be determined in accordance with the definition of “**Substitute Reference Obligation**”.

**11(a)L. Other Provisions**

(a) ***Participation CLN***

If the Pricing Supplement specifies that Participation CLN is applicable, the following terms will apply:

- (i) in addition to the provisions on interest ceasing to accrue under Condition 11(a)A(b) (*Redemption following Satisfaction of Conditions to Settlement*), the obligation of the Issuer to redeem any Note or pay any interest on the Notes shall be conditional upon there being no Potential Failure to Pay or Failure to Pay in respect of any relevant Reference Entity (which need not be continuing on the relevant Interest Payment Date);
- (ii) the Payment Requirement and the Default Requirement shall be zero; and
- (iii) Notice of Publicly Available Information will not be applicable as a Condition to Settlement.

(b) ***Determinations of the Calculation Agent and Determinations at Issuer’s option***

The determination by the Calculation Agent of any amount or of any state of affairs, circumstance, event or other matter, or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Calculation Agent pursuant to this Credit Linked Derivatives Annex shall (in the absence of manifest error) be final and binding on the Issuer, the Noteholders and the Couponholders. In performing its duties pursuant to the Notes, the Calculation Agent shall act in its sole and absolute discretion and, unless otherwise expressly stated, is not bound to follow or act in accordance with any determination of the relevant Credit Derivatives Determinations Committee. Whenever the Calculation Agent is required to make any determination it may, *inter alia*, decide issues of construction and legal interpretation. If the Calculation Agent chooses to rely on the determinations of the relevant Credit Derivatives Determinations Committee it may do so without liability. Any delay, deferral or forbearance by the Calculation Agent in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion, and none of the Calculation Agent or the Issuer shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.

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

determination it may, *inter alia*, decide issues of construction and legal interpretation. If the Issuer chooses to rely on the determinations of the relevant Credit Derivatives Determinations Committee it may do so without liability. Any delay, deferral or forbearance by the Issuer in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion, and none of the Calculation Agent or the Issuer shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.

(c) ***Calculation Agent Responsibility***

The Calculation Agent shall be responsible for:

- (i) determining whether a Credit Event or Potential Credit Event has occurred
- (ii) determining the identity of any Successor to the Reference Entity;
- (iii) determining whether an event specified in paragraph (a) of the definition of “**Substitute Reference Obligation**” has occurred;
- (iv) identifying and determining a Substitute Reference Obligation;
- (v) obtaining Quotations (and, if necessary, determining whether such Quotations shall include or exclude accrued but unpaid interest) and determining the Final Price, Cash Settlement Amount and Partial Cash Settlement Amount;
- (vi) converting the Quotation Amount into the relevant Obligation Currency;
- (vii) determining the Dealers and substituting Dealers;
- (viii) determining the Currency Rate;
- (ix) determining the Auction Settlement Amount and Cash Settlement Amount;
- (x) determining the Break Costs;
- (xi) determining the Outstanding Principal Balance and/or any Due and Payable Amount;
- (xii) determining the Largest Asset Package;
- (xiii) determining the Asset Market Value; and
- (xiv) determining the Partial Cash Settlement Amount.

The Calculation Agent shall, as soon as practicable after obtaining any Quotation, notify the Noteholders in writing of each such Quotation that it receives in connection with the calculation of the Final Price and shall provide to the Noteholders a written computation showing its calculation of the Final Price. Whenever the Calculation Agent is required to act or to exercise judgment, it will do so in good faith and in a commercially reasonable manner.

(d) ***Changes in Standard Terms and Market Conventions***

If the Calculation Agent determines, acting reasonably, that from time to time there has been a change in prevailing market standard terms or market trading conventions, which change affects any Hedge Transaction such that the terms of such Hedge Transaction are or may thenceforth be inconsistent with corresponding provisions of this Credit Linked Derivatives Annex, then it may, without the consent of the Issuer, the Noteholders, the Couponholders or the Paying Agent, modify this Credit Linked Derivatives Annex to the extent necessary to preserve such consistency. The Calculation

Agent shall notify the Issuer and the Paying Agent as soon as reasonably practicable upon making any such determination.

(e) ***Effectiveness of Notices***

Any Credit Event Notice, Notice of Publicly Available Information, Notice of Physical Settlement (or amendment or correction thereto) or Potential Credit Event Notice from the Calculation Agent which is delivered on or prior to 5:00 p.m. (London time) on a London Business Day is effective on such date and if delivered after such time or on a day that is not a London Business Day, is deemed effective on the next following London Business Day. Any such notice may be in writing (including by facsimile and/or email) and/or by telephone. For so long as the Notes are held on behalf of a Clearing System, for the purpose of this Credit Linked Derivatives Annex, any notice in writing delivered to the relevant Clearing System shall be treated as “**delivered**” to Noteholders when delivered to the relevant Clearing System, whether by email, by facsimile, by hand or any other method of delivery accepted by the relevant Clearing Systems for notices for onward transmission to its accountholders.

(f) ***Prevailing terms***

In the event of any inconsistency between the Conditions and this Credit Linked Derivatives Annex, this Credit Linked Derivatives Annex will prevail. In the event of any inconsistency between the Pricing Supplement and the Conditions and this Credit Linked Derivatives Annex, the Pricing Supplement will prevail.

(g) ***Time Zones***

In order to determine the day on which an event occurs for purposes of these Additional Conditions, the demarcation of days shall be made by reference to Greenwich Mean Time (or, if the Transaction Type of the Reference Entity relates to Japan, Tokyo time), irrespective of the time zone in which such event occurred. Any event occurring at midnight shall be deemed to have occurred immediately prior to midnight.

(h) ***Payment Timing***

Notwithstanding the definition of Credit Event Notice and paragraph Condition 11(a)L(g) (*Time Zones*) above, if a payment is not made by the Reference Entity on its due date or, as the case may be, on the final day of the relevant Grace Period, then such failure to make a payment shall be deemed to have occurred on such day prior to midnight Greenwich Mean Time (or, if the Transaction Type of the Reference Entity relates to Japan, Tokyo time), irrespective of the time zone of its place of payment.

## **2 DEFINITIONS**

For the purposes of Conditions 11(a)A, 11(a)B, 11(a)C, 11(a)D, 11(a)E, 11(a)F, 11(a)G, 11(a)H, 11(a)I, 11(a)J, 11(a)K and 11(a)L, the following words shall have the following meaning:

“**Accelerated or Matured**” means an obligation under which the principal amount owed, whether by reason of maturity, acceleration, termination or otherwise, is due and payable in full in accordance with the terms of such obligation, or would have been but for, and without regard to, any limitation imposed under any applicable insolvency laws;

“**Accrued Interest**” means with respect to Notes for which:

- (a) “Physical Settlement” applies (or for which Physical Settlement is applicable as the Fallback Settlement Method in accordance with the terms relating to Auction Settlement), the Outstanding Principal Balance of the Deliverable Obligations being Delivered will exclude accrued but unpaid interest, unless “Include Accrued Interest” is specified as applicable in the related Pricing Supplement,



in which case, the Outstanding Principal Balance of the Deliverable Obligations being Delivered will include accrued but unpaid interest (as the Calculation Agent shall determine);

- (b) “Cash Settlement” applies (or if Cash Settlement is applicable as the Fallback Settlement Method in accordance with the terms relating to Auction Settlement), and:
  - (i) “Include Accrued Interest” is specified as applicable in the related Pricing Supplement, the Outstanding Principal Balance of the Reference Obligation shall include accrued but unpaid interest;
  - (ii) “Exclude Accrued Interest” is specified as applicable in the related Pricing Supplement, the Outstanding Principal Balance of the Reference Obligation shall not include accrued but unpaid interest; or
  - (iii) neither “Include Accrued Interest” nor “Exclude Accrued Interest” is specified as applicable in the related Pricing Supplement, the Calculation Agent shall determine, based on the then current market practice in the market of the Reference Obligation whether the Outstanding Principal Balance of the Reference Obligation shall include or exclude accrued but unpaid interest and, if applicable, the amount thereof; or
- (c) Condition 11(a)G(g) (*Partial Cash Settlement due to impossibility, impracticability or illegality*) is applicable, the Calculation Agent shall determine, based on the then current market practice in the market of the relevant Undeliverable Obligation, Undeliverable Loan Obligation, Undeliverable Participation or Unassignable Obligation, whether such Quotations shall include or exclude accrued but unpaid interest;

“**Additional LPN**” means any bond issued in the form of a loan participation note (an “**LPN**”) by an entity (the “**LPN Issuer**”) for the sole purpose of providing funds for the LPN Issuer to:

- (a) finance a loan to the Reference Entity (the “**Underlying Loan**”); or
- (b) provide finance to the Reference Entity by way of a deposit, loan or other Borrowed Money instrument (the “**Underlying Finance Instrument**”); **provided that:**
  - (i) either:
    - (A) in the event that there is an Underlying Loan with respect to such LPN, the Underlying Loan satisfies the Obligation Characteristics specified in respect of the Reference Entity; or
    - (B) in the event that there is an Underlying Finance Instrument with respect to such LPN the Underlying Finance Instrument satisfies the Not Subordinated, Not Domestic Law and Not Domestic Currency Obligation Characteristics;
  - (ii) the LPN satisfies the following Deliverable Obligation Characteristics: Transferable, Not Bearer, Specified Currencies – Standard Specified Currencies, Not Domestic Law, Not Domestic Issuance; and
  - (iii) the LPN Issuer has, as of the issue date of such obligation, granted a First Ranking Interest over or in respect of certain of its rights in relation to the relevant Underlying Loan or Underlying Finance Instrument (as applicable) for the benefit of holders of the LPNs;

“**Additional Obligation**” means each of the obligations listed as an Additional Obligation of the Reference Entity in the relevant “LPN Reference Obligation List” as published by IHS Markit Ltd., or any successor thereto, which list is currently available at <https://ihsmarkit.com/products/red-cds.html>;

**“Additional Provisions”** means any additional provisions from time to time published by ISDA for use in the over the counter credit derivatives market and specified in the Pricing Supplement as applicable in relation to a Reference Entity which may include:

- (a) the Additional Provisions for Physically Settled Default Swaps – Monoline Insurer as Reference Entity, as published by ISDA on 21 January 2005; or
- (b) any other provisions specified in the Pricing Supplement in relation to such Reference Entity;

**“Affiliate”** means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose **“control”** of any entity or person means ownership of a majority of the voting power of the entity or person;

**“Asset”** means each obligation, equity, amount of cash, security, fee (including any **“early-bird”** or other consent fee), right and/or other asset, whether tangible or otherwise and whether issued, incurred, paid or provided by the Reference Entity or a third party (or any value which was realised or capable or being realised in circumstances where the right and/or asset no longer exists);

**“Asset Market Value”** means the market value of an Asset, as the Calculation Agent shall determine by reference to an appropriate specialist valuation or in accordance with the methodology determined by the Credit Derivatives Determinations Committee.

**“Asset Package”** means, in respect of an Asset Package Credit Event, all of the Assets in the proportion received or retained by a Relevant Holder in connection with such relevant Asset Package Credit Event (which may include the Prior Deliverable Obligation or Package Observable Bond, as the case may be). If the Relevant Holder is offered a choice of Assets or a choice of combinations of Assets, the Asset Package will be the Largest Asset Package. If the Relevant Holder is offered, receives and retains nothing, the Asset Package shall be deemed to be zero;

**“Asset Package Credit Event”** means:

- (a) if “Financial Reference Entity Terms” and “Governmental Intervention” are specified as applicable in the Pricing Supplement:
  - (i) a Governmental Intervention; or
  - (ii) a Restructuring in respect of the Reference Obligation, if “Restructuring” is specified as applicable in the Pricing Supplement and such Restructuring does not constitute a Governmental Intervention; and
- (b) if the Reference Entity is a Sovereign and “Restructuring” is specified as applicable in the Pricing Supplement, a Restructuring,

in each case, whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement;

**“Asset Transfer Notice”** means a notice that complies with Condition 11(a)G(f) (*Asset Transfer Notice Requirements*), issued by a Noteholder to the Issuer and copied to the Calculation Agent and the Paying Agent, in connection with a redemption of any Note wholly or in part by way of Physical Settlement (substantially in the form in the relevant Appendix hereto or as subsequently provided or made available to Noteholders by the Issuer or the Calculation Agent from time to time);

**“Assignable Loan”** means a Loan that is capable of being assigned or novated to at a minimum, commercial banks or financial institutions (irrespective of their jurisdiction of organisation) that are not then a lender or a member of the relevant lending syndicate without the consent of the Reference Entity or the guarantor, if

any, of such Loan (or the consent of the applicable borrower if the Reference Entity is guaranteeing such Loan) or any agent;

“**Auction**” has the meaning set forth in the relevant Transaction Auction Settlement Terms;

“**Auction Cancellation Date**” has the meaning set forth in the Transaction Auction Settlement Terms;

“**Auction Covered Transaction**” has the meaning set forth in the Transaction Auction Settlement Terms;

“**Auction Final Price**” has the meaning set forth in the Transaction Auction Settlement Terms;

“**Auction Final Price Determination Date**” has the meaning set forth in the Transaction Auction Settlement Terms;

“**Auction Settlement Amount Notice**” means a notice (which may be in writing (including by facsimile and/or email) and/or by telephone) given by the Calculation Agent to the Noteholders within 30 Business Days from the Auction Final Price Determination Date or, if so determined by the Issuer in its sole discretion, a Parallel Auction Final Price Determination Date, specifying the Auction Settlement Amount;

“**Auction Settlement Date**” means the date that is three Business Days following delivery by the Calculation Agent of the Auction Settlement Amount Notice;

“**Bankruptcy**” means with respect to a Reference Entity, such Reference Entity (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger), (b) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due, (c) makes a general assignment, arrangement, scheme or composition with or for the benefit of its creditors generally, or such a general assignment, arrangement, scheme or composition becomes effective, (d) institutes or has instituted against it a proceeding seeking a judgement of insolvency or bankruptcy or any other similar relief under any bankruptcy or insolvency law or other law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgement of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation, or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 calendar days of the institution or presentation thereof, (e) has a resolution passed for its winding-up or liquidation (other than pursuant to a consolidation, amalgamation or merger), (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets, (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 calendar days thereafter, or (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in (a) to (g) (inclusive) above;

“**Best Available Information**” means:

- (a) in the case of a Reference Entity which files information with its primary securities regulator or primary stock exchange that includes unconsolidated, *pro forma* financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required, that unconsolidated, *pro forma* financial information and, if provided subsequently to the provision of unconsolidated, *pro forma* financial information but before the Calculation Agent makes its determination for the purposes of the definition of “Successor”, other relevant information that is contained in any written communication provided by the Reference Entity to its primary securities regulator, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required; or

- (b) in the case of a Reference Entity which does not file with its primary securities regulators or primary stock exchange, and which does not provide to shareholders, creditors or other persons whose approval of the Succession Event is required, the information contemplated in paragraph (a) above, the best publicly available information at the disposal of the Calculation Agent or the Credit Derivatives Determinations Committee to allow it to make a determination for the purposes of the definition of “**Successor**”,

**provided that** information which is made available more than 14 calendar days after the legally effective date of the Succession Event shall not constitute Best Available Information;

“**Bond**” means any obligation of a type included in the “**Borrowed Money**” Obligation Category that is in the form of, or represented by, a bond, note (other than notes delivered pursuant to Loans), certificated debt security or other debt security and shall not include any other type of Borrowed Money;

“**Bond or Loan**” means any obligation that is either a Bond or a Loan;

“**Borrowed Money**” means any obligation (excluding an obligation under a revolving credit arrangement for which there are no outstanding, unpaid drawings in respect of principal) for the payment or repayment of money, (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit);

“**Break Costs**” shall, in respect of each Note, be the product of (a) the outstanding principal amount of such Note divided by the aggregate outstanding principal amount of the Notes, and (b) the amount (the “**Aggregate Break Costs**”) determined by the Calculation Agent as the costs and/or loss incurred by the Issuer and/or any of its Affiliates under any Hedge Transaction(s) as the result of adjusting, unwinding or terminating such Hedge Transaction(s) (or that it would have incurred had it entered into any such Hedge Transaction), subject to a minimum of zero;

“**Cash Settlement Amount**” of any Note means an amount determined in accordance with Condition 11(a)F (*Cash Settlement*);

“**Cash Settlement Date**” means the date that is three Business Days following the calculation of the Final Price or, as the case may be, the Weighted Average Final Price;

“**Conditionally Transferable Obligation**” means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Modified Eligible Transferees without the consent of any person being required, in the case of any Deliverable Obligation other than Bonds, in each case, as of both the NOPS Effective Date and the Delivery Date, **provided that** a Deliverable Obligation other than Bonds will be a Conditionally Transferable Obligation notwithstanding that consent of the Reference Entity or the guarantor, if any, of a Deliverable Obligation other than Bonds (or the consent of the relevant obligor if a Reference Entity is guaranteeing such Deliverable Obligation) or any agent is required for such novation, assignment or transfer so long as the terms of such Deliverable Obligation provide that such consent may not be unreasonably withheld or delayed. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered to be a requirement for consent for purposes of this definition of “Conditionally Transferable Obligation”.

For purposes of determining whether a Deliverable Obligation satisfies the requirements of the definition of “Conditionally Transferable Obligation”, such determination shall be made as of the Delivery Date for the Deliverable Obligation, taking into account only the terms of the Deliverable Obligation and any related transfer or consent documents which have been obtained by the Calculation Agent;

“**Conditions to Settlement**” shall have the meaning specified in Condition 11(a)C (*Satisfaction of the Conditions to Settlement*);

**“Conforming Reference Obligation”** means a Reference Obligation which is a Deliverable Obligation determined in accordance with paragraph (a) of the definition of **“Deliverable Obligation”**;

**“Consent Required Loan”** means a Loan that is capable of being assigned or novated with the consent of the Reference Entity or the guarantor, if any, of such Loan (or the consent of the relevant borrower if the Reference Entity is guaranteeing such Loan) or any agent;

**“Credit Derivatives Auction Settlement Terms”** means, in relation to any Reference Entity, any Credit Derivatives Auction Settlement Terms a form of which will be published by ISDA on its website at [www.isda.org](http://www.isda.org) (or any successor website thereto) from time to time and may be amended from time to time;

**“Credit Derivatives Definitions”** means the 2014 ISDA Credit Derivatives Definitions, as published by ISDA and, in addition, if Additional Provisions are specified to be applicable in the Pricing Supplement, as supplemented by the Additional Provisions;

**“Credit Derivatives Determinations Committee”** means each committee established pursuant to the DC Rules for purposes of reaching certain DC Resolutions in connection with Credit Derivative Transactions;

**“Credit Event”** means the occurrence of one or more of Bankruptcy, Failure to Pay, Obligation Acceleration, Obligation Default, Repudiation/Moratorium, Restructuring or Governmental Intervention as specified in the Pricing Supplement with respect to a Reference Entity.

If an occurrence would otherwise constitute a Credit Event, such occurrence will constitute a Credit Event whether or not such occurrence arises directly or indirectly from, or is subject to a defence based upon:

- (a) any lack or alleged lack of authority or capacity of the Reference Entity to enter into any Obligation or, as applicable, an Underlying Obligor to enter into any Underlying Obligation;
- (b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation or, as applicable, any Underlying Obligation, however described;
- (c) any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described; or
- (d) the imposition of, or any change in, any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, however described;

**“Credit Event Backstop Date”** means (a) for purposes of any event that constitutes a Credit Event (or with respect to Repudiation/Moratorium, the event described in paragraph (i)(B) of the definition thereof) as determined by DC Resolution, the date that is 60 calendar days prior to the Credit Event Resolution Request Date, or (b) otherwise, the date that is 60 calendar days prior to the earlier of (i) the Notice Delivery Date, if the Notice Delivery Date occurs during the Notice Delivery Period and (ii) the Credit Event Resolution Request Date, if the Notice Delivery Date occurs during the Post Dismissal Additional Period. The Credit Event Backstop Date shall not be subject to adjustment in accordance with any Business Day Convention;

**“Credit Event Notice”** means an irrevocable notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Issuer or the Calculation Agent to the Noteholders that describes a Credit Event that occurred on or after the Credit Event Backstop Date (if specified as applicable in the Pricing Supplement), or, otherwise, the Trade Date (in each case, determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)) and on or prior to the Extension Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)).

The Credit Event Notice shall contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred. The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date the Credit Event Notice is effective. The Credit Event Notice may be substantially in the form in the relevant Appendix hereto with any amendments as determined by the Issuer or the Calculation Agent from time to time;

**“Credit Event Resolution Request Date”** means, with respect to a DC Credit Event Question, the date as publicly announced by the DC Secretary that the relevant Credit Derivatives Determinations Committee Resolves to be the date on which the DC Credit Event Question was effective and on which the relevant Credit Derivatives Determinations Committee was in possession of Publicly Available Information with respect to such DC Credit Event Question.

**“Currency Amount”** means with respect to:

- (a) a Deliverable Obligation specified in a Notice of Physical Settlement that is denominated in a currency other than the Settlement Currency, an amount converted to the Settlement Currency using a conversion rate determined by reference to the Currency Rate; and
- (b) a Replacement Deliverable Obligation specified in a NOPS Amendment Notice, an amount converted to the Settlement Currency (or, if applicable, back into the Settlement Currency) using a conversion rate determined by reference to the Currency Rate, if any, and each Revised Currency Rate used to convert each Replaced Deliverable Obligation Outstanding Amount specified in each NOPS Amendment Notice with respect to that portion of the relevant Reference Entity Notional Amount into the currency of denomination of the relevant Replacement Deliverable Obligation;

**“Currency Rate”** means with respect to:

- (a) a Deliverable Obligation specified in the Notice of Physical Settlement or a selected Valuation Obligation, the rate of conversion between the Settlement Currency and the currency in which the Outstanding Amount of such Deliverable Obligation is denominated that is either:
  - (i) determined by reference to the Currency Rate Source as at the Next Currency Fixing Time; or
  - (ii) if such rate is not available at such time, determined by the Calculation Agent in a commercially reasonable manner; and
- (b) a Replacement Deliverable Obligation specified in a NOPS Amendment Notice, the Revised Currency Rate;

**“Currency Rate Source”** means any source as determined by the Calculation Agent in its sole discretion, including without limitation, the mid-point rate of conversion published by WM/Reuters at 4:00 p.m. (London time), or any successor rate source approved by the relevant Credit Derivatives Determinations Committee;

**“Cut-Off Date”** shall have the meaning specified in Condition 11(a)G(e) (*Asset Transfer Notice*);

**“DC Announcement Coverage Cut-off Date”** means, with respect to a DC Credit Event Announcement, the Auction Final Price Determination Date, the Auction Cancellation Date, or the date that is fourteen calendar days following the No Auction Announcement Date, if any, as applicable.

**“DC Credit Event Announcement”** means, with respect to the Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved that an event that constitutes a Credit Event for purposes of the Notes has occurred on or after the Credit Event Backstop Date and on or prior to the Extension Date, **provided that** if the Credit Event occurred after the Scheduled Termination Date, the DC Credit Event Announcement must relate to the relevant Potential Failure to Pay,

in the case of a Grace Period Extension Date, or the relevant Potential Repudiation/Moratorium, in the case of a Repudiation/Moratorium Evaluation Date.

**“DC Credit Event Meeting Announcement”** means, with respect to the Reference Entity, a public announcement by the DC Secretary that a Credit Derivatives Determinations Committee will be convened to Resolve the matters described in a DC Credit Event Question.

**“DC Credit Event Question Dismissal”** means, with respect to the Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved not to determine the matters described in a DC Credit Event Question.

**“DC Credit Event Question”** means a notice to the DC Secretary requesting that a Credit Derivatives Determinations Committee be convened to Resolve whether an event that constitutes a Credit Event for purposes of the Notes has occurred.

**“DC No Credit Event Announcement”** means, with respect to the Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved that an event that is the subject of a DC Credit Event Question does not constitute a Credit Event.

For the avoidance of doubt, a DC No Credit Event Announcement shall not apply in respect of the Notes unless the Issuer otherwise elects in its sole discretion;

**“DC Party”** has the meaning given to that term in the DC Rules;

**“DC Resolution”** shall have the meaning given to that term in the DC Rules;

**“DC Rules”** means the Credit Derivatives Determinations Committees Rules, as published by ISDA on its website at [www.isda.org](http://www.isda.org) (or any successor website thereto) from time to time and as amended from time to time in accordance with the terms thereof;

**“DC Secretary”** has the meaning given to that term in the DC Rules;

**“Dealer”** means a dealer (other than the Issuer or any Affiliate of the Issuer) in obligations of the type of Obligation(s) for which Quotations are to be obtained, as selected by the Calculation Agent;

**“Default Requirement”** means, if a Transaction Type is specified, the amount (if any) specified as such in the Physical Settlement Matrix, or otherwise U.S.\$10,000,000 or its equivalent in the Obligation Currency (or as specified in relation to a “Participation CLN” in the Pricing Supplement), in either case as of the occurrence of the relevant Credit Event;

**“Deliver”**, **“Delivered”** and **“Delivery”** shall have the meaning specified in Condition 11(a)G(d) (*Delivery*);

**“Deliverable Amount”** means Deliverable Obligations having an Outstanding Amount (or the equivalent specified Currency Amount converted at the Currency Rate) on or around any day on or prior to the Delivery Date as selected by the Calculation Agent in its sole discretion (**provided that** if a Notice of Physical Settlement is given or, as the case may be, amended or changed at any time after such day, such other date after such Notice of Physical Settlement is given or, as the case may be, amended or changed) or otherwise as determined by the Calculation Agent in its sole discretion equal to the Reference Entity Notional Amount (or, as applicable, Exercise Amount), subject to any Physical Settlement Adjustment;

**“Deliverable Obligation”** means, subject to Condition 11(a)H(b) (*Restructuring Maturity Limitation and Fully Transferable Obligation Applicable*) and Condition 11(a)H(c) (*Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable*):

- (a) any obligation of the Reference Entity described by the Deliverable Obligation Category specified in the applicable Pricing Supplement and, subject to Condition 11(a)I (*Provisions relating to Obligation Category and Characteristics and Deliverable Obligation Category and Characteristics*), having

each of the Deliverable Obligation Characteristics, if any, specified in the applicable Pricing Supplement, in each case as of both the NOPS Effective Date and the Delivery Date (unless otherwise specified in the related Pricing Supplement);

- (b) the Reference Obligation;
- (c) solely in relation to a Restructuring Credit Event applicable to a Reference Entity which is a Sovereign, and unless Asset Package Delivery is applicable, any Sovereign Restructured Deliverable Obligation;
- (d) if Asset Package Delivery is applicable, any Prior Deliverable Obligation (if “Financial Reference Entity Terms” is specified as applicable in the relevant Pricing Supplement) or any Package Observable Bond (if the Reference Entity is a Sovereign); and
- (e) any other obligation of a Reference Entity specified as such in the Pricing Supplement;

in each case, (i) unless it is an Excluded Deliverable Obligation and (ii) **provided that** the obligation has an Outstanding Principal Balance or Due and Payable Amount that is greater than zero (determined for purposes of sub-paragraph (d) above, immediately prior to the relevant Asset Package Credit Event);

“**Deliverable Obligation Category**” means one of Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan (each as defined herein, except that, for the purpose of determining Deliverable Obligations, the definition of Reference Obligations Only shall be amended to state that no Deliverable Obligation Characteristics shall be applicable to Reference Obligations Only);

“**Deliverable Obligation Characteristics**” means (a) any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed, Not Domestic Issuance, Assignable Loan, Consent Required Loan, Direct Loan Participation, Transferable, Maximum Maturity, Accelerated or Matured and Not Bearer as specified in the Pricing Supplement or (b) none if not specified in the Pricing Supplement;

“**Deliverable Obligation Provisions**” has the meaning set forth in the relevant Credit Derivatives Auction Settlement Terms;

“**Deliverable Obligation Terms**” has the meaning set forth in the relevant Credit Derivatives Auction Settlement Terms;

“**Delivery Date**” means, with respect to a Deliverable Obligation or an Asset Package, the date on which such Deliverable Obligation is Delivered or deemed to be Delivered;

“**Delivery Expenses**” shall have the meaning specified in Condition 11(a)G(i) (*Costs and expenses*);

“**Direct Loan Participation**” means a Loan in respect of which, pursuant to a participation agreement, the Issuer is capable of creating, or procuring the creation of a contractual right in favour of the Noteholder that provides such Noteholder with recourse to the participation seller for a specified share in any payments due under the relevant Loan which are received by such participation seller, any such agreement to be entered into between such Noteholder and either (a) the Issuer (to the extent the Issuer is then a lender or a member of the relevant lending syndicate), or (b) a Qualifying Participation Seller (if any) (to the extent such Qualifying Participation Seller is then a lender or a member of the relevant lending syndicate);

“**Domestic Currency**” means the currency specified as such in the Pricing Supplement and any successor currency thereto (or if no such currency is specified, the lawful currency and any successor currency of (a) the Reference Entity, if the Reference Entity is a Sovereign, or (b) the jurisdiction in which the Reference Entity is organised, if the Reference Entity is not a Sovereign);

“**Domestic Law**” means each of the laws of (a) the Reference Entity, if such Reference Entity is a Sovereign, or (b) the jurisdiction in which the Reference Entity is organised, if such Reference Entity is not a Sovereign;



**“Downstream Affiliate”** means an entity whose outstanding Voting Shares were, at the date of issuance of the Qualifying Guarantee, more than 50 per cent. owned, directly or indirectly, by the Reference Entity;

**“Due and Payable Amount”** means the amount that is due and payable by the Reference Entity under the obligation whether by reason of maturity, acceleration, termination or otherwise (excluding sums in respect of default interest, indemnities, tax gross-ups and other similar amounts) less all or any portion of such amount which, pursuant to the terms of the obligation (a) is subject to any Prohibited Action, or (b) may otherwise be reduced as a result of the effluxion of time or the occurrence or non-occurrence of an event or circumstance (other than by way of (i) payment or (ii) a Permitted Contingency), in each case, determined in accordance with the terms of the obligation in effect on either (A) the NOPS Effective Date (or if the terms of the obligation are amended after such date but on or prior to the Delivery Date, the Delivery Date) or (B) the Valuation Date, as applicable;

**“Eligible Information”** means information which is publicly available or which can be made public without violating any law, agreement, understanding or other restriction regarding the confidentiality of such information;

**“Eligible Transferee”** means each of the following:

- (a) each of:
  - (i) any bank or other financial institution;
  - (ii) an insurance or reinsurance company;
  - (iii) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in sub-paragraph (c)(i) below); and
  - (iv) a registered or licensed broker or dealer (other than a natural person or proprietorship), provided however, in each case that such entity has total assets of at least U.S.\$500 million;
- (b) an Affiliate of an entity specified in paragraph (a) above;
- (c) each of a corporation, partnership, proprietorship, organisation, trust or other entity:
  - (i) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralised debt obligations, commercial paper conduit or other special purpose vehicle) that (A) has total assets of at least U.S.\$100 million or (B) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least U.S.\$100 million; or
  - (ii) that has total assets of at least U.S.\$500 million; or
  - (iii) the obligations of which under an agreement, contract or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support or other agreement by an entity described in paragraph (a), (b), (c)(ii) or (d) hereof;
- (d) a Sovereign; and
- (e) any entity or organisation established by treaty or other arrangement between two or more Sovereigns including, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development, and where all references in this definition to U.S.\$ include equivalent amounts in other currencies; **“Event Determination Date”** shall have the meaning specified in Condition 11(a)(C) (*Satisfaction of the Conditions to Settlement*);

**“Excluded Deliverable Obligation”** means:

- (a) any obligation of the Reference Entity specified as such or of a type specified in the relevant Pricing Supplement;
- (b) any principal only component of a Bond from which some or all of the interest components have been stripped; and
- (c) if Asset Package Delivery is applicable, any obligation issued or incurred on or after the date of the relevant Asset Package Credit Event;

**“Excluded Obligation”** means:

- (a) any obligation of the Reference Entity specified as such or of a type described in the applicable Pricing Supplement;
- (b) if “Financial Reference Entity Terms” is specified as applicable in the relevant Pricing Supplement and the Note is a Senior Security, then for purposes of determining whether a Governmental Intervention or Restructuring has occurred, any Subordinated Obligation; and
- (c) if “Financial Reference Entity Terms” is specified as applicable in the relevant Pricing Supplement and the Note is a Subordinated Security, then for purposes of determining whether a Governmental Intervention or Restructuring has occurred, any Further Subordinated Obligation;

**“Extension Date”** means the latest of (a) the Scheduled Termination Date, (b) the Grace Period Extension Date if (i) “Failure to Pay” and “Grace Period Extension” are specified as applicable in the related Pricing Supplement and (ii) the Potential Failure to Pay with respect to the relevant Failure to Pay occurs on or prior to the Termination Date and (c) the Repudiation/Moratorium Evaluation Date (if any) if “Repudiation/Moratorium” is specified as applicable in the related Pricing Supplement, as applicable.

**“Failure to Pay”** means, after the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure, save that if an occurrence that would constitute a Failure Pay (a) is the result of a redenomination that occurs as a result of action taken by a Governmental Authority which is of general application in the jurisdiction of such Governmental Authority and (b) a freely available market rate of conversion existed at the time of redenomination, then such occurrence will be deemed not to constitute a Failure to Pay unless the redenomination itself constituted a reduction in the rate or amount of interest, principal or premium payable (as determined by reference to such freely available market rate of conversion) at the time of such redenomination;

**“Fallback Settlement Event”** means:

- (a) an Auction Cancellation Date occurs;
- (b) a No Auction Announcement Date occurs (unless otherwise determined by the Issuer in its sole discretion, in circumstances where such No Auction Announcement Date occurs pursuant to paragraph (b) of the definition of “No Auction Announcement Date”);
- (c) ISDA publicly announces that the relevant Credit Derivatives Determinations Committee has Resolved, following a Credit Event Resolution Request Date, not to determine the matters described in the definition of “**Credit Event Resolution Request Date**” for the purposes of credit derivatives transactions for such Reference Entity in the over the counter market (including any Hedge Transaction);

- (d) an Event Determination Date has occurred pursuant to paragraph (i) of the definition of “Conditions to Settlement” and no Credit Event Resolution Request Date has occurred on or prior to the date falling three Business Days after such Event Determination Date; or
- (e) any other event whether or not relating to any Hedge Transaction as determined by the Issuer in its sole discretion;

“**Fallback Settlement Method**” means, Cash Settlement or Physical Settlement, as specified in the Pricing Supplement or if “Fallback Settlement Method at Issuer Option” applies, as specified in the relevant notice from the Calculation Agent;

“**Final List**” has the meaning given to that term in the DC Rules;

“**Final Price**” means, with respect to any Valuation Obligation or Deliverable Obligation, the price of such Valuation Obligation or Deliverable Obligation, expressed as a percentage of its Outstanding Principal Balance or Due and Payable Amount, as applicable, determined by the Calculation Agent in accordance with Condition 11(a)F(c) (*Final Price*);

“**Fixed Cap**” means, with respect to a Guarantee, a specified numerical limit or cap on the liability of the Reference Entity in respect of some or all payments due under the Underlying Obligation, **provided that** a Fixed Cap shall exclude a limit or cap determined by reference to a formula with one or more variable inputs (and for these purposes, the outstanding principal or other amounts payable pursuant to the Underlying Obligation shall not be considered to be variable inputs);

“**Fractional Entitlement**” shall have the meaning specified in Condition 11(a)G(h) (*Fractional Entitlement*);

“**Full Quotation**” means a firm quotation (expressed as a percentage of the outstanding principal balance) obtained from a Dealer at the Valuation Time, to the extent reasonably practicable, for an amount of any Valuation Obligation or Deliverable Obligation with an Outstanding Principal Balance or Due and Payable Amount equal to the Quotation Amount;

“**Fully Transferable Obligation**” means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Eligible Transferees without the consent of any person being required, in the case of any Deliverable Obligation other than Bonds, in each case as of both the NOPS effective Date and the Delivery Date. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered to be a requirement for consent for purposes of this definition;

“**Further Subordinated Obligation**” means, if the Reference Obligation or Prior Reference Obligation, as applicable, is a Subordinated Obligation, any obligation which is Subordinated thereto;

“**Governmental Authority**” means:

- (a) any de facto or de jure government (or any agency, instrumentality, ministry or department thereof);
- (b) any court, tribunal, administrative or other governmental, inter-governmental or supranational body;
- (c) any authority or any other entity (private or public) either designated as a resolution authority or charged with the regulation or supervision of the financial markets (including a central bank) of the Reference Entity or some or all of its obligations; or
- (d) any other authority which is analogous to any of the entities specified in paragraphs (a) to (c) above;

“**Governmental Intervention**” means that, with respect to one or more Obligations and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs as a result of action taken or an announcement made by a Governmental Authority pursuant to, or by means

of, a restructuring and resolution law or regulation (or any other similar law or regulation), in each case, applicable to the Reference Entity in a form which is binding, irrespective of whether such event is expressly provided for under the terms of such Obligation:

- (a) any event which would affect creditors' rights so as to cause:
  - (i) a reduction in the rate of amount of interest payable or the amount of scheduled interest accruals (including by way of redenomination);
  - (ii) a reduction in the amount of principal or premium payable at redemption (including by way of redenomination);
  - (iii) a postponement or other deferral of a date or dates for either (I) the payment or accrual of interest, or (II) the payment of principal or premium;
  - (iv) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation to any other Obligation;
- (b) an expropriation, transfer or other event which mandatorily changes the beneficial holder of the Obligation;
- (c) a mandatory cancellation, conversion or exchange; or
- (d) any event which has analogous effect to any of the effects specified above,

For the purposes of this definition, the term “**Obligation**” shall be deemed to include Underlying Obligation for which the Reference Entity is acting as provider of a Guarantee;

“**Grace Period**” means:

- (a) subject to paragraphs (b) and (c) below, the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the date as of which such Obligation is issued or incurred;
- (b) if “Grace Period Extension” is specified in the Pricing Supplement in relation to the relevant Reference Entity as applicable, a Potential Failure to Pay has occurred on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)) and the applicable grace period cannot, by its terms, expire on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)), the Grace Period shall be deemed to be the lesser of such grace period and the period specified as such in the Pricing Supplement or, if no period is specified, 30 calendar days; and
- (c) if, at the date as of which an obligation is issued or incurred, no grace period with respect to payments or a grace period with respect to payments of less than three Grace Period Business Days is applicable under the terms of such Obligation, a Grace Period of three Grace Period Business Days shall be deemed to apply to such Obligation, **provided that**, unless Grace Period Extension is specified in the Pricing Supplement as applicable in relation to the relevant Reference Entity, such deemed Grace Period shall expire no later than the Scheduled Termination Date;

“**Grace Period Business Day**” means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places and on the days specified for that purpose in the relevant Obligation or, if a place or places are not so specified (a) if the Obligation Currency is the euro, a TARGET Settlement Day, or (b) otherwise, a day on which commercial banks and foreign exchange markets

are generally open to settle payments in the principal financial city in the jurisdiction of the Obligation Currency;

**“Grace Period Extension Date”** means, if (a) “Grace Period Extension” is specified in the Pricing Supplement as applicable in relation to a Reference Entity and (b) a Potential Failure to Pay occurs on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)), the date that is the number of days in the Grace Period after the date of such Potential Failure to Pay. If “Grace Period Extension” is not specified in the Pricing Supplement as applicable in relation to the relevant Reference Entity, Grace Period Extension shall not apply;

**“Guarantee”** means a Relevant Guarantee or a guarantee which is the Reference Obligation;

**“Hedge Transaction”** means any transaction or trading position entered into or held by the Issuer and/or any of its Affiliates to hedge, directly or indirectly, the Issuer’s obligations or positions (whether in whole or in part) in respect of the Notes or any hypothetical transaction or trading position relating to the Issuer’s obligations or positions (whether in whole or in part) in respect of the Notes, as determined by the Calculation Agent;

**“Largest Asset Package”** means, in respect of a Prior Deliverable Obligation or a Package Observable Bond, as the case may be, the package of Assets for which the greatest amount of principal has been or will be exchanged or converted (including by way of amendment), as determined by the Calculation Agent by reference to Eligible Information. If this cannot be determined, the Largest Asset Package, will be the package of Assets with the highest immediately realisable value, determined by the Calculation Agent in accordance with the methodology, if any, determined by the relevant Credit Derivatives Determination Committee;

**“Latest Permissible Physical Settlement Date”** means the date that, in respect of Condition 11(a)G(g)(ii) (*Partial Cash Settlement due to impossibility, impracticability or illegality*), is 30 calendar days after the Physical Settlement Date;

**“Limitation Date”** means the first of March 20, June 20, September 20 or December 20 in any year to occur on or immediately following the date that is one of the following numbers of years after the Restructuring Date: 2.5 years (the **“2.5-year Limitation Date”**), 5 years, 7.5 years, 10 years (the **“10- year Limitation Date”**), 12.5 years, 15 years, or 20 years, as applicable. Limitation Dates shall not be subject to adjustment in accordance with any Business Day Convention unless the parties specify in the Pricing Supplement that Limitation Dates will be adjusted in accordance with a specified Business Day Convention;

**“Listed”** means an obligation that is quoted, listed or ordinarily purchased and sold on an exchange;

**“Loan”** means any obligation of a type included in the Borrowed Money Obligation Category that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement and shall not include any other type of Borrowed Money;

**“London Business Day”** means a day other than a Saturday or Sunday on which commercial banks are generally open for business in London;

**“LPN Reference Obligation”** means each Reference Obligation other than any Additional Obligation which is issued for the sole purpose of providing funds to the LPN Issuer to finance an Underlying Loan. For the avoidance of doubt, any change to the Issuer of an LPN Reference Obligation in accordance with its terms shall not prevent such LPN Reference Obligation from constituting a Reference Obligation;

**“Market-maker”** means a hypothetical dealer in the market for swap transactions;

**“Market Value”** means, with respect to a Valuation Obligation or Deliverable Obligation on a Valuation Date, the price determined by the Calculation Agent on the basis of bid Quotations provided by Dealers and expressed as a percentage of the Reference Obligation’s Outstanding Principal Balance or Due and Payable Amount, as applicable, with respect to a Valuation Date;

**“Maximum Maturity”** means an obligation that has a remaining maturity of not greater than the period specified in relation to a Reference Entity in the Pricing Supplement (or, if no such period is specified, 30 years);

**“Minimum Quotation Amount”** means the amount specified in relation to a Reference Entity in the Pricing Supplement or its equivalent in the relevant Obligation Currency (or, if no amount is specified, the lower of (a) U.S.\$1,000,000 (or its equivalent in the Obligation Currency), and (b) the Quotation Amount);

**“M(M)R Restructuring”** means a Restructuring Credit Event in respect of which either “Modified Restructuring” or “Modified Modified Restructuring” is specified as applicable in the Pricing Supplement;

**“Modified Eligible Transferee”** means any bank, financial institution or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities and other financial assets;

**“Modified Restructuring Maturity Limitation Date”** means, with respect to a Deliverable Obligation or Valuation Obligation, the Limitation Date occurring on or immediately following the Scheduled Termination Date.

Subject to the foregoing, if the Scheduled Termination Date is later than the 10-year Limitation Date, the Modified Restructuring Maturity Limitation Date will be the Scheduled Termination Date.

**“Multiple Holder Obligation”** means an Obligation that:

- (a) at the time of the event which constitutes a Restructuring Credit Event is held by more than three holders that are not Affiliates of each other; and
- (b) with respect to which a percentage of holders (determined pursuant to the terms of such Obligation as in effect on the date of such event) at least equal to sixty-six-and-two-thirds is required to consent to the event that constitutes a Restructuring Credit Event,

**provided that** any Obligation that is a Bond shall be deemed to satisfy the requirement in paragraph (b) above;

**“Next Currency Fixing Time”** means such time on any day on or prior to the Delivery Date or, as applicable, Cash Settlement Date, as selected by the Calculation Agent in its sole discretion;

**“No Auction Announcement Date”** means, with respect to a Credit Event, the date on which the DC Secretary first publicly announces that:

- (a) no Transaction Auction Settlement Terms and, if applicable, no Parallel Auction Settlement Terms will be published;
- (b) following the occurrence of an M(M)R Restructuring no Transaction Settlement Terms will be published, but Parallel Auction Settlement Terms will be published; or
- (c) the relevant Credit Derivatives Determinations Committee has Resolved that no Auction will be held following a prior public announcement by the DC Secretary to the contrary where either (i) no Parallel Auction will be held, or (ii) one or more Parallel Auctions will be held;

**“Non-Conforming Reference Obligation”** means a Reference Obligation which is not a Conforming Reference Obligation;

**“Non-Conforming Substitute Reference Obligation”** means an obligation which would be a Deliverable Obligation determined in accordance with paragraph (a) of the definition of “Deliverable Obligation” on the Substitution Date but for one or more of the same reasons which resulted in the Reference Obligation constituting a Non-Conforming Reference Obligation on the date it was issued or incurred and/or immediately prior to the Substitution Event Date (as applicable);

**“Non-Financial Instrument”** means any Asset which is not of the type typically traded in, or suitable for being traded in, financial markets;

**“Non-Standard Reference Obligation”** means the Original Non-Standard Reference Obligation or, if a Substitute Reference Obligation has been determined, the Substitute Reference Obligation.

**“Non-Transferable Instrument”** means any Asset which is not capable of being transferred to institutional investors, excluding due to market conditions;

**“NOPS Effective Date”** means the date on which an effective Notice of Physical Settlement or NOPS Amendment Notice, as the case may be, is delivered by the Calculation Agent;

**“Not Bearer”** means any obligation that is not a bearer instrument unless interests with respect to such bearer instrument are cleared via the Euroclear system, Clearstream International or any other internationally recognised clearing system;

**“Not Domestic Currency”** means any obligation that is payable in any currency other than the Domestic Currency, **provided that** a Standard Specified Currency shall not constitute a Domestic Currency;

**“Not Domestic Issuance”** means any obligation other than an obligation that was issued (or reissued, as the case may be), or intended to be offered for sale primarily in the domestic market of the Reference Entity. Any obligation that is registered or, as a result of some other action having been taken for such purpose, is qualified for sale outside the domestic market of the Reference Entity (regardless of whether such obligation is also registered or qualified for sale within the domestic market of the Reference Entity) shall be deemed not to be issued (or reissued, as the case may be), or intended to be offered for sale primarily in the domestic market of the Reference Entity;

**“Not Domestic Law”** means any obligation that is not governed by the applicable Domestic Law, **provided that** the laws of England and the laws of the State of New York shall not constitute a Domestic Law;

**“Not Sovereign Lender”** means any obligation that is not primarily owed to (A) a Sovereign or (B) any entity or organisation established by treaty or other arrangement between two or more Sovereigns including, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development, which shall include, without limitation, obligations generally referred to as “Paris Club debt”;

**“Not Subordinated”** means an obligation that is not Subordinated to (a) the Reference Obligation or, (b) the Prior Reference Obligation, if applicable;

**“Notice Delivery Date”** means the first date on which both an effective Credit Event Notice and, unless “Notice of Publicly Available Information” is specified as not applicable in the related Pricing Supplement, an effective Notice of Publicly Available Information, have been delivered by the Calculation Agent to the Noteholders;

**“Notice Delivery Period”** means the period from and including the Trade Date to and including the second Business Day falling after the date that is 14 calendar days after the Extension Date;

**“Notice of Physical Settlement”** means a notice (which may be in writing (including by facsimile and/or email) and/or by telephone) that:

- (a) irrevocably confirms that the Issuer will redeem the Notes by physical delivery;

- (b) contains a detailed description of each Deliverable Obligations that the Issuer will Deliver (or procure Delivery of) to the Noteholders including if available and applicable the CUSIP or ISIN number (or, if such identifying number is not available, the rate and tenor) of each such Deliverable Obligation; and
- (c) specifies the Outstanding Principal Balance or Due and Payable Amount, as applicable, or the equivalent amount in the Settlement Currency (in each case, the “**Outstanding Amount**”) and, if different, the face amount of each such Deliverable Obligation and the aggregate Outstanding Amount of all Deliverable Obligations specified in the Notice of Physical Settlement that the Calculation Agent intends to deliver to the Noteholders.

The Notice of Physical Settlement may be substantially in the form in the relevant Appendix hereto with any amendments as determined by the Issuer or the Calculation Agent from time to time.

The Calculation Agent may, from time to time, notify the Noteholders in the manner specified above (each such notification, a “**NOPS Amendment Notice**”) that the Issuer is replacing, in whole or in part, one or more Deliverable Obligations specified in the Notice of Physical Settlement or a prior NOPS Amendment Notice, as applicable, (to the extent the relevant Deliverable Obligation has not been Delivered as of the date such NOPS Amendment Notice is effective) or the detailed description(s) thereof. A NOPS Amendment Notice shall contain a revised detailed description of each replacement Deliverable Obligation that the Issuer will, subject to Condition 11(a)G (*Physical Settlement*), Deliver to the Noteholders (each, a “**Replacement Deliverable Obligation**”) and shall also specify the Outstanding Amount of each Deliverable Obligation identified in the Notice of Physical Settlement or a prior NOPS Amendment Notice, as applicable, that is being replaced (with respect to each such Deliverable Obligation, the “**Replaced Deliverable Obligation Outstanding Amount**”). The Outstanding Amount of each Replacement Deliverable Obligation identified in a NOPS Amendment Notice shall be determined by applying the Revised Currency Rate to the relevant Replaced Deliverable Obligation Outstanding Amount. The Outstanding Amount of the Replacement Deliverable Obligations specified in any NOPS Amendment Notice in aggregate with the Outstanding Amount of the Deliverable Obligations specified in the Notice of Physical Settlement or any earlier NOPS Amendment Notice which, in each case are not being replaced must not be greater than the Aggregate Outstanding Amount. Each such NOPS Amendment Notice must be effective on or prior to the Physical Settlement Date (determined without reference to any change resulting from such NOPS Amendment Notice).

Notwithstanding the foregoing, (i) the Calculation Agent may correct any errors or inconsistencies in the detailed description of each Deliverable Obligation contained in the Notice of Physical Settlement or any NOPS Amendment Notice, as applicable, by notice to the Noteholders (given in the manner specified above) prior to the relevant Delivery Date and (ii) if Asset Package Delivery is applicable, Buyer shall on the NOPS Effective Date, or as soon as reasonably practicable thereafter (but in any case, prior to the Delivery Date), notify the Noteholders of the detailed description of the Asset Package, if any, that it intends to Deliver to the Noteholders in lieu of the Prior Deliverable Obligation or Package Observable Bond, if any, specified in the Notice of Physical Settlement or NOPS Amendment Notice, as applicable, it being understood that such notice of correction shall not constitute a NOPS Amendment Notice.

The NOPS Amendment Notice may be substantially in the form in the relevant Appendix hereto with any amendments as determined by the Issuer or the Calculation Agent from time to time;

“**Notice of Publicly Available Information**” means an irrevocable notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Calculation Agent to the Noteholders that cites Publicly Available Information confirming the occurrence of the Credit Event or Potential Repudiation/Moratorium, as applicable, described in the Credit Event Notice or Repudiation/Moratorium Extension Notice. The notice given must contain a copy, or a description in reasonable detail, of the relevant Publicly Available Information. If “Notice of Publicly Available Information” is applicable and a Credit Event Notice or Repudiation/Moratorium Extension Notice, as applicable, contains Publicly Available



Information, such Credit Event Notice or Repudiation/Moratorium Extension Notice will also be deemed to be a Notice of Publicly Available Information.

**“Obligation”** means:

- (a) each obligation of each Reference Entity described by the Obligation Category specified in the applicable Pricing Supplement and having each of the Obligation Characteristics, if any, specified in the applicable Pricing Supplement, in each case immediately prior to the Credit Event which is the subject of either the Credit Event Notice or the DC Credit Event Question resulting in the occurrence of the Credit Event Resolution Request Date, as applicable; and
- (b) the Reference Obligation, in each case, unless it is an Excluded Obligation;

**“Obligation Acceleration”** means one or more Obligations in an aggregate amount of not less than the Default Requirement have become due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default or other similar condition or event (however described), other than a failure to make any required payment, in respect of the Reference Entity under one or more Obligations;

**“Obligation Category”** means Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan, only one of which shall be specified in the Pricing Supplement in relation to a Reference Entity;

**“Obligation Characteristics”** means any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed and Not Domestic Issuance as specified in the Pricing Supplement in relation to a Reference Entity;

**“Obligation Currency”** means, with respect to an Obligation, the currency in which the Obligation is denominated;

**“Obligation Default”** means one or more Obligations in an aggregate amount of not less than the Default Requirement have become capable of being declared due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default or other similar condition or event (however described), other than a failure to make any required payment, in respect of the Reference Entity under one or more Obligations;

**“Original Non-Standard Reference Obligation”** means the obligation of the Reference Entity (either directly or as provider of a guarantee) which is specified as the Reference Obligation in the related Pricing Supplement (if any is so specified) **provided that** if an obligation is not an obligation of the Reference Entity, such obligation will not constitute a valid Original Non-Standard Reference Obligation for purposes of the Notes (other than for the purposes of determining the Seniority Level and for the “Not Subordinated” Obligation Characteristic or “Not Subordinated” Deliverable Obligation Characteristic) unless otherwise specified in the related Pricing Supplement;

**“Outstanding Principal Balance”** means, in respect of an obligation, an amount calculated as follows:

- (a) *first*, by determining, in respect of the obligation, the amount of the Reference Entity’s principal payment obligations and, where applicable in accordance with the definition of Accrued Interest, the Reference Entity’s accrued but unpaid interest payment obligations (which, in the case of a Guarantee will be the lower of (A) the Outstanding Principal Balance (including accrued but unpaid interest, where applicable) of the Underlying Obligation (determined as if references to the Reference Entity were references to the Underlying Obligor) and (B) the amount of the Fixed Cap, if any);
- (b) *second*, by subtracting all or any portion of such amount which, pursuant to the terms of the obligation, (A) is subject to any Prohibited Action, or (B) may otherwise be reduced as a result of the effluxion of time or the occurrence or non-occurrence of an event or circumstance (other than by way of (I)

payment or (II) a Permitted Contingency) (the amount determined pursuant to sub-paragraph (a) above less any amounts subtracted in accordance with this sub-paragraph (b), the “**Non-Contingent Amount**”); and

- (c) *third*, by determining the Quantum of the Claim, which shall then constitute the Outstanding Principal Balance, in each case, determined:
- (d) unless otherwise specified, in accordance with the terms of the obligation in effect on either (I) the NOPS Effective Date (or if the terms of the obligation are amended after such date but on or prior to the Delivery Date, the Delivery Date), or (II) the Valuation Date, as applicable; and
- (e) with respect to the Quantum of the Claim only, in accordance with any applicable laws (insofar as such laws reduce or discount the size of the claim to reflect the original issue price or accrued value of the obligation);

“**Package Observable Bond**” means, in respect of a Reference Entity which is a Sovereign, any obligation (a) which is identified as such and published by ISDA on its website at [www.isda.org](http://www.isda.org) from time to time (or any successor website thereto) or by a third party designated by ISDA on its website from time to time and (b) which fell within paragraph (a) or (b) of the definition of Deliverable Obligation, in each case, immediately preceding the date on which the relevant Asset Package Credit Event was legally effective;

“**Parallel Auction**” means “Auction” as defined in the relevant Parallel Auction Settlement Terms;

“**Parallel Auction Cancellation Date**” means “Auction Cancellation Date” as defined in the relevant Parallel Auction Settlement Terms;

“**Parallel Auction Final Price**” means “Auction Final Price” as defined in the relevant Parallel Auction Settlement Terms;

“**Parallel Auction Final Price Determination Date**” means “Auction Final Price Determination Date” as defined in the relevant Parallel Auction Settlement Terms;

“**Parallel Auction Settlement Terms**” means, following the occurrence of an M(M)R Restructuring, any Credit Derivatives Auction Settlement Terms published by ISDA with respect to such M(M)R Restructuring, and for which the Deliverable Obligation Terms are the same as the Deliverable Obligation Provisions applicable to a credit derivative transaction (including any Hedge Transaction) and for which such credit derivative transaction (including any Hedge Transaction) would not be an Auction Covered Transaction;

“**Partial Cash Settlement Amount**” means, for each Undeliverable Obligation, the greater of (A) the product of the Outstanding Principal Balance, Due and Payable Amount or Currency Amount, as applicable, of each Undeliverable Obligation multiplied by the Final Price of such Undeliverable Obligation, as determined by the Calculation Agent and (B) zero;

“**Partial Cash Settlement Date**” means the date specified in the Pricing Supplement, or, if such date is not so specified, means the date that is three Business Days after the calculation of the Final Price;

“**Payment**” means any obligation (whether present or future, contingent or otherwise) for the payment or repayment of money, including, without limitation, Borrowed Money;

“**Payment Requirement**” means the amount specified in the Pricing Supplement or its equivalent in the Obligation Currency or, if no such amount is specified, U.S.\$1,000,000 or its equivalent in the Obligation Currency (or as specified in relation to a “Participation CLN”), in each case as of the occurrence of the relevant Failure to Pay;

“**Permissible Deliverable Obligations**” has the meaning set forth in the relevant Credit Derivatives Auction Settlement Terms, being either all or the portion of the Deliverable Obligations included on the Final List pursuant to the Deliverable Obligation Terms that are applicable to that Auction;

**“Permitted Contingency”** means, with respect to an obligation, any reduction to the Reference Entity’s payment obligations:

- (a) as a result of the application of:
  - (i) any provisions allowing a transfer, pursuant to which another party may assume all of the payment obligations of the Reference Entity;
  - (ii) provisions implementing the Subordination of the obligation;
  - (iii) provisions allowing for a Permitted Transfer in the case of a Qualifying Guarantee (or provisions allowing for the release of the Reference Entity from its payment obligations in the case of any other Guarantee);
  - (iv) any Solvency Capital Provisions, if “Subordinated European Insurance Terms” is specified as applicable in the related Pricing Supplement; or
  - (v) provisions which permit the Reference Entity’s obligations to be altered, discharged, released or suspended in circumstances which would constitute a Governmental Intervention, if “Financial Reference Entity Terms” is specified as applicable in the related Pricing Supplement; or
- (b) which is within the control of the holders of the obligation or a third party acting on their behalf (such as an agent or trustee) in exercising their rights under or in respect of such obligation;

**“Permitted Transfer”** means, with respect to a Qualifying Guarantee, a transfer to and the assumption by any single transferee of such Qualifying Guarantee (including by way of cancellation and execution of a new guarantee) on the same or substantially the same terms, in circumstances where there is also a transfer of all (or substantially all) of the assets of the Reference Entity to the same single transferee;

**“Physical Settlement Adjustment”** means a reduction to the Outstanding Amount of Deliverable Obligations specified in a Notice of Physical Settlement or NOPS Amendment Notice, by an amount of Deliverable Obligations having a liquidation value equal to the Aggregate Break Costs (as defined in the definition of “Break Costs”) or its equivalent in the Obligation Currency as determined by the Calculation Agent in its sole discretion, rounded upwards to the nearest whole denomination of the relevant Deliverable Obligation, such amount to be determined by the Calculation Agent;

**“Physical Settlement Date”** means the last day of the longest Physical Settlement Period following the NOPS Cut-Off Date;

**“Physical Settlement Matrix”** means the Credit Derivatives Physical Settlement Matrix Supplement to the Credit Derivatives Definitions, as most recently amended or supplemented as at the Issue Date (unless otherwise specified in the Pricing Supplement in relation to a Reference Entity) and as published by ISDA, currently at <http://www.isda.org>, **provided that** any reference therein to (a) “Confirmation” shall be deemed to be a reference to the applicable Pricing Supplement, (b) “Floating Rate Payer Calculation Amount” shall be deemed to be a reference to the Specified Currency, (c) “Section 3.3 of the Definitions” shall be deemed to be a reference to “Credit Event Notice” as defined in this Credit Linked Derivatives Annex, (d) “Section 3.9” shall be deemed to be a reference to Condition 11(a)H(a) (*Multiple Credit Event Notices*) and (e) “Section 8.6” shall be deemed to be a reference to “Physical Settlement Period” as defined in this Credit Linked Derivatives Annex;

**“Physical Settlement Period”** means, subject to Condition 11(a)B(b) (*Settlement Suspension following Credit Event Resolution Request Date*), the number of Business Days specified as such in the Pricing Supplement in relation to a Reference Entity or, if a number of Business Days is not so specified, then, with respect to a Deliverable Obligation specified in the Notice of Physical Settlement or NOPS Amendment Notice, the longest number of Business Days for settlement in accordance with then current market practice

of such Deliverable Obligation, as the Calculation Agent shall determine, **provided that** if the Issuer or Calculation Agent has notified the Noteholders that the Issuer intends to Deliver an Asset Package in lieu of a Prior Deliverable Obligation or a Package Observable Bond, the Physical Settlement Period shall be 30 Business Days;

**“Post Dismissal Additional Period”** means the period from and including the date of the DC Credit Event Question Dismissal to and including the date that is fourteen calendar days thereafter (**provided that** the relevant Credit Event Resolution Request Date occurred on or prior to the end of the last day of the Notice Delivery Period (including prior to the Trade Date)).

**“Potential Credit Event”** means, and shall be deemed to have occurred, if the Calculation Agent determines that:

- (a) a Credit Event;
- (b) a Potential Failure to Pay if (i) Grace Period Extension is specified as applicable in relation to any Reference Entity, and/or (ii) Failure to Pay is an applicable Credit Event in relation to such Reference Entity; and/or
- (c) a Potential Repudiation/Moratorium if Repudiation/Moratorium is an applicable Credit Event in relation to any Reference Entity,

(in each of paragraphs (a), (b) and (c) above) has occurred or may occur on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)); and/or

- (d) a Credit Event Resolution Request Date has occurred or may occur on or prior to the last day of the Notice Delivery Period;

**“Potential Credit Event Notice”** means:

- (a) a Repudiation/Moratorium Extension Notice;
- (b) a notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Calculation Agent to the Noteholders, at or prior to 5.00 p.m. (London time) on or prior to the second London Business Day following the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)), that a Credit Event or Potential Failure to Pay has occurred or may occur on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)); or
- (c) a notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Calculation Agent to the Noteholders, at or prior to 5.00 p.m. (London time) on or prior to the second London Business Day following the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)), that a Credit Event Resolution Request Date has occurred or may occur on or prior to the last day of the Notice Delivery Period.

A Potential Credit Event Notice shall be subject to the requirements regarding notices contained in Condition 11(a)L(e) (*Effectiveness of Notices*);

**“Potential Failure to Pay”** means the failure by the Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure, without regard to any grace period or any conditions precedent to the commencement of any grace period applicable to such Obligations;

**“Potential Repudiation/Moratorium”** means the occurrence of an event described in paragraph (i) of the definition of Repudiation/Moratorium;

**“Prior Deliverable Obligation”** means:

- (a) if a Governmental Intervention has occurred (whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement), any obligation of the Reference Entity which (i) existed immediately prior to such Governmental Intervention, (ii) was the subject of such Governmental Intervention and (iii) fell within paragraph (a) or (b) of the definition of Deliverable Obligation, in each case, immediately preceding the date on which such Governmental Intervention was legally effective; or
- (b) if a Restructuring which does not constitute a Governmental Intervention has occurred in respect of the Reference Obligation (whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement), such Reference Obligation, if any;

**“Prior Reference Obligation”** means, in circumstances where there is no Reference Obligation applicable to the Notes, (I) the Reference Obligation most recently applicable thereto, if any, and otherwise, (II) the obligation specified in the relevant Pricing Supplement as the Reference Obligation, if any, if such Reference Obligation was redeemed on or prior to the Trade Date and otherwise, (III) any unsubordinated Borrowed Money obligation of the Reference Entity;

**“Private-side Loan”** means a Loan in respect of which the documentation governing its terms is not publicly available or capable of being made public without violating a law, agreement, understanding or other restriction regarding the confidentiality of such information;

**“Prohibited Action”** means any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) of the definition of Credit Event) or right of setoff by or of the Reference Entity or any applicable Underlying Obligor;

**“Publicly Available Information”** means information that reasonably confirms any of the facts relevant to the determination that the Credit Event described in a Credit Event Notice has occurred and which (a) has been published in or on not less than two internationally recognised published or electronically displayed news sources, regardless of whether the reader or user thereof pays a fee to obtain such information; **provided that**, if the Issuer or any of its Affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless the Issuer or its Affiliate is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent, paying agent, facility agent or agent bank for an Obligation, (b) is information received from or published by (i) the relevant Reference Entity (or if the Reference Entity is a Sovereign, any agency, instrumentality, ministry, department or other authority thereof acting in a governmental capacity (including, without limiting the foregoing, the Central Bank) of such Sovereign) (ii) a trustee, fiscal agent, administrative agent, clearing agent, paying agent, facility agent or agent bank for an Obligation, or (c) is information contained in any order, decree, notice or filing however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative or judicial body, **provided that**:

- (a) where any information of the type described in points (b) or (c) above is not publicly available, it can constitute Publicly Available Information if it can be made public without violating any law, agreement, understanding or other restriction regarding the confidentiality of such information;

- (b) in relation to any information of the type described in points (b) or (c) above, each Noteholder may assume that such information has been disclosed to it without violating any law, agreement or understanding regarding the confidentiality of such information and that the Calculation Agent has not taken any action or entered into any agreement or understanding with the Reference Entity or any Affiliate of the Reference Entity that would be breached by, or would prevent, the disclosure of such information to the party receiving such information;
- (c) Publicly Available Information need not state (a) in relation to a Downstream Affiliate, the percentage of Voting Shares owned, directly or indirectly by the Reference Entity and (b) that such occurrence (I) has met the Payment Requirement or Default Requirement, (II) is the result of exceeding any applicable Grace Period or (III) has met the subjective criteria specified in certain Credit Events; and
- (d) in relation to a Repudiation/Moratorium Credit Event, Publicly Available Information must relate to the events described in both limbs of the definition of Repudiation/Moratorium;

**“Qualifying Affiliate Guarantee”** means a Qualifying Guarantee provided by the Reference Entity in respect of an Underlying Obligation of a Downstream Affiliate of the Reference Entity;

**“Qualifying Guarantee”** means a guarantee evidenced by a written instrument (which may include a statute or regulation), pursuant to which the Reference Entity irrevocably agrees, undertakes, or is otherwise obliged to pay all amounts of principal and interest (except for amounts which are not covered due to the existence of a Fixed Cap) due under an Underlying Obligation for which the Underlying Obligor is the obligor, by guarantee of payment and not by guarantee of collection (or, in either case, any legal arrangement which is equivalent thereto in form under the relevant governing law).

A Qualifying Guarantee shall not include any guarantee:

- (a) which is structured as a surety bond, financial guarantee insurance policy or letter of credit (or any legal arrangement which is equivalent thereto in form); or
- (b) pursuant to the terms applicable thereto, the principal payment obligations of the Reference Entity can be discharged, released, reduced, assigned or otherwise altered as a result of the occurrence or non-occurrence of an event or circumstance, in each case, other than:
  - (i) by payment;
  - (ii) by way of Permitted Transfer;
  - (iii) by operation of law;
  - (iv) due to the existence of a Fixed Cap; or
  - (v) due to:
    - (A) provisions permitting or anticipating a Governmental Intervention, if “Financial Reference Entity Terms” is specified as applicable in the relevant Pricing Supplement; or
    - (B) any Solvency Capital Provisions, if “Subordinated European Insurance Terms” is specified as applicable in the relevant Pricing Supplement.

If the guarantee or Underlying Obligation contains provisions relating to the discharge, release, reduction, assignment or other alteration of the principal payment obligations of the Reference Entity and such provisions have ceased to apply or are suspended at the time of the relevant determination, in accordance with the terms of such guarantee or Underlying Obligation, due to or following the occurrence of (I) a non-payment in respect of the guarantee or the Underlying Obligation, or (II) an event of the type described in the definition of “Bankruptcy” in respect of the Reference Entity or the Underlying Obligor, then it shall be

deemed for these purposes that such cessation or suspension is permanent, notwithstanding the terms of the guarantee or Underlying Obligation.

In order for a guarantee to constitute a Qualifying Guarantee:

- (x) the benefit of such guarantee must be capable of being Delivered together with the Delivery of the Underlying Obligation; and
- (y) if a guarantee contains a Fixed Cap, all claims to any amounts which are subject to such Fixed Cap must be capable of being Delivered together with the Delivery of such guarantee;

**“Qualifying Participation Seller”** means any participation seller that meets the requirements specified in the Pricing Supplement in relation to a Reference Entity. If no such requirements are specified, there shall be no Qualifying Participation Seller;

**“Quantum of the Claim”** means the lowest amount of the claim which could be validly asserted against the Reference Entity in respect of the Non-Contingent Amount if the obligation had become redeemable, been accelerated, terminated or had otherwise become due and payable at the time of the relevant determination, **provided that** the Quantum of the Claim cannot exceed the Non-Contingent Amount;

**“Quotation”** means each Full Quotation and the Weighted Average Quotation obtained and expressed in the manner set out in the definition of Market Value;

**“Quotation Amount”** means the sum so specified in the Pricing Supplement in relation to a Reference Entity (which may be specified by reference to an amount in a currency or by reference to Representative Amount) or, if no amount is so specified, the relevant Reference Entity Notional Amount or, if the Calculation Agent selects more than one Valuation Obligation with respect to a Reference Entity, the relevant outstanding principal balance apportioned to such Valuation Obligation (or, in either case, its equivalent in the relevant Obligation Currency which shall be converted by the Calculation Agent in a commercially reasonable manner by reference to exchange rates in effect at the time that the relevant Quotation is being obtained);

**“Quotation Method”** means that only bid quotations shall be requested from Dealers in obtaining Quotations;

**“Reference Entity”** means the entity specified as such in the Pricing Supplement. Any Successor to the Reference Entity either (a) as identified by the Calculation Agent in accordance with the definition of **“Successor”** on or following the Trade Date; or (b) at the Issuer’s option, identified pursuant to a DC Resolution in respect of a Successor Resolution Request Date and publicly announced by the DC Secretary on or following the Trade Date shall, in each case, with effect from the Succession Date, be a Reference Entity for the Notes, as the terms of which may be modified pursuant to Condition 11(a)K (*Succession Event*);

**“Reference Entity Notional Amount”** means the amount as specified in the Pricing Supplement;

**“Reference Obligation”** means, in respect of a Reference Entity and subject to the applicable Pricing Supplement:

- (a) for the purposes of Condition 11a(F) (*Cash Settlement*) or Condition 11a(G) (*Physical Settlement*), an obligation of the Reference Entity satisfying the definition of Deliverable Obligation in accordance with these Additional Conditions as selected by the Issuer in its discretion;
- (b) for all other purposes (including the determination of Seniority Level), the Standard Reference Obligation described in the applicable Pricing Supplement (if any are so specified or described) and any Substitute Reference Obligation identified in accordance with the definition of **“Substitute Reference Obligation”**, unless:

- (i) “Standard Reference Obligation” is specified as not applicable in the related Pricing Supplement, in which case the Reference Obligation will be the Non-Standard Reference Obligation, if any; or
- (ii) “Standard Reference Obligation” is specified as applicable in the related Pricing Supplement (or no election is specified in the related Pricing Supplement), (ii) there is no Standard Reference Obligation and (iii) a Non-Standard Reference Obligation is specified in the related Pricing Supplement, in which case the Reference Obligation will be (A) the Non-Standard Reference Obligation to but excluding the first date of publication of the Standard Reference Obligation and (B) the Standard Reference Obligation from such date onwards, **provided that** the Standard Reference Obligation that is published would have been eligible to be selected as a Substitute Reference Obligation.

“**Reference Obligations Only**” means any obligation that is a Reference Obligation and no Obligation Characteristics shall be applicable to Reference Obligations Only;

“**Reference Price**” means the percentage specified as such in the Pricing Supplement, or, if a percentage is not so specified, one hundred per cent.;

“**Relevant City Business Day**” has the meaning given to that term in the DC Rules;

“**Relevant Guarantee**” means a Qualifying Affiliate Guarantee or, if “All Guarantees” is specified as applicable in the related Pricing Supplement, a Qualifying Guarantee;

“**Relevant Holder**” means a holder of the Prior Deliverable Obligation or Package Observable Bond, as the case may be, with an Outstanding Principal Balance or Due and Payable Amount, as applicable, immediately prior to the Relevant Asset Package Credit Event, equal to the Outstanding Amount specified in respect of such Prior Deliverable Obligation or Package Observable Bond in the Notice of Physical Settlement, or NOPS Amendment Notice, as applicable.

“**Relevant Obligations**” means the Obligations of the Reference Entity which fall within the Obligation Category “Bond or Loan” and which are outstanding immediately prior to the Succession Date (or, if there is a Steps Plan, immediately prior to the legally effective date of the first succession), **provided that**:

- (a) any Bonds or Loans outstanding between the Reference Entity and any of its Affiliates, or held by the Reference Entity, shall be excluded;
- (b) if there is a Steps Plan, the Calculation Agent shall, for purposes of the determination required to be made under Condition 11(a)K (*Succession Event*) and the definition of “Successor”, make the appropriate adjustments required to take account of any Obligations of the Reference Entity which fall within the Obligation Category “Bond or Loan” that are issued, incurred, redeemed, repurchased or cancelled from and including the legally effective date of the first succession to and including the Succession Date;
- (c) if “Financial Reference Entity Terms” is specified as applicable in the related Pricing Supplement and the Note is a Senior Security, the Relevant Obligations shall only include the Senior Obligations of the Reference Entity which fall within the Obligation Category “Bond or Loan”; and
- (d) if “Financial Reference Entity Terms” is specified as applicable in the related Pricing Supplement and the Note is a Subordinated Security, Relevant Obligations shall exclude Senior Obligations and any Further Subordinated Obligations of the Reference Entity which fall within the Obligation Category “Bond or Loan”, **provided that** if no such Relevant Obligations exist, “Relevant Obligations” shall have the same meaning as it would if the Note were a Senior Security.



**“Relevant Proportion”** means the proportion which the principal amount of the Note or Notes the subject of an Asset Transfer Notice bears to the aggregate principal amount of all Notes outstanding (including those the subject of the Asset Transfer Notice) immediately prior to the date set for redemption;

**“Replacement Reference Entity”** means an entity selected by the Calculation Agent in its discretion which is incorporated in the same geographical area, has the same Transaction Type as the Legacy Reference Entity and which is of a similar or better credit quality than the Legacy Reference Entity, as measured by Standard & Poor’s Ratings Services and/or by Moody’s Investors Service Limited, at the date of the relevant Succession Event **provided that** in selecting any Replacement Reference Entity, the Calculation Agent is under no obligation to the Noteholders, the Issuer or any other person and, **provided that** the Successor selected meets the criteria specified above, is entitled, and indeed will endeavour, to select the least credit-worthy of the Successors. In making any selection, the Calculation Agent will not be liable to account to the Noteholders, the Issuer or any other person for any profit or other benefit to it or any of its affiliates which may result directly or indirectly from any such selection;

**“Representative Amount”** means an amount that is representative for a single transaction in the relevant market and at the relevant time such amount to be determined by the Calculation Agent;

**“Repudiation/Moratorium”** means the occurrence of both the following events: (i) an authorised officer of the Reference Entity or a Governmental Authority (I) disaffirms, disclaims, repudiates or rejects, in whole, or in part, or challenges the validity of, one or more Obligations in an aggregate amount of not less than the Default Requirement or (II) declares or imposes a moratorium, standstill, roll-over or deferral, whether de facto or de jure, with respect to one or more Obligations in an aggregate amount of not less than the Default Requirement and (ii) a Failure to Pay, determined without regard to the Payment Requirement, or a Restructuring, determined without regard to the Default Requirement, with respect to any such Obligation occurs on or prior to the Repudiation/Moratorium Evaluation Date;

**“Repudiation/Moratorium Evaluation Date”** means, if a Potential Repudiation/Moratorium occurs on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)) (i) if the Obligations to which such Potential Repudiation/Moratorium relates include Bonds, the date that is the later of (A) the date that is 60 days after the date of such Potential Repudiation/Moratorium and (A) the first payment date under any such Bond after the date of such Potential Repudiation/Moratorium (or, if later, if the expiration date of any applicable Grace Period in respect of such payment date) and (ii) if the Obligations to which such Potential Repudiation/Moratorium relates do not include Bonds, the date that is 60 days after the date of such Potential Repudiation/Moratorium (**provided that**, in either case, the Repudiation/Moratorium Evaluation Date shall occur no later than the Scheduled Termination Date unless the Repudiation/Moratorium Extension Condition is satisfied);

**“Repudiation/Moratorium Extension Condition”** is satisfied:

- (a) by the delivery by the Calculation Agent to the Noteholders of a Repudiation/Moratorium Extension Notice and, if specified as applicable in the Pricing Supplement, a Notice of Publicly Available Information that are each effective on or prior to the date that is fourteen calendar days after the Scheduled Termination Date; or
- (b) at the Issuer’s option, if the DC Secretary publicly announces, pursuant to a valid request that was delivered and effectively received on or prior to the date that is 14 calendar days after the Scheduled Termination Date, that the relevant Credit Derivatives Determinations Committee has Resolved that an event that constitutes a Potential Repudiation/Moratorium has occurred with respect to an Obligation of the Reference Entity and that such event occurred on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of

the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time));

**“Repudiation/Moratorium Extension Notice”** means an irrevocable notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Calculation Agent to the Noteholders that describes a Potential Repudiation/Moratorium that occurred on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement) Tokyo time)). A Repudiation/Moratorium Extension Notice must contain a description in reasonable detail of the facts relevant to the determination that a Potential Repudiation/Moratorium has occurred and indicate the date of the occurrence. The Potential Repudiation/Moratorium that is the subject of the Repudiation/Moratorium Extension Notice need not be continuing on the date the Repudiation/Moratorium Extension Notice is delivered. A Repudiation/Moratorium Extension Notice shall be subject to the requirements regarding notices contained in Condition 11(a)L(e) (*Effectiveness of Notices*);

**“Resolve”** has the meaning given to that term in the DC Rules, and **“Resolved”** and **“Resolves”** shall be interpreted accordingly;

**“Restructured Bond or Loan”** means an Obligation that is a Bond or Loan and in respect of which the relevant Restructuring has occurred;

**“Restructuring”** means that, with respect to one or more Obligations (which, unless Multiple Holder Obligation is either expressed to be ‘not applicable’ in the relevant Pricing Supplement or is otherwise deemed to be not be applicable, must be a Multiple Holder Obligation), and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs, is agreed between the Reference Entity or a Governmental Authority and the holder or holders of such Obligation or is announced (or otherwise decreed) by the Reference Entity or a Governmental Authority in a form that is binding upon a Reference Entity (including, in each case, in respect of Bonds only, by way of an exchange), and such event is not provided for under the terms of such Obligation in effect as of the later of the Credit Event Backstop Date (if specified as applicable in the Pricing Supplement, or, otherwise, the Trade Date) and the date as of which such Obligation is issued or incurred:

- (a) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals (including by way of redenomination);
- (b) a reduction in the amount of principal or premium payable at redemption (including by way of redenomination);
- (c) a postponement or other deferral of a date or dates for either (A) the payment or accrual of interest or (B) the payment of principal or premium;
- (d) a change in the ranking in priority of payment of any Obligation, causing the subordination of such Obligation; or
- (e) any change in the currency of any payment of interest, principal or premium,

**provided that:**

- (i) none of the following shall constitute a Restructuring:
  - (A) the payment in euros of interest, principal or premium in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

- (B) the redenomination from euros into another currency, if (A) the redenomination occurs as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority and (B) a freely available market rate of conversion between euros and such other currency existed at the time of such redenomination and there is no reduction in the rate or amount of interest, principal or premium payable as determined by reference to such freely available market rate of conversion;
  - (C) the occurrence of, agreement to or announcement of any of the events described in paragraph (e) (inclusive), above, due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
  - (D) the occurrence of, agreement to or announcement of any of the events described in paragraphs (a) to (e) (inclusive) above, in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the Reference Entity, **provided that** in respect of paragraph (e) only, no such deterioration in the creditworthiness or financial condition of the Reference Entity is required where the redenomination is from euros into another currency and occurs as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority; and
- (ii) if an exchange has occurred, the determination as to whether one of the events described under paragraphs (a) to (e) (inclusive) above has occurred will be based on a comparison of the terms of the Bond immediately before such exchange and the terms of the resulting obligations immediately following such exchange;

**“Restructuring Date”** means the date on which a Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring;

**“Restructuring Maturity Limitation Date”** means, with respect to a Deliverable Obligation or Valuation Obligation, the Limitation Date occurring on or immediately following the Scheduled Termination Date. Notwithstanding the foregoing, if the final maturity date of the Restructured Bond or Loan with the latest final maturity date of any Restructured Bond or Loan occurs prior to the 2.5-year Limitation Date (such Restructured Bond or Loan, a **“Latest Maturity Restructured Bond or Loan”**) and the Scheduled Termination Date occurs prior to the final maturity date of such Latest Maturity Restructured Bond or Loan, then the Restructuring Maturity Limitation Date will be the final maturity date of such Latest Maturity Restructured Bond or Loan.

**“Revised Currency Rate”** means, with respect to a Replacement Deliverable Obligation specified in a NOPS Amendment Notice, the rate of conversion between the currency in which the Replaced Deliverable Obligation Outstanding Amount is denominated and the currency in which the Outstanding Amount of such Replacement Deliverable Obligation is denominated that is determined either:

- (a) by reference to the Currency Rate Source as at the Next Currency Fixing Time; or
- (b) if such rate is not available at such time, by the Calculation Agent in a commercially reasonable manner after consultation with the parties;

**“Scheduled Termination Date”** means the date specified as such in the Pricing Supplement;

**“Seniority Level”** means, with respect to an obligation of the Reference Entity, (a) “Senior Level” or “Subordinated Level” as specified in the relevant Pricing Supplement, or (b) if no such seniority level is specified in the relevant Pricing Supplement, “Senior Level” if the Original Non-Standard Reference

Obligation is a Senior Obligation or “Subordinated Level” if the Original Non-Standard Reference Obligation is a Subordinated Obligation, failing which (c) “Senior Level”;

“**Senior Obligation**” means any obligation which is not Subordinated to any unsubordinated Borrowed Money obligation of the Reference Entity;

“**Senior Security**” means Note for which (a) the Reference Obligation or Prior Reference Obligation, as applicable, is a Senior Obligation, or (b) there is no Reference Obligation or Prior Reference Obligation;

“**Settlement Date**” means the Auction Settlement Date, the Cash Settlement Date or the Physical Settlement Date, as applicable;

“**Settlement Method**” means either (i) Auction Settlement, (ii) Cash Settlement or (iii) Physical Settlement, as specified in the Pricing Supplement, or if “Settlement Method at Issuer Option” applies, the settlement method in the relevant notice from the Calculation Agent;

“**Solvency Capital Provisions**” means any terms in an obligation which permit the Reference Entity’s payment obligations thereunder to be deferred, suspended, cancelled, converted, reduced or otherwise varied and which are necessary in order for the obligation to constitute capital resources of a particular tier;

“**Sovereign**” means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority acting in a governmental capacity (including, without limiting the foregoing, the central bank) thereof;

“**Sovereign Restructured Deliverable Obligation**” means an Obligation of a Sovereign Reference Entity:

- (a) in respect of which a Restructuring that is the subject of the relevant Credit Event Notice has occurred; and
- (b) which fell within the definition of a Deliverable Obligation immediately preceding the date on which Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring;

“**Sovereign Succession Event**” means, with respect to a Reference Entity that is a Sovereign, an annexation, unification, secession, partition, dissolution, consolidation, reconstitution or other similar event;

“**Specified Currency**” means an obligation that is payable in the currency or currencies specified as such in the relevant Pricing Supplement (or, if “Specified Currency” is specified in the relevant Pricing Supplement and no currency is so specified, any Standard Specified Currency), **provided that** if the euro is a Specified Currency, “Specified Currency” shall also include an obligation that was previously payable in the euro, regardless of any redenomination thereafter if such redenomination occurred as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority;

“**SRO List**” means the list of Standard Reference Obligations as published by ISDA on its website at [www.isda.org](http://www.isda.org) from time to time (or any successor website thereto) or by a third party designated by ISDA on its website from time to time;

“**Standard Reference Obligation**” means the obligation of the Reference Entity with the relevant Seniority Level which is specified from time to time on the SRO List. If the Standard Reference Obligation is removed from the SRO List, such obligation shall cease to be the Reference Obligation (other than for purposes of the “Not Subordinated” Obligation Characteristic or “Not Subordinated” Deliverable Obligation Characteristic) and there shall be no Reference Obligation unless and until such obligation is subsequently replaced on the SRO List, in which case, the new Standard Reference Obligation in respect of the Reference Entity shall constitute the Reference Obligation;

**“Standard Specified Currency”** means each of the lawful currencies of Canada, Japan, Switzerland, France, Germany, the United Kingdom and the United States of America and the euro and any successor currency to any of the aforementioned currencies (which in the case of the euro, shall mean the currency which succeeds to and replaces the euro in whole);

**“Steps Plan”** means a plan evidenced by Eligible Information contemplating that there will be a series of successions to some or all of the Relevant Obligations of the Reference Entity, by one or more entities;

**“Subordinated Obligation”** means any obligation which is Subordinated to any unsubordinated Borrowed Money obligation of the Reference Entity or which would be so Subordinated if any unsubordinated Borrowed Money obligation of the Reference Entity existed;

**“Subordinated Security”** means a Credit Linked Security for which the Reference Obligation or Prior Reference Obligation, as applicable, is a Subordinated Obligation;

**“Subordination”** means, with respect to an obligation (the **“Second Obligation”**) and another obligation of the Reference Entity to which such obligation is being compared (the **“First Obligation”**) a contractual, trust or similar arrangement providing that (A) upon the liquidation, dissolution, reorganisation or winding up of the Reference Entity claims of the holders of the First Obligation are required to be satisfied prior to the claims of the holders of the Second Obligation or (B) the holders of the Second Obligation will not be entitled to receive or retain principal payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the First Obligation. “Subordinated” will be construed accordingly. For purposes of determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, (x) the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement or security arrangements shall not be taken into account, except that, notwithstanding the foregoing, priorities arising by operation of law shall be taken into account where the Reference Entity is a Sovereign and (y) in the case of the Reference Obligation or the Prior Reference Obligation, as applicable, the ranking in priority of payment shall be determined as of the date as of which it was issued or incurred (or in circumstances where the Reference Obligation or a Prior Reference Obligation is the Standard Reference Obligation and “Standard Reference Obligation” is specified as applicable in the related Pricing Supplement, then the priority of payment of the Reference Obligation or the Prior Reference Obligation, as applicable, shall be determined as of the date of selection) and, in each case, shall not reflect any change to such ranking in priority of payment after such date;

**“Substitute Reference Obligation”** means, with respect to a Non-Standard Reference Obligation to which a Substitution Event has occurred, the obligation that will replace the Non-Standard Reference Obligation, determined by the Calculation Agent as follows:

- (a) The Calculation Agent shall identify the Substitute Reference Obligation in accordance with paragraphs (c), (d) and (e) below to replace the Non-Standard Reference Obligation, **provided that** the Calculation Agent will not identify an obligation as the Substitute Reference Obligation if, at the time of the determination, such obligation has already been rejected as the Substitute Reference Obligation by the relevant Credit Derivatives Determinations Committee and such obligation has not changed materially since the date of the relevant DC Resolution.
- (b) If any of the events set forth under paragraph (i) or (iii) of the definition of Substitution Event have occurred with respect to the Non-Standard Reference Obligation, the Non-Standard Reference Obligation will cease to be the Reference Obligation (other than for purposes of the **“Not Subordinated”** Obligation Characteristic or **“Not Subordinated”** Deliverable Obligation Characteristic and paragraph (c)(ii) below). If the event set forth in paragraph (ii) of the definition of Substitution Event has occurred with respect to the Non-Standard Reference Obligation and no Substitute Reference Obligation is available, the Non-Standard Reference Obligation will continue

to be the Reference Obligation until the Substitute Reference Obligation is identified or, if earlier, until any of the events set forth under paragraph (i) or (iii) of the definition of Substitution Event occur with respect to such Non-Standard Reference Obligation.

- (c) The Substitute Reference Obligation shall be an obligation that on the Substitution Date:
- (i) is a Borrowed Money obligation of the Reference Entity (either directly or as provider of a guarantee);
  - (ii) satisfies the Not Subordinated Deliverable Obligation Characteristic as of the date it was issued or incurred (without reflecting any change to the priority of payment after such date) and on the Substitution Date; and
  - (iii)
    - (A) if the Non-Standard Reference Obligation was a Conforming Reference Obligation when issued or incurred and immediately prior to the Substitution Event Date:
      - (1) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of “Deliverable Obligation”; or if no such obligation is available,
      - (2) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of “Deliverable Obligation”,
    - (B) if the Non-Standard Reference Obligation was a Bond (or any other Borrowed Money obligation other than a Loan) which was a Non-Conforming Reference Obligation when issued or incurred and/or immediately prior to the Substitution Event Date:
      - (1) is a Non-Conforming Substitute Reference Obligation (other than a Loan); or if no such obligation is available,
      - (2) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of “Deliverable Obligation”; or if no such obligation is available,
      - (3) is a Non-Conforming Substitute Reference Obligation which is a Loan (other than a Private-side Loan); or if no such obligation is available,
      - (4) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of “Deliverable Obligation”, or
    - (C) if the Non-Standard Reference Obligation was a Loan which was a Non-Conforming Reference Obligation when incurred and/or immediately prior to the Substitution Event Date:
      - (1) is a Non-Conforming Substitute Reference Obligation which is a Loan (other than a Private-side Loan); or if no such obligation is available,
      - (2) is a Non-Conforming Substitute Reference Obligation (other than a Loan); or if no such obligation is available,
      - (3) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of “Deliverable Obligation”; or if no such obligation is available,

- (4) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of “Deliverable Obligation”.
- (d) If more than one potential Substitute Reference Obligation is identified pursuant to the process described in paragraph (c) above, the Substitute Reference Obligation will be the potential Substitute Reference Obligation that most closely preserves the economic equivalent of the delivery and payment obligations of the Issuer in respect of the relevant Notes, as determined by the Calculation Agent. The Calculation Agent will notify the Issuer of the Substitute Reference Obligation within a reasonable period after it has been identified in accordance with paragraph (c) above and the Substitute Reference Obligation shall replace the Non-Standard Reference Obligation immediately upon such notification.
- (e) If a Substitution Event has occurred with respect to the Non-Standard Reference Obligation and the Calculation Agent determines that no Substitute Reference Obligation is available for the Non-Standard Reference Obligation, then, subject to paragraph (a) above and notwithstanding the fact that the Non-Standard Reference Obligation may have ceased to be the Reference Obligation in accordance with paragraph (b) above, the Calculation Agent shall continue to attempt to identify the Substitute Reference Obligation.

“**Substitution Date**” means, with respect to a Substitute Reference Obligation, the date on which the Calculation Agent determines that such Substitute Reference Obligation has been identified in accordance with the definition of Substitute Reference Obligation;

“**Substitution Event**” means, with respect to the Non-Standard Reference Obligation:

- (a) the Non-Standard Reference Obligation is redeemed in whole;
- (b) the aggregate amounts due under the original Non-Standard Reference Obligation have been reduced by redemption or otherwise below USD10,000,000 (or its equivalent in the relevant Obligation Currency, as determined by the Calculation Agent); or
- (c) for any reason, other than due to the existence or occurrence of a Credit Event, the Non-Standard Reference Obligation is no longer an obligation of the Reference Entity (either directly or as provider of a guarantee).

For purposes of identification of the Non-Standard Reference Obligation, any change in the Non-Standard Reference Obligation’s CUSIP or ISIN number or other similar identifier will not, in and of itself, constitute a Substitution Event.

If an event described in paragraph (i) or (ii) above has occurred on or prior to the Trade Date, then a Substitution Event shall be deemed to have occurred pursuant to paragraph (i) or (ii) above, as the case may be, on the Trade Date;

“**Succession Date**” means the legally effective date of an event in which one or more entities succeed to some or all of the Relevant Obligations of the Reference Entity; **provided that**, if at such time, there is a Steps Plan, the Succession Date will be the legally effective date of the final succession in respect of such Steps Plan, or if earlier (i) the date on which a determination of the Calculation Agent in accordance with the definition of “Successor” would not be affected by any further related successions in respect of such Steps Plan, or (ii) the occurrence of an Event Determination Date in respect of the Reference Entity or any entity which would constitute a Successor;

“**Substitute Reference Obligation Resolution Request Date**” means, with respect to a notice to the DC Secretary requesting that a Credit Derivatives Determinations Committee be convened to Resolve a Substitute Reference Obligation to the Non-Standard Reference Obligation, the date, as publicly announced

by the DC Secretary, that the relevant Credit Derivatives Determinations Committee Resolves to be the date on which such notice is effective;

“**Substitution Event Date**” means, with respect to the Reference Obligation, the date of the occurrence of the relevant Substitution Event;

“**Successor**” means, subject to the restrictions set out in paragraphs (a) to (c) below, the entity or entities, if any, determined as follows:

- (a) subject to paragraph (g) below, if one entity succeeds, either directly or as a provider of a Relevant Guarantee, to seventy-five per cent. or more of the Relevant Obligations of the Reference Entity, that entity will be the sole Successor in respect of the relevant Reference Entity;
- (b) if only one entity succeeds, either directly or as a provider of a Relevant Guarantee, to more than twenty-five per cent. (but less than seventy-five per cent.) of the Relevant Obligations of the Reference Entity, and not more than twenty-five per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entity that succeeds to more than twenty-five per cent. of the Relevant Obligations will be the sole Successor in respect of the relevant Reference Entity;
- (c) if more than one entity each succeeds, either directly or as a provider of a Relevant Guarantee, to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity, and not more than twenty-five per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entities that succeed to more than twenty-five per cent. of the Relevant Obligations will each be a Successor (subject to Condition 11(a)K (*Succession Event*));
- (d) if one or more entities each succeeds, either directly or as a provider of a Relevant Guarantee, to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity, and more than twenty-five per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, each such entity and the Reference Entity will each be a Successor (subject to Condition 11(a)K (*Succession Event*));
- (e) if one or more entities succeed, either directly or as a provider of a Relevant Guarantee, to a portion of the Relevant Obligations of the Reference Entity, but no entity succeeds to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity and the Reference Entity continues to exist, there will be no Successor and the Reference Entity will not be changed in any way as a result of such succession;
- (f) if one or more entities succeed, either directly or as a provider of a Relevant Guarantee, to a portion of the Relevant Obligations of the Reference Entity, but no entity succeeds to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity and the Reference Entity ceases to exist, the entity which succeeds to the greatest percentage of Relevant Obligations will be the Successor (**provided that** if two or more entities succeed to an equal percentage of Relevant Obligations, each such entity will be a Successor (subject to Condition 11(a)K (*Succession Event*)));
- (g) in respect of a Reference Entity which is not a Sovereign, if one entity assumes all of the obligations (including at least one Relevant Obligation) of the Reference Entity, and at the time of the determination either (A) the Reference Entity has ceased to exist, or (B) the Reference Entity is in the process of being dissolved (howsoever described) and the Reference Entity has not issued or incurred any Borrowed Money obligation at any time since the legally effective date of the assumption, such entity (the “**Universal Successor**”) will be the sole Successor in respect of the relevant Reference Entity.

The Calculation Agent will be responsible for determining, as soon as reasonably practicable after delivery of a Successor Notice and with effect from the Succession Date, any Successor or Successors; **provided that**



the Calculation Agent will not make such determination if, at the time of such determination, the DC Secretary has publicly announced that the relevant Credit Derivatives Determinations Committee has Resolved that there is no Successor based on the relevant succession to Relevant Obligations. The Calculation Agent will make all calculations and determinations required to be made under this definition on the basis of Eligible Information and will notify the Issuer of any such calculation or determination as soon as practicable. In calculating the percentages used to determine whether an entity qualifies as a Successor, if there is a Steps Plan, the Calculation Agent shall consider all related successions in respect of such Steps Plan in aggregate as if forming part of a single succession.

An entity may only be a Successor if:

- (i) either (A) the related Succession Date occurs on or after the Successor Backstop Date, or (B) such entity is a Universal Successor in respect of which the Succession Date occurred on or after January 1, 2014;
- (ii) the Reference Entity had at least one Relevant Obligation outstanding immediately prior to the Succession Date and such entity succeeds to all or part of at least one Relevant Obligation of the Reference Entity; and
- (iii) where the Reference Entity is a Sovereign, such entity succeeded to the Relevant Obligations by way of a Sovereign Succession Event.

For purposes of this definition, “**succeed**” means, with respect to the Reference Entity and its Relevant Obligations, that an entity other than the Reference Entity (I) assumes or becomes liable for such Relevant Obligations, whether by operation of law or pursuant to any agreement (including, with respect to a Reference Entity that is a Sovereign, any protocol, treaty, convention, accord, concord, entente, pact or other agreement), or (II) issues Bonds or incurs Loans (the “**Exchange Bonds or Loans**”) that are exchanged for Relevant Obligations, and in either case the Reference Entity is not thereafter a direct obligor or a provider of a Relevant Guarantee with respect to such Relevant Obligations or such Exchange Bonds or Loans, as applicable. For purposes of this definition, “succeeded” and “succession” shall be construed accordingly.

In the case of an exchange offer, the determination required pursuant to this definition shall be made on the basis of the Outstanding Principal Balance of Relevant Obligations exchanged and not on the basis of the Outstanding Principal Balance of the Exchange Bonds or Loans.

If two or more entities (each, a “**Joint Potential Successor**”) jointly succeed to a Relevant Obligation (the “**Joint Relevant Obligation**”) either directly or as a provider of a Relevant Guarantee, then (i) if the Joint Relevant Obligation was a direct obligation of the Reference Entity, it shall be treated as having been succeeded to by the Joint Potential Successor (or Joint Potential Successors, in equal parts) which succeeded to such Joint Relevant Obligation as direct obligor or obligors, or (ii) if the Joint Relevant Obligation was a Relevant Guarantee, it shall be treated as having been succeeded to by the Joint Potential Successor (or Joint Potential Successors, in equal parts) which succeeded to such Joint Relevant Obligation as guarantor or guarantors, if any, or otherwise by each Joint Potential Successor in equal parts.

“**Successor Backstop Date**” means, for purposes of any Successor determination determined by DC Resolution, the date that is ninety calendar days prior to the Successor Resolution Request Date, otherwise, the date that is ninety calendar days prior to the earlier of (i) the date on which the Successor Notice is effective and (ii) in circumstances where (A) a Successor Resolution Request Date has occurred, (B) the relevant Credit Derivatives Determinations Committee has Resolved not to make a Successor determination and (C) the Successor Notice is delivered by the Calculation Agent not more than fourteen calendar days after the day on which the DC Secretary publicly announces that the relevant Credit Derivatives Determinations Committee has Resolved not to make a Successor determination, the Successor Resolution Request Date. The Successor Backstop Date shall not be subject to adjustment in accordance with any Business Day Convention;

**“Successor Notice”** means an irrevocable notice from the Calculation Agent that describes a succession (or, in relation to a Reference Entity that is a Sovereign, a Sovereign Succession Event) in respect of which a Succession Date has occurred and pursuant to which one or more Successors to the Reference Entity can be determined, and which contains a description in reasonable detail of the facts relevant to the determination to be made pursuant to the definition of Successor and any consequential amendments to the Reference Portfolio and/or the Notes as a result thereof.

**“Successor Resolution Request Date”** means, with respect to a notice to the DC Secretary requesting that a Credit Derivatives Determinations Committee be convened to Resolve one or more Successors to the Reference Entity, the date, as publicly announced by the DC Secretary, that the relevant Credit Derivatives Determinations Committee Resolves to be the date on which such notice is effective;

**“Termination Date”** means either:

- (a) the Scheduled Termination Date; or
- (b) where the Calculation Agent determines a Potential Credit Event has occurred, the Termination Date shall be:
  - (i) the date falling two Business Days after the expiry of the Notice Delivery Period; or
  - (ii) at the Issuer’s option, if a Credit Event Resolution Request Date has occurred on or prior to the expiry of the Notice Delivery Period in relation to a Reference Entity, the date falling 15 Business Days following any date on which the Credit Derivatives Determinations Committee Resolves that the relevant event does not constitute a Credit Event, or Resolves not to make such determination;

**“Trade Date”** means the date specified in the Pricing Supplement;

**“Transaction Auction Settlement Terms”** means the Credit Derivatives Auction Settlement Terms for which a relevant credit derivative transaction (including any Hedge Transaction) would be an Auction Covered Transaction;

**“Transaction Type”** means the transaction type specified in the Pricing Supplement in respect of each Reference Entity;

**“Transferable”** means an obligation that is transferable to institutional investors without any contractual, statutory or regulatory restriction **provided that** none of the following shall be considered contractual, statutory or regulatory restrictions:

- (a) contractual, statutory or regulatory restrictions that provide for eligibility for resale pursuant to Rule 144A or Regulation S promulgated under the United States Securities Act of 1933, as amended (and any contractual, statutory or regulatory restrictions promulgated under the laws of any jurisdiction having a similar effect in relation to the eligibility for resale of an obligation);
- (b) restrictions on permitted investments such as statutory or regulatory investment restrictions on insurance companies and pension funds; or
- (c) restrictions in respect of blocked periods on or around payment dates or voting periods; **“Underlying Obligation”** means, with respect to a guarantee, the obligation which is the subject of the guarantee;

**“Underlying Obligor”** means, with respect to an Underlying Obligation, the Issuer in the case of a Bond, the borrower in the case of a Loan, or the principal obligor in the case of any other Underlying Obligation;

**“Valuation Date”** means:

- (a) any date as selected by the Calculation Agent in its sole discretion that is no later than 122 Business Days after the Event Determination Date or Auction Cancellation Date or No Auction Announcement Date, as the case may be; or
- (b) if Partial Cash Settlement applies, any date as selected by the Calculation Agent in its sole discretion that is no later than 15 Business Days after the Latest Permissible Physical Settlement Date or, as applicable, the Extended Physical Settlement Date;

**“Valuation Obligation”** means in respect of a Reference Entity, notwithstanding anything to the contrary in this Credit Linked Derivatives Annex, one or more obligations of such Reference Entity (either directly or as provider of a Qualifying Guarantee or, as the case may be, Qualifying Affiliate Guarantee), which would constitute a “Deliverable Obligation” if Physical Settlement were the applicable Settlement Method as selected by the Calculation Agent in its sole and absolute discretion on the applicable Valuation Date, **provided that**, for such purpose:

- (a) any reference to the words “Delivery Date” in the definitions of “Conditionally Transferable Obligation”, “Deliverable Obligation”, within any of the terms comprising “Deliverable Obligation Category” or “Deliverable Obligation Characteristic” and “Due and Payable Amount” shall be deemed to be a reference to the words “relevant Valuation Date”;
- (b) the deletion of the words “being Delivered” in the definition of “Deliverable Obligation”; and
- (c) the deletion of the whole of the second paragraph within the definition of “Not Contingent” and replacing it with the following:

“If an Obligation is a Convertible Obligation or an Exchangeable Obligation, then such Obligation may only be selected as a Valuation Obligation if the rights referred to in paragraphs (A) and (B) above have not been exercised (or such exercise has been effectively rescinded) on or before the relevant Valuation Date.”

For the avoidance of doubt, the use of Deliverable Obligation terms in the definition of **“Valuation Obligation”** is for convenience only and is not intended to amend the selected settlement method.

If the Calculation Agent selects more than one Valuation Obligation with respect to a Reference Entity, then the Calculation Agent shall in its sole and absolute discretion apportion to each such Valuation Obligation an outstanding principal balance (or the equivalent in the Specified Currency thereof converted at the foreign exchange rate prevailing on any date from (and including) the Event Determination Date to and (including) the Valuation Date, as selected by the Calculation Agent in its discretion), which in aggregate shall not exceed the relevant Reference Entity Notional Amount;

**“Valuation Time”** means the time specified as such in the Pricing Supplement or if no such time is specified, 11:00 a.m. in London;

**“Voting Shares”** means the shares or other interests that have the power to elect the board of directors or similar governing body of an entity;

**“Weighted Average Final Price”** means the weighted average of the Final Prices determined for each selected Valuation Obligation of the relevant Reference Entity, weighted by the outstanding principal balance of each such Valuation Obligation;

**“Weighted Average Quotation”** means, in accordance with the Quotation Method, the weighted average of firm quotations obtained from Dealers at the Valuation Time, to the extent reasonably practicable, each for an amount of any Valuation Obligation or Deliverable Obligation with an Outstanding Principal Balance or Due and Payable Amount, as applicable, of as large a size as available but less than the Quotation Amount (but of a size equal to the Minimum Quotation) that in the aggregate are approximately equal to the Quotation Amount; and

Terms defined in the “Terms and Conditions of the Notes” and/or the Pricing Supplement have the same meaning in this Credit Linked Derivatives Annex. In the event of any inconsistency between the Conditions and the Additional Conditions, the Additional Conditions will prevail. In the event of any inconsistency between the Pricing Supplement and the Conditions and the Additional Conditions, the Pricing Supplement will prevail.

**APPENDIX 1**  
**FORM OF CREDIT EVENT NOTICE**

**[AND NOTICE OF PUBLICLY AVAILABLE INFORMATION]**

From: **China Everbright Bank Co., Ltd., Hong Kong Branch**

23/F, Everbright Centre, 108 Gloucester Road Wan Chai, Hong Kong

To: The holders of the Notes (the “**Noteholders**”)

To be delivered via [Euroclear/Clearstream/specify other clearing system] (the “**Clearing System**”)

[Date]

**CREDIT EVENT NOTICE [AND NOTICE OF PUBLICLY AVAILABLE INFORMATION]**  
**CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH**  
**(the “Issuer”)**

**U.S.\$5,000,000,000 Medium Term Note Programme**

*[Brief Description and Amount of Notes]*

Series No.: [•] Tranche No.: [•] ISIN: [•] (the “**Notes**”)

We refer to the Pricing Supplement dated *[insert date]* in respect of the Notes (the “**Pricing Supplement**”). Terms that are not defined herein, shall have the meanings attributed to them in the Pricing Supplement.

This letter is our Credit Event Notice to you that a *[insert type]* Credit Event occurred with respect to *[insert name]* on or about *[insert date]* (as determined by the Calculation Agent), when *[describe Credit Event]*.

[This letter also comprises our Notice of Publicly Available Information with respect to this Credit Event. Accordingly, we provide the Publicly Available Information attached hereto.]<sup>1</sup>

[This letter also comprises our notice for [Settlement Method at Issuer Option] [and] [Fallback Settlement Method at Issuer Option]. Accordingly, we hereby elect that [the Settlement Method will be [Auction Settlement/Cash Settlement/Physical Settlement]] [and] [the Fallback Settlement Method will be [Cash Settlement/Physical Settlement]].]

Nothing in this letter shall be construed as a waiver of any rights we may have with respect to the Notes.

Yours faithfully

**China Everbright Bank Co., Ltd., Hong Kong Branch**

By: \_\_\_\_\_

**APPENDIX 2**  
**FORM OF NOTICE OF PHYSICAL SETTLEMENT**

From: **China Everbright Bank Co., Ltd., Hong Kong Branch**  
23/F, Everbright Centre, 108 Gloucester Road Wan Chai, Hong Kong

To: The holders of the Notes (the “**Noteholders**”)

To be delivered via [Euroclear/Clearstream/specify other clearing system] (the “**Clearing System**”)

[Date]

**NOTICE OF PHYSICAL SETTLEMENT**

**CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH**  
(the “**Issuer**”)

**U.S.\$5,000,000,000 Medium Term Note Programme**

[Brief Description and Amount of Notes]

Series No.: [•] Tranche No.: [•] ISIN: [•] (the “**Notes**”)

We refer to the Pricing Supplement dated [insert date] in respect of the Notes (the “**Pricing Supplement**”) [and to the Credit Event Notice [and Notice of Publicly Available Information] dated [insert date]], previously delivered to you. Terms that are not defined herein, shall have the meanings attributed to them in the Pricing Supplement.

This letter constitutes a Notice of Physical Settlement.

We hereby confirm that we will settle the Notes and require performance by you in accordance with the terms of the Notes. Subject to the terms of the Notes, we will deliver to you on or before the Physical Settlement Date, [[currency amount] [outstanding principal balance] [Due and Payable Amount]] of the following Deliverable Obligations(s):

[describe the Deliverable Obligation(s) to be Delivered, including the outstanding principal balance or Due and Payable Amount for each such Deliverable Obligation and, if available and applicable, the CUSIP or ISIN number (or, if such identifying number is not available, the rate and tenor of the Deliverable Obligation)]

[Further, we hereby identify the following Enabling Obligation(s):]

[describe each such Enabling Obligation, including the CUSIP or ISIN number, if available and applicable (or, if such identifying number is not available, the rate and tenor), of such Enabling Obligation, or any other information necessary to establish that such obligation is an Enabling Obligation]

[This letter also comprises our notice for Settlement Method at Issuer Option. Accordingly, we hereby elect that the Settlement Method will be Physical Settlement.]

Yours faithfully

**China Everbright Bank Co., Ltd., Hong Kong Branch**

By: \_\_\_\_\_

**APPENDIX 3**  
**FORM OF NOPS AMENDMENT NOTICE**

From: **China Everbright Bank Co., Ltd., Hong Kong Branch**  
23/F, Everbright Centre, 108 Gloucester Road Wan Chai, Hong Kong

To: The holders of the Notes (the “**Noteholders**”)

To be delivered via [Euroclear/Clearstream/specify other clearing system] (the “**Clearing System**”)

[Date]

**NOPS AMENDMENT NOTICE**

**CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH**  
(the “**Issuer**”)

**U.S.\$5,000,000,000 Medium Term Note Programme**

*[Brief Description and Amount of Notes]*

Series No.: [•] Tranche No.: [•] ISIN: [•] (the “**Notes**”)

We refer to the Pricing Supplement dated *[insert date]* in respect of the Notes (the “**Pricing Supplement**”) [and to the Credit Event Notice [and Notice of Publicly Available Information] dated *[insert date]*] and the Notice of Physical Settlement dated *[insert date]* [and the NOPS Amendment Notice(s) dated *[insert date]* and *[insert date]*], previously delivered to you. Terms that are not defined herein, shall have the meanings attributed to them in the Pricing Supplement.

This letter constitutes a NOPS Amendment Notice.

We hereby confirm that we are replacing, [in whole or in part], [[currency amount] [outstanding principal balance] [Due and Payable Amount]] of the following Deliverable Obligation(s) specified in the [Notice of Physical Settlement/NOPS Amendment Notice] dated *[insert date]*:

*[describe the Deliverable Obligation(s) to be replaced, including the outstanding principal balance or Due and Payable Amount for each such Deliverable Obligation and, if available and applicable, the CUSIP or ISIN number (or, if such identifying number is not available, the rate and tenor of the Deliverable Obligation)]*

with [[currency amount] [outstanding principal balance] [Due and Payable Amount]] of the following Deliverable Obligation(s):

*[describe the replacement Deliverable Obligation(s), including the outstanding principal balance or Due and Payable Amount for each such Deliverable Obligation and, if available and applicable, the CUSIP or ISIN number (or, if such identifying number is not available, the rate and tenor of the Deliverable Obligation)]*

Yours faithfully

**China Everbright Bank Co., Ltd., Hong Kong Branch**

By: \_\_\_\_\_

**APPENDIX 4**  
**FORM OF ASSET TRANSFER NOTICE**

From: **China Everbright Bank Co., Ltd., Hong Kong Branch**

23/F, Everbright Centre, 108 Gloucester Road Wan Chai, Hong Kong

To: [Euroclear/Clearstream/specify other clearing system] (the “**Clearing System**”) [insert address of clearing system]

From: [insert name and address of Noteholder]

[Date]

ASSET TRANSFER NOTICE

**CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH**  
**(the “Issuer”)**

**U.S.\$5,000,000,000 Medium Term Note Programme**

[Brief Description and Amount of Notes]

Series No.: [•] Tranche No.: [•] ISIN: [•] (the “**Notes**”)

We refer to the Pricing Supplement dated [insert date] in respect of the Notes (the “Pricing Supplement”) [and to the Credit Event Notice dated [insert date]] and the Notice of Physical Settlement dated [insert date] [and the NOPS Amendment Notice(s) dated [insert date] and [insert date]], previously delivered to us. Terms that are not defined herein, shall have the meanings attributed to them in the Pricing Supplement.

This letter constitutes an Asset Transfer Notice and relates to [insert number and aggregate nominal amount] of Notes.

We hereby confirm that we are the legal owner of the above Notes, [held via [insert Clearing System name] at account [insert Clearing System account details]].

- (1) Delivery of the Relevant Proportion of the Deliverable Obligation(s) should be made to: [insert name, address and account details of the person to whom Delivery should be made]
- (2) Notices in relation to the Deliverable Obligations should be sent to:
  - (i) Attention: [insert contact person name]
  - (ii) Address: [insert address]
  - (iii) E-mail: [insert e-mail address]
  - (iv) Fax: [insert fax number]
  - (v) Telephone: [insert telephone number]

- (3) Payments in relation to the Deliverable Obligations should be made to:

[insert account details including Bank, Branch Address, Branch Code, Account Number and Account Name]

If the Notes are Registered Notes, we hereby irrevocably instruct and authorise the Registrar to effect the transfer of the Notes.

We hereby irrevocably instruct and authorise the Clearing System to debit the relevant account with such Notes on the due date for redemption of the Notes.



We hereby authorise the Clearing System, the Issuer and the Calculation Agent to produce this notice in any administrative or legal proceedings.

We hereby authorise the Issuer to deduct from the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations to be delivered in accordance with such notice, the Delivery Expenses.

We hereby represent that, as of the date hereof and as of the date on which the Deliverable Obligation(s) are to be delivered, neither compliance with any authority or request contained in this Asset Transfer Notice by any person to whom such authority or request is given; nor completion and delivery of this Asset Transfer Notice to the Issuer or Calculation Agent by us is, or will result in, a breach of any exchange control, fiscal or other laws or regulations for the time being applicable.

Yours faithfully

[insert name of Noteholder]

By: \_\_\_\_\_

.....	Certifying signature (2):
Name:	
Title:	

[To be completed by the Issuer] Received by:

[Signature and stamp of the Issuer] At its office at: [•]

On: [•]

Notes:

1. Any Notes or Certificates so returned or Certificates issued will be sent by post, uninsured and at the risk of the Noteholder, unless the Noteholder otherwise requests and pays the costs of such insurance in advance to the Issuer. This section need only be completed in respect of Registered Notes if the Certificate is not to be forwarded to the Registered Address.
2. The signature of any person relating to Registered Notes shall conform to a list of duly authorised specimen signatures supplied by the holder of such Notes or (if such signature corresponds with the name as it appears on the face of the certificate) be certified by a notary public or a recognised bank or be supported by such other evidence as the Issuer may reasonably require. A representative of the holder should state the capacity in which he signs.
3. This Asset Transfer Notice is not valid unless all of the paragraphs requiring completion are duly completed.
4. The Issuer shall not in any circumstances be liable to the Noteholder or any other person for any loss or damage arising from any act, default or omission of the Issuer in relation to the Notes or any of them unless such loss or damage was caused by the fraud or negligence of the Issuer or its directors, officers or employees

## DESCRIPTION OF AUCTION SETTLEMENT TERMS

If an Event Determination Date occurs with respect to the Notes and Auction Settlement applies, the Auction Settlement Amount with respect to the Notes will be calculated based on an Auction Final Price or Parallel Auction Final Price for the Reference Entity (if any). This description contains a summary of certain provisions of the Form of Credit Derivatives Auction Settlement Terms set forth at Annex B to the 2009 ISDA Credit Derivatives Determinations Committees and Auction Settlement Supplement to the 2003 ISDA Credit Derivatives Definitions, published by the International Swaps and Derivatives Association, Inc. (“**ISDA**”) on 12 March 2009 (the “**Form of Auction Settlement Terms**”) and is qualified by reference to the detailed provisions thereof and is subject to amendment from time to time in accordance with the Rules, including any amendment following the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement dated 14 July 2009, as published by ISDA. The following does not purport to be complete and prospective investors must refer to the Form of Auction Settlement Terms for detailed information regarding the auction methodology set forth therein (the “**Auction Methodology**”). The Auction and the Auction Methodology apply to credit default swaps on the Reference Entity and do not apply specifically to the Notes. A copy of the Form of Auction Settlement Terms may be inspected at the offices of the Issuer and is also currently available at [www.isda.org](http://www.isda.org).

Investors should be aware that this summary of the Form of Auction Settlement Terms is accurate only as of the date hereof and the Form of Auction Settlement Terms may be amended from time to time without consultation with investors. At any time after the date of this memorandum, the latest Form of Auction Settlement Terms will be available on the ISDA website at [www.isda.org](http://www.isda.org) (or any successor website thereto). Further, notwithstanding the fact that the Form of Auction Settlement Terms (as may be amended from time to time) appears on the ISDA website, investors should note that the Credit Derivatives Determinations Committees have the power to amend the form of Credit Derivatives Auction Settlement Terms for a particular auction and that this summary may therefore not be accurate in all cases.

Capitalised terms used but not defined in this summary have the meaning specified in the Rules and the Form of Auction Settlement Terms. All times of day in this summary refer to such times in London.

## PUBLICATION OF CREDIT DERIVATIVES AUCTION SETTLEMENT TERMS

Pursuant to the Credit Derivatives Determinations Committees Rules set forth in Annex A to the 2009 ISDA Credit Derivatives Determinations Committees and Auction Settlement Supplement to the 2003 ISDA Credit Derivatives Definitions (published on March 12, 2009) (the “**ISDA Rules**”), a Credit Derivatives Determinations Committee may determine that a Credit Event has occurred in respect of a Reference Entity (such entity, an “**Affected Reference Entity**”) and that one or more auctions will be held in order to settle affected Auction Covered Transactions referencing such Affected Reference Entity based upon an Auction Final Price determined according to an auction procedure set forth in the Form of Auction Settlement Terms (each, an “**Auction**”). If an Auction is to be held, the Credit Derivatives Determinations Committee will publish Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity, based upon the Form of Auction Settlement Terms. In doing so, the Credit Derivatives Determinations Committee will make several related determinations, including the date on which the Auction will be held (the “**Auction Date**”), the institutions that will act as participating bidders in the Auction (the “**Participating Bidders**”) and the supplemental terms that are detailed in Schedule 1 to the Form of Auction Settlement Terms. The Credit Derivatives Determinations Committee may also amend the Form of Auction Settlement Terms for a particular auction and may determine that a public comment period is necessary in order to effect such an amendment if such amendment is not contemplated by the ISDA Rules.

“**Auction Covered Transactions**” are credit derivative transactions referencing the Affected Reference Entity which satisfy the criteria set forth in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity, including in respect of the provisions in such credit derivative

transactions that set forth the criteria for establishing what obligations may constitute Deliverable Obligations (or, in the case of a cash settled credit derivative transaction, the provisions therein that set forth the criteria for establishing what obligations may be valued to determine a final price).

## **AUCTION METHODOLOGY**

### **Determining the Auction Currency Rate**

On a specified fixing date, the “**Administrators**” (being both Markit Group Limited and Creditex Securities Corp. or such other entities appointed by ISDA) will determine the rate of conversion (each, an “**Auction Currency Rate**”) as between the relevant currency and the currency of denomination of each Deliverable Obligation (each, a “**Relevant Pairing**”) by reference to a rate source or, if such rate source is unavailable, by seeking mid-market rates of conversion from Participating Bidders (determined by each such Participating Bidder in a commercially reasonable manner) for each such Relevant Pairing.

### **Initial Bidding Period**

During the Initial Bidding Period (which is the period initially determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity, as such period may be extended by the Administrators, *inter alia*, to preserve the integrity of an Auction), Participating Bidders will submit to the Administrators: (a) Initial Market Bids; (b) Initial Market Offers; (c) Dealer Physical Settlement Requests; and (d) Customer Physical Settlement Requests (to the extent received from customers).

Initial Market Bids and Initial Market Offers are firm quotations, expressed as percentages, to enter into credit derivative transactions in respect of the Affected Reference Entity on terms equivalent to the Representative Auction-Settled Transaction. A “**Representative Auction-Settled Transaction**” is a hypothetical single-name, physically settled credit default swap transaction referencing the Affected Reference Entity with the standard terms specified in the Form of Auction Settlement Terms.

The Initial Market Bid and Initial Market Offer submitted by each Participating Bidder must differ by no more than the designated Maximum Initial Market Bid-Offer Spread and must be an integral multiple of the Relevant Pricing Increment (each as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity). The Initial Market Bid must be less than the Initial Market Offer.

Dealer Physical Settlement Requests and Customer Physical Settlement Requests are firm commitments, submitted by a Participating Bidder, on its own behalf or on behalf of a customer, as applicable, to enter into a Representative Auction-Settled Transaction, in each case, as seller (in which case, such commitment will be a “**Physical Settlement Buy Request**”) or as buyer (in which case, such commitment will be a “**Physical Settlement Sell Request**”). Each Dealer Physical Settlement Request must be, to the best of such Participating Bidder’s knowledge and belief, in the same direction as, and not in excess of, its Market Position. Each Customer Physical Settlement Request must be, to the best of the relevant customer’s knowledge and belief (aggregated with all Customer Physical Settlement Requests submitted by such customer), in the same direction as, and not in excess of, its Market Position.

If the Administrators do not receive valid Initial Market Bids and Initial Market Offers from at least a minimum number of Participating Bidders (as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity), the timeline will be adjusted and the Initial Bidding Period extended, with the Auction recommencing at such time(s) specified by the Administrators, otherwise it will proceed as follows.

The “**Market Position**” with respect to a Participating Bidder or customer, as applicable, is the aggregate amount of Deliverable Obligations that the relevant Participating Bidder or customer, as applicable, would have to buy or sell in order to obtain an identical risk profile after the Auction Settlement Date compared to

its risk profile prior to the Auction Settlement Date with respect to all Auction Covered Transactions (excluding those Auction Covered Transactions for which the trade date is the date on which the Auction Final Price is determined (the “**Auction Final Price Determination Date**”)) and all Auction-Linked Cash Settled Transactions to which such Participating Bidder, or any affiliate of such Participating Bidder, as applicable, or such customer, or any affiliate of such customer, as applicable, is a party and to which every other party is an Auction Party, such risk profile to be determined without regard to whether the original transactions were documented as cash settled or physically settled transactions.

### **Determination of Open Interest, Initial Market Midpoint and Adjustment Amounts**

The Administrators will calculate the Open Interest, the Initial Market Midpoint and any Adjustment Amounts in respect of the Auction.

The Open Interest is the difference between all Physical Settlement Sell Requests and all Physical Settlement Buy Requests.

To determine the Initial Market Midpoint, the Administrators will: (a) sort the Initial Market Bids in descending order and the Initial Market Offers in ascending order, identifying non-tradeable markets for which bids are lower than offers; (b) sort non-tradeable markets in terms of tightness of spread between Initial Market Bid and Initial Market Offer; and (c) identify that half of the non-tradeable markets with the tightest spreads. The Initial Market Midpoint is determined as the arithmetic mean of the Initial Market Bids and Initial Market Offers contained in the half of non-tradeable markets with the tightest spreads.

Any Participating Bidder whose Initial Market Bid or Initial Market Offer forms part of a tradeable market will be required to make a payment to ISDA on the third Business Day after the Auction Final Price Determination Date (an “**Adjustment Amount**”), calculated in accordance with the Auction Methodology. Any payments of Adjustment Amounts will be used by ISDA to defray any costs related to any auction that ISDA has coordinated, or that ISDA may in the future coordinate, for purposes of settlement of credit derivative transactions.

If for any reason no single Initial Market Midpoint can be determined, the procedure set out above may be repeated.

At or prior to the Initial Bidding Information Publication Time (as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity) on any day on which the Initial Bidding Period has successfully concluded, the Administrators publish the Open Interest, the Initial Market Midpoint and the details of any Adjustment Amounts in respect of the Auction.

If the Open Interest is zero, the Auction Final Price will be the Initial Market Midpoint.

### **Submission of Limit Order Submissions**

In the event that the Open Interest does not equal zero, a subsequent bidding period will be commenced during the Initial Bidding Period which: (a) if the Open Interest is an offer to sell Deliverable Obligations, Participating Bidders submit Limit Bids; or (b) if the Open Interest is a bid to purchase Deliverable Obligations, Limit Offers, in each case, on behalf of customers and for their own account.

### **Matching bids and offers**

If the Open Interest is a bid to purchase Deliverable Obligations, the Administrators will match the Open Interest against all Initial Market Offers and Limit Offers, as further described in the Auction Methodology. If the Open Interest is an offer to sell Deliverable Obligations, the Administrators will match the Open Interest against all Initial Market Bids and Limit Bids, as further described in the Auction Methodology.

#### **(a) Auction Final Price when the Open Interest is Filled**

The Auction Final Price will be the price associated with the matched Initial Market Bids and Limit Bids or Initial Market Offers and Limit Offers, as applicable, that is the highest offer or the lowest bid, as applicable, provided that: (a) if the Open Interest is an offer to sell and the price associated with the lowest matched bid exceeds the Initial Market Midpoint by more than the “**Cap Amount**” (being the percentage that is equal to one half of the Maximum Initial Market Bid-Offer Spread (rounded to the nearest Relevant Pricing Increment)), then the Auction Final Price will be the Initial Market Midpoint plus the Cap Amount; and (b) if the Open Interest is a bid to purchase and the Initial Market Midpoint exceeds the price associated with the highest offer by more than the Cap Amount, then the Auction Final Price will be the Initial Market Midpoint minus the Cap Amount.

(b) ***Auction Final Price when the Open Interest is Not Filled***

If, once all the Initial Market Bids and Limit Bids or Initial Market Offers and Limit Offers, as applicable, have been matched to the Open Interest, part of the Open Interest remains, the Auction Final Price will be: (a) if the Open Interest is a bid to purchase Deliverable Obligations, the greater of (i) zero, and (ii) the highest Limit Offer or Initial Market Offer received; or (b) if the Open Interest is an offer to sell Deliverable Obligations, zero.

**100 per cent. Cap to Auction Final Price**

In all cases, if the Auction Final Price determined pursuant to the Auction Methodology is greater than 100 per cent., then the Auction Final Price will be deemed to be 100 per cent.

**Publication of Auction Final Price**

At or prior to the Subsequent Bidding Information Publication Time (as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity) on any day on which the subsequent bidding period has successfully concluded, the Administrators will publish on their websites: (a) the Auction Final Price; (b) the names of the Participating Bidders who submitted bids, offers, valid Dealer Physical Settlement Requests and valid Customer Physical Settlement Requests, together with the details of all such bids and offers submitted by each; and (c) the details and size of all matched trades.

**EXECUTION OF TRADES FORMED IN THE AUCTION**

Each Participating Bidder whose Limit Bid or Initial Market Bid (or Limit Offer or Initial Market Offer if applicable) is matched against the Open Interest, and each Participating Bidder that submitted a Customer Physical Settlement Request or Dealer Physical Settlement Request, is deemed to have entered into a Representative Auction-Settled Transaction, and each customer that submitted such a Limit Bid, Limit Offer, or Physical Settlement Request is deemed to have entered into a Representative Auction-Settled Transaction with the dealer through whom the customer submitted such bid or offer. Accordingly, each such Participating Bidder or customer that is a seller of Deliverable Obligations as a result of a trade formed in the auction must deliver to the buyer to whom such Participating Bidder or customer has been matched a Notice of Physical Settlement indicating the Deliverable Obligations that it will deliver, and such Deliverable Obligations will be sold to the buyer in exchange for payment of the Auction Final Price.

**TIMING OF AUCTION SETTLEMENT PROVISIONS**

If an Auction is held in respect of an Affected Reference Entity, it is expected that the relevant Auction Date will occur on the third Business Day immediately prior to the 30th calendar day after which the relevant Credit Derivatives Determinations Committee received the request from an eligible market participant (endorsed by a member of the relevant Credit Derivatives Determinations Committee) to resolve whether a Credit Event has occurred with respect to such Reference Entity.

In respect of an Affected Reference Entity for which an Auction is held, the Auction Settlement Date will occur on a Business Day following the Auction Final Price Determination Date, as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity. By way of example, in recent ISDA CDS Auction Protocols (prior to the publication of the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement dated 14 July 2009, as published by ISDA) this has been approximately five Business Days following the relevant Auction Final Price Determination Date.

### **DELAYED AUCTION PROVISIONS**

The Auction timing may be adjusted under the relevant following circumstances: (a) the occurrence of an event or news the occurrence of which two or more Participating Bidders consider has or could have a material effect on the Auction Final Price; (b) if the Administrators are unable to determine an Auction Currency Rate on the Auction Currency Fixing Date with respect to each Relevant Pairing; (c) if the Auction Methodology does not result in an Auction Final Price for any reason (including, but not limited to, the failure to receive the minimum number of valid Initial Market Bids and Initial Market Offers); or (d) any combination of (a), (b) and (c) above.

### **AUCTION CANCELLATION**

If an Auction Final Price has not been determined on or prior to: (a) the fifth Business Day following the Auction Date, in the events described in clause (a) or (d) of “**Delayed Auction Provisions**” above; or (b) the second Business Day following the Auction Date, in the events described in clause (b) or (c) of “**Delayed Auction Provisions**” above, then the Auction will be deemed to have been cancelled and the Administrators and ISDA will announce the occurrence of such cancellation on their respective websites.

For these purposes, “**Business Day**” means a day on which commercial banks and foreign exchange markets are generally open to settle payments in, if the Transaction Type of the relevant Affected Reference Entity is included in: (a) the Americas, New York; and (b) otherwise, London.

## FORM OF PRICING SUPPLEMENT

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

**[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 Directive 2014/65/EU (as amended, “**EU MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**EU 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. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**EU PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.]

**[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**”); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the Financial Services and Markets Act 2000 (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. 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]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*] Any [person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to 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. [*Consider any negative target market.*] Any [person subsequently offering, selling or recommending the Notes (a “**distributor**”)]/[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.]

[This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) (“**Professional Investors**”)) only.]

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

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

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

**[Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act 2001 (the “**SFA**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are [“prescribed capital markets products”]/[capital markets products other than “prescribed capital markets products”] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]<sup>1</sup>

**[Paragraph 21 of the Hong Kong SFC Code of Conduct** – As paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission applies to this offering of Notes, prospective investors should refer to the section on “*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors*” appearing on pages [●] to [●] of the Offering Circular, and CMIs (as defined in the Offering Circular) should refer to the section on “*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMIs (including private banks)*” appearing on pages [●] to [●] of the Offering Circular.]

**Pricing Supplement dated [●]**

**China Everbright Bank Co., Ltd., Hong Kong Branch**

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

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



**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] due [●]  
under the U.S.\$5,000,000,000 Medium Term Note Programme**

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated [●]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated [●] and the documents incorporated by reference thereto [and the supplemental Offering Circular dated [●]].

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

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

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Pricing Supplement.]*

- |   |  |   |
|---|--|---|
| 1 | Issuer:  | China Everbright Bank Co., Ltd., Hong Kong Branch   |
| 2 | [(i) Series Number:]                           | [●]   |
|   | [(ii) Tranche Number:]                         | [●]   |
|   | (iii) Date on which the Notes become fungible: | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] on [[●]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 26 below [which is expected to occur on or about [●]].] |
| 3 | Specified Currency or Currencies:              | [●]   |
| 4 | Aggregate Nominal Amount:                      | [●]   |
|   | [(i) [Series]:                                 | [●]   |
|   | [(ii) Tranche:                                 | [●]]  |
| 5 | (i) Issue Price:                               | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]   |
|   | (ii) Net Proceeds:                             | [●] [(Required only for listed issues)]   |

- 6 (i) Specified Denominations:<sup>2 3 4</sup> [●]
- (ii) Calculation Amount: [●]
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [Specify/Issue Date/Not Applicable]
- 8 Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]<sup>5</sup>
- [If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to “professional investors” or (ii) another applicable exemption from section 19 of the FSMA must be available.]*
- 9 Interest Basis: [[●] per cent. Fixed Rate]  
 [[●][●] [EURIBOR/CNH HIBOR/SOFR/SOFR Compounded Index]+/- [●] per cent. Floating Rate]  
 [Zero Coupon]  
 [Index Linked Interest]  
 [Other (Specify)]  
 (further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]  
 [Redemption at Early Redemption Amount]  
 [Index Linked Redemption]  
 [Dual Currency]  
 [[Subject to no Credit Event having occurred Redemption – CLN shall apply]  
 [Other (Specify)]
- 11 Change of Interest or Redemption/  
 Payment Basis: [Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]
- 12 Put/Call Options: [Investor Put]

<sup>2</sup> Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

<sup>3</sup> If the specified denomination is expressed to be EUR100,000 or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR199,000]. In relation to any issue of the Notes which are a "Global Note exchangeable for Definitive Notes" in circumstances other than "in the limited circumstances specified in the Global Notes", such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

<sup>4</sup> For so long as any Notes are listed on the Hong Kong Stock Exchange and the rules of the Hong Kong Stock Exchange so require, such Notes will be traded on the Hong Kong Stock Exchange in a minimum board lot size of not less than HK\$500,000 (or its equivalent in other currencies).

<sup>5</sup> Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

- [Issuer Call]  
[(further particulars specified below)]
- 13 [Date of the [Board] approval for issuance of Notes obtained]: [●] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
- 14 Date of the Relevant NDRC [approval] or [quota granted] for issuance of Notes: Pre-issuance registration certificate/NDRC approval dated [●] from the NDRC/*any other applicable regulatory approval to be set out*
- 15 Listing: [Hong Kong/Other (specify)/None] (*For Notes to be listed on the Hong Kong Stock Exchange, insert the expected effective listing date of the Notes*)
- 16 Status of the Notes: Senior

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

- 17 **Fixed Rate Note Provisions:** [Applicable/Not Applicable]  
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]<sup>6</sup>  
(*N.B. This will need to be amended in the case of long or short coupons.*)
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount<sup>7</sup>
- (iv) Fixed Coupon Amount for a short or long Interest Period ("Broken Amount(s)"): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction: [30/360/Actual/Actual (ICMA)/Actual/365 (Fixed)/other]
- (vi) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
- 18 **Floating Rate Note Provisions:** [Applicable/Not Applicable]  
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Specified Period: [●]  
(*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business*

<sup>6</sup> Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to adjustment in accordance with the Modified Following Business Day Convention.

<sup>7</sup> For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Notes and to the nearest HK\$0.01, HK\$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards."

*Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert “Not Applicable”*)

- (ii) Specified Interest Payment Dates: [●]  
*(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert “Not Applicable”)*
- (iii) First Interest Payment Date: [●]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
- (v) Additional Business Centre(s): [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): [[Fiscal Agent]/[Principal Paying Agent]/[Name] shall be the Calculation Agent]
- (viii) Screen Rate Determination: [Applicable/Not Applicable] (*If not applicable delete the remaining sub-paragraphs of this paragraph*)
- Reference Rate: [●][●] [*EURIBOR/CNH HIBOR/SOFR/SOFR Compounded Index*]
  - [Observation Method: [Lag / Observation Shift]<sup>8</sup>
    - Lag Period: [5 / [●] /U.S. Government Securities Business Days/other (*give details*)]
    - Observation Shift Period: [5 / [●] /U.S. Government Securities Business Days/other (*give details*)]

*(NB: A minimum of 5 should be specified for the Lag Period or Observation Shift Period, unless otherwise agreed with the Calculation Agent)*

    - D: 360
    - SOFR Compounded Index Determination: [Applicable/Not Applicable]
    - Relevant Decimal Place: 5 (*subject to the rounding provisions in the Conditions*)
    - Relevant Number of Index Days<sup>9</sup> [5/[●]] (*unless otherwise specified in Pricing Supplement, the Relevant Number shall be 5*)
  - Interest Determination Date(s): [●]<sup>10</sup>

<sup>8</sup> *Observation Method should only be included when SOFR or SOFR Compounded Index is selected as the Reference Rate.*

<sup>9</sup> *Index Days is defined in the Conditions as five U.S. Government Securities Business Days.*

<sup>10</sup> *[Five U.S. Government Securities Business Days prior to each Interest Payment Date – only applicable in the case of SOFR/SOFR Compounded Index] / [The first Business Day in the relevant Interest Period prior to each Interest Payment Date – only applicable in the case of HIBOR] / [[Two] TARGET Settlement Days prior to each Interest Payment Date – only applicable in the case of EURIBOR] / Two Business Days prior to each Interest Payment Date – only applicable in the case of CNH HIBOR].*

- Relevant Screen Page: [For example, Reuters EURIBOR 01]
  - Relevant Time: [For example, 11.00 a.m. London time/Brussels time]
  - Relevant Financial Centre: [For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]
- (ix) ISDA Determination: [Applicable/Not Applicable] *(If not applicable delete the remaining sub-paragraphs of this paragraph)*
- ISDA Definitions: [2006 ISDA Definitions]/[2021 ISDA Definitions]
  - Floating Rate Option: [•]
  - Designated Maturity: [•]  
*(Designated Maturity will not be relevant where the Floating Rate Option is a risk free rate)*
  - Reset Date: [•]/[as specified in the ISDA Definitions]/[the first day of the relevant Interest Period, subject to adjustment in accordance with the Business Day Convention set out in [(v)] above and as specified in the ISDA Definitions]
  - Compounding: [Applicable/Not Applicable] *(If not applicable delete the remaining sub-paragraphs of this paragraph)*
    - Compounding Method: [Compounding with Lookback
      - Lookback: [•] Applicable Business Days]
    - [Compounding with Observation Period Shift
      - Observation Period Shift: [•] Observation Period Shift Business Days
      - Observation Period Shift Additional Business Days: [[•] / Not Applicable]]
    - [Compounding with Lockout
      - Lockout: [•] Lockout Period Business Days
      - Lockout Period Business Days: [[•]/Applicable Business Days]]
  - Index Provisions: [Applicable/Not Applicable] *(If not applicable delete the remaining sub-paragraphs of this paragraph)*
    - Index Method: Compounded Index Method with Observation Period Shift
      - Observation Period Shift: [•] Observation Period Shift Business Days
      - Observation Period Shift Additional Business Days: [[•] / Not Applicable]]
- (x) Margin(s): [+/-] [•] per cent. per annum
- (xi) Minimum Rate of Interest: [The Minimum Rate of Interest shall not be less than zero/The Minimum Rate of Interest shall not be less than [•] per cent. per annum]
- (xii) Maximum Rate of Interest: [•] per cent. per annum
- (xiii) Day Count Fraction: [•]

- (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
- 19 **Zero Coupon Note Provisions:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Accrual Yield: [●] per cent. per annum
- (ii) Reference Price: [●]
- (iii) Day Count Fraction in relation to Early Redemption Amount: [30/360 / Actual/Actual (ICMA)/ other]
- (iv) Any other formula/basis of determining amount payable: *[Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 11(h)]*
- 20 **Index-Linked Interest Note/other variable-linked interest Note Provisions:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula/other variable: *[give or annex details]*
- (ii) Calculation Agent responsible for calculating the interest due: [●]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Interest Determination Date(s): [●]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●] *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (vi) Interest or calculation period(s): [●]
- (vii) Specified Period: [●]  
*(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert “Not Applicable”)*
- (viii) Specified Interest Payment Dates: [●]  
*(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert “Not Applicable”)*

- (ix) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (x) Additional Business Centre(s): [●]
- (xi) Minimum Rate/Amount of Interest: [●] per cent. per annum
- (xii) Maximum Rate/Amount of Interest: [●] per cent. per annum
- (xiii) Day Count Fraction: [●]
- 21 **Dual Currency Note Provisions:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [●]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●] [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

## PROVISIONS RELATING TO REDEMPTION

- 22 **Call Option:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount [(in the case of the Optional Redemption Dates falling on [●]/[in the period from and including [*date*]]]
- (iii) If redeemable in part:
  - (a) Minimum Redemption Amount: [●] per Calculation Amount
  - (b) Maximum Redemption Amount: [●] per Calculation Amount
- (iv) Notice period: [●]<sup>11</sup>
- 23 **Put Option:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]

<sup>11</sup> Euroclear and Clearstream require a minimum of 5 business days' notice for exercise of call options.

- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
  - (iii) Notice period: [●]
- 24 **Final Redemption Amount of each Note:** [[●] per Calculation Amount/Redemption CLN] Credit Linked Derivatives Annex: [Applicable/Not Applicable]
- In cases where the Final Redemption Amount is Index-Linked or other variable-linked:
- (i) Index/Formula/variable: [give or annex details]
  - (ii) Calculation Agent responsible for calculating the Final Redemption Amount: [●]
  - (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [●]
  - (iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable: [●]
  - (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
  - (vi) [Payment Date]: [●]
  - (vii) Minimum Final Redemption Amount: [●] per Calculation Amount
  - (viii) Maximum Final Redemption Amount: [●] per Calculation Amount
- 25 **Early Redemption Amount:** [Not Applicable  
*(If each of the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes)]*
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):



- Credit Linked Notes: [Yes (further details specified below)]/[No]  
*(If not applicable, delete the remaining sub-paragraphs of this sub-paragraph)*
- Settlement Basis (following a Specified Event): [[Cash Settlement]/[Auction Settlement]/ [Physical Settlement (asset(s) to be delivered: [●] [as determined in accordance with the Credit Linked Derivatives Annex]/[Settlement Method at Issuer Option – The following are applicable for election: [Auction Settlement]/[Cash Settlement]/ [Physical Settlement (asset(s) to be delivered: [●] [as determined in accordance with the Credit Linked Derivatives Annex)] (*specify two*)]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 26 **Form of Notes:** **Bearer Notes:**<sup>12</sup>  
 [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]<sup>13</sup>  
 [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]<sup>14</sup>  
 [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]<sup>15</sup>
- Registered Notes:**  
 [Global Note Certificate exchangeable for Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances described in the Global Note Certificate]<sup>16</sup>
- 27 Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/*give details.*  
*Note that this paragraph relates to the date and place of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub paragraphs 18(vi) and 20(x) relate]*
- 28 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left.]

<sup>12</sup> Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.

<sup>13</sup> If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days' notice/at any time.

<sup>14</sup> If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [●] days' notice.

<sup>15</sup> If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days' notice/at any time.

<sup>16</sup> If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Global Note Certificate shall not be exchangeable on [●] days' notice.

29	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]								
30	Consolidation provisions:	The provisions in Condition 20 ( <i>Further Issues</i> ) [annexed to this Pricing Supplement] apply								
31	Any applicable currency disruption/fallback provisions:	[Not Applicable/ <i>give details</i> ]								
32	Other terms or special conditions:	[Not Applicable/ <i>give details</i> ]								
33	<b>CREDIT LINKED PROVISIONS</b>	Provisions of the Credit Linked Derivatives Annex: [Applicable]/[Not Applicable] ( <i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i> )								
(i)	Reference Entity(ies):	<table border="0" style="width: 100%;"> <tr> <td style="width: 25%;">Reference Entity:</td> <td style="width: 25%;">Transaction Type:</td> <td style="width: 25%;">Additional Provisions:</td> <td style="width: 25%;">Physical Settlement Matrix:</td> </tr> <tr> <td>[●]</td> <td>[●]/[Not Applicable]</td> <td>[●]/[Not Applicable]</td> <td>[●]/[Not Applicable]</td> </tr> </table>	Reference Entity:	Transaction Type:	Additional Provisions:	Physical Settlement Matrix:	[●]	[●]/[Not Applicable]	[●]/[Not Applicable]	[●]/[Not Applicable]
Reference Entity:	Transaction Type:	Additional Provisions:	Physical Settlement Matrix:							
[●]	[●]/[Not Applicable]	[●]/[Not Applicable]	[●]/[Not Applicable]							
(ii)	LPN Reference Entity:	[Applicable]/[Not Applicable]								
(iii)	Financial Reference Entity Terms:	[Applicable]/[Not Applicable]								
(iv)	Subordinated European Insurance Terms:	[Applicable]/[Not Applicable]								
(v)	Standard Reference Obligation:	[Applicable]/[Not Applicable]								
(vi)	Seniority Level:	[Senior Level]/[Subordinated Level]								
(vii)	Reference Obligation(s):	[●]/[Not Applicable]								
(viii)	Applicable Credit Events:	[[Bankruptcy]/[Failure to Pay]/ [Governmental Intervention]/ [Obligation Acceleration]/ [Obligation Default]/ [Repudiation/Moratorium]/ [Restructuring]] <i>(Use table below if there is more than one Reference Entity)</i> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"><b>[Reference Entity]:</b></td> <td style="width: 50%;"><b>Applicable Credit Events:</b></td> </tr> <tr> <td>[●]</td> <td>[Bankruptcy]/ [Failure to Pay]/ [Governmental Intervention]/ [Obligation Acceleration]/ [Obligation Default]/ [Repudiation/Moratorium]/ [Restructuring]]</td> </tr> </table>	<b>[Reference Entity]:</b>	<b>Applicable Credit Events:</b>	[●]	[Bankruptcy]/ [Failure to Pay]/ [Governmental Intervention]/ [Obligation Acceleration]/ [Obligation Default]/ [Repudiation/Moratorium]/ [Restructuring]]				
<b>[Reference Entity]:</b>	<b>Applicable Credit Events:</b>									
[●]	[Bankruptcy]/ [Failure to Pay]/ [Governmental Intervention]/ [Obligation Acceleration]/ [Obligation Default]/ [Repudiation/Moratorium]/ [Restructuring]]									
	• Grace Period Extension:	[Applicable]/[Not Applicable] <i>(Use table below if there is more than one Reference Entity)</i> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"><b>[Reference Entity]:</b></td> <td style="width: 50%;"><b>Grace Period Extension:</b></td> </tr> <tr> <td>[●]</td> <td>[Applicable]/[Not Applicable]]</td> </tr> <tr> <td colspan="2">[[●] calendar days]/[Not Applicable]</td> </tr> <tr> <td colspan="2"><i>(Use table below if there is more than one Reference Entity)</i></td> </tr> </table>	<b>[Reference Entity]:</b>	<b>Grace Period Extension:</b>	[●]	[Applicable]/[Not Applicable]]	[[●] calendar days]/[Not Applicable]		<i>(Use table below if there is more than one Reference Entity)</i>	
<b>[Reference Entity]:</b>	<b>Grace Period Extension:</b>									
[●]	[Applicable]/[Not Applicable]]									
[[●] calendar days]/[Not Applicable]										
<i>(Use table below if there is more than one Reference Entity)</i>										

- Grace Period (applicable under paragraph (b) of the definition thereof): **[Reference Entity:** [●] **Grace Period:** [[●] calendar days]/[Not Applicable]
- Payment Requirement: [U.S.\$1,000,000]/[Zero]/[●] *(Use table below if there is more than one Reference Entity)*  
**[Reference Entity:** [●] **Payment Requirement:** [U.S.\$1,000,000]/[Zero]/[●]
- Restructuring Type: [No Restructuring]/[Restructuring]/ [Modified Restructuring Applicable]/ [Modified Modified Restructuring Applicable] *(Use table below if there is more than one Reference Entity)*  
**[Reference Entity:** [●] **Restructuring Type:** [No Restructuring]/ [Restructuring]/ [Modified Restructuring Applicable]/ [Modified Modified Restructuring Applicable]
- Multiple Holder Obligation: [Applicable]/[Not Applicable] *(Use table below if there is more than one Reference Entity)*  
**[Reference Entity:** [●] **Multiple Holder Obligation:** [Applicable]/[Not Applicable]
- Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation: [Applicable]/[Not Applicable] *(Use table below if there is more than one Reference Entity)*  
**[Reference Entity:** [●] **Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation:** [Applicable]/[Not Applicable]
- (ix) Scheduled Termination Date: [●]
- (x) Notice of Publicly Available Information applicable to Conditions to Settlement: [Yes]/[No]
- (xi) Settlement Method: [Auction Settlement]/[Cash Settlement]/ [Physical Settlement]/[Settlement Method at Issuer Option – The following are applicable for election: [Auction Settlement]/[Cash Settlement]/ [Physical Settlement] *(specify two)*]
- (xii) Fallback Settlement Method: [Cash Settlement]/[Physical Settlement]/ [Fallback Settlement Method at Issuer Option]

(xiii) Auction Settlement Amount:	[●]/[As per Condition 11(a)E(b)(ii)]/ [Not Applicable]				
(xiv) Cash Settlement Amount:	[●]/[As per Condition 11(a)F(b)(ii)]/ [Not Applicable]				
(xv) Valuation Time:	[●]/[As per the Definition set out in the Credit Linked Derivatives Annex]				
(xvi) Quotation Amount:	[●]/[Reference Entity Notional Amount] (Use table below if there is more than one Reference Entity)				
	<table border="0"> <tr> <td><b>[Reference Entity:</b></td> <td><b>Quotation Amount:</b></td> </tr> <tr> <td>[●]</td> <td>[●]/[Reference Entity Notional Amount]]</td> </tr> </table>	<b>[Reference Entity:</b>	<b>Quotation Amount:</b>	[●]	[●]/[Reference Entity Notional Amount]]
<b>[Reference Entity:</b>	<b>Quotation Amount:</b>				
[●]	[●]/[Reference Entity Notional Amount]]				
(xvii) Minimum Quotation Amount:	[●]/[Not Applicable] (Use table below if there is more than one Reference Entity)				
	<table border="0"> <tr> <td><b>[Reference Entity:</b></td> <td><b>Minimum Quotation Amount:</b></td> </tr> <tr> <td>[●]</td> <td>[●]/[Not Applicable]]</td> </tr> </table>	<b>[Reference Entity:</b>	<b>Minimum Quotation Amount:</b>	[●]	[●]/[Not Applicable]]
<b>[Reference Entity:</b>	<b>Minimum Quotation Amount:</b>				
[●]	[●]/[Not Applicable]]				
(xviii) Physical Settlement Period:	[[●] Business Days]/[As per the Definition set out in the Credit Linked Derivatives Annex]				
(xix) Partial Cash Settlement Date:	[●]/[As per the Definition set out in the Credit Linked Derivatives Annex]				
(xx) Accrued Interest:	[Exclude Accrued Interest]/[Include Accrued Interest]/[Not Applicable]				
(xxi) Reference Price:	[[●] per cent.]/[As per the Definition set out in the Credit Linked Derivatives Annex]				
(xxii) Reference Entity Notional Amount:	[●] (Use table below if there is more than one Reference Entity)				
	<table border="0"> <tr> <td><b>[Reference Entity:</b></td> <td><b>Reference Entity Notional Amount:</b></td> </tr> <tr> <td>[●]</td> <td>[●]</td> </tr> </table>	<b>[Reference Entity:</b>	<b>Reference Entity Notional Amount:</b>	[●]	[●]
<b>[Reference Entity:</b>	<b>Reference Entity Notional Amount:</b>				
[●]	[●]				
(xxiii) All Guarantees:	[Applicable]/[Not Applicable] (Use table below if there is more than one Reference Entity)				
	<table border="0"> <tr> <td><b>[Reference Entity:</b></td> <td><b>All Guarantees:</b></td> </tr> <tr> <td>[●]</td> <td>[Applicable]/ [Not Applicable]]</td> </tr> </table>	<b>[Reference Entity:</b>	<b>All Guarantees:</b>	[●]	[Applicable]/ [Not Applicable]]
<b>[Reference Entity:</b>	<b>All Guarantees:</b>				
[●]	[Applicable]/ [Not Applicable]]				
(xxiv) Substitution of Reference Entities under Condition 11(a)K (Succession Event):	[Applicable]/[Not Applicable]				
(xxv) Participation CLN:	[Applicable]/[Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this sub-paragraph)				
• Default Requirement:	[●]/[Not Applicable] (Use table below if there is more than one Reference Entity)				
	<table border="0"> <tr> <td><b>[Reference Entity:</b></td> <td><b>Default Requirement:</b></td> </tr> <tr> <td>[●]</td> <td>[●]/[Not Applicable]]</td> </tr> </table>	<b>[Reference Entity:</b>	<b>Default Requirement:</b>	[●]	[●]/[Not Applicable]]
<b>[Reference Entity:</b>	<b>Default Requirement:</b>				
[●]	[●]/[Not Applicable]]				
(xxvi) Credit Event Backstop Date:	[Applicable]/[Not Applicable]				

(xxvii) Adjustment of Limitation Dates: [Not Applicable]/[Subject to adjustment in accordance with the [Floating Rate/ Following/ Modified Following/ Preceding] Business Day Convention]

(xxviii) Obligation Category: [Payment]/[Borrowed Money]/ [Reference Obligations Only]/ [Bond]/[Loan]/[Bond or Loan]  
*(Use table below if there is more than one Reference Entity)*

**[Reference Entity:**

[●] [Payment]/[Borrowed Money]/[Reference Obligations Only]/ [Bond]/[Loan]/ [Bond or Loan]]

(xxix) Obligation Characteristics: [Not Subordinated]/[Specified Currency: [●]/[and the] Standard Specified Currencies]]/ [Not Sovereign Lender]/ [Not Domestic Currency (Domestic Currency means [●])]/ [Not Domestic Law]/ [Listed]/ [Not Domestic Issuance]/ [Excluded Obligation(s): [●]]/ [Additional Obligation(s): [●]]  
*(Use table below if there is more than one Reference Entity)*

**[Reference Entity:**

**Obligation Characteristics:**

[●] [Not Subordinated]/ [Specified Currency: [●]/[and the] Standard Specified Currencies]]/ [Not Sovereign Lender]/ [Not Domestic Currency (Domestic Currency means [●])]/ [Not Domestic Law]/ [Listed]/ [Not Domestic Issuance]/ [Excluded Obligation(s): [●]]/ [Additional Obligation(s): [●]]]

(xxx) Deliverable Obligation Category: [Payment]/[Borrowed Money]/ [Reference Obligations Only]/[Bond]/[Loan]/[Bond or Loan]  
*(Use table below if there is more than one Reference Entity)*

**[Reference Entity:**

**Obligation Category:**

[●] [Payment]/[Borrowed Money]/ [Reference Obligations Only]/ [Bond]/[Loan]/ [Bond or Loan]]

(xxxi) Deliverable Obligation Characteristics: [Not Subordinated]/[Specified Currency: [●]/[and the] Standard Specified Currencies]]/[Not Sovereign Lender]/[Not Domestic Currency (Domestic Currency means [●])]/ [Not Domestic Law]/[Listed]/ [Not Domestic

Issuance]/ [Assignable Loan]/[Consent Required Loan]/  
 [Transferable]/ [Maximum Maturity: [●]]/ [Accelerated or  
 Matured]/[Not Bearer]/ [Direct Loan Participation:  
 Qualifying Participation Seller: [●]]/[Excluded Deliverable  
 Obligation(s): [●]]/ [Additional Deliverable Obligation(s):  
 [●]]/ [Not Applicable]

(Use table below if there is more than one Reference Entity)

<b>[Reference Entity:</b>	<b>Deliverable Obligation Characteristics:</b>
[●]	[Not Subordinated]/ [Specified Currency: [●]]/[and the] Standard Specified Currencies]]/ [Not Sovereign Lender]/ [Not Domestic Currency (Domestic Currency means [●]]/ [Not Domestic Law]/ [Listed]/ [Not Contingent]/ [Not Domestic Issuance]/ [Assignable Loan]/ [Consent Required Loan]/ [Transferable]/ [Maximum Maturity: [●]]/[Accelerated or Matured]/ [Not Bearer]/ [Direct Loan Participation: Qualifying Participation Seller: [●]]/ [Excluded Deliverable Obligation(s): [●]]/ [Additional Deliverable Obligation(s): [●]]/ [Not Applicable]

## **DISTRIBUTION**

- |    |   |   |
|----|---|---|
| 34 | (i) Method of Distribution:                       | [Syndicated/Non-syndicated]   |
|    | (ii) If syndicated, names of<br>Managers:         | [Not Applicable/ <i>give names</i> ]  |
|    | (iii) Stabilisation Manager(s) (if any):          | [Not Applicable/ <i>give names</i> ]  |
| 35 | If non-syndicated, name and address of<br>Dealer: | [Not Applicable/ <i>give name and address</i> ]   |
| 36 | Total commission and concession:                  | [●] per cent. of the Aggregate Nominal Amount   |
| 37 | U.S. Selling Restrictions:                        | Reg. S Category [1/2];<br>( <i>In the case of Bearer Notes</i> ) – [TEFRA C/<br>TEFRA D/TEFRA not applicable] |

		<i>(In the case of Registered Notes) – Not Applicable</i> <sup>17</sup>
38	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]
39	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable]
40	Additional selling restrictions:	[Not Applicable/ <i>give details</i> ]
<b>OPERATIONAL INFORMATION</b>		
41	ISIN Code:	[●]
42	Common Code:	[●]
43	CMU Instrument Number:	[●]
44	LEI:	The Legal Entity Identifier number of the Issuer is 549300WVNR4RWTGIV379.
45	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	[Not Applicable/ <i>give name(s) and number(s)</i> ]
46	Delivery:	Delivery [against/free of] payment
47	Additional Paying Agent(s) (if any):	[●]
48	Registrar (if other than Citibank, N.A., London Branch):	<i>[please specify (if any)]</i>
<b>GENERAL</b> <sup>18</sup>		
49	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
50	The aggregate principal amount of the Notes issued has been translated into United States dollars at the rate of [●], producing a sum of (for Notes not denominated in United States dollars):	[Not Applicable/U.S.\$[●]]
51	[Ratings:	The Notes to be issued have been rated: [S&P: [●]]; [Moody's: [●]]; [Fitch: [●]]; [[Other: [●]] (each a “ <b>Rating Agency</b> ”). If any Rating Agency shall not make a rating of the Notes publicly available, the Issuer and shall select and substitute them with [●] or [●] and its successors.]

<sup>17</sup> TEFRA not applicable may only be used for Registered Notes or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU must be issued in compliance with the TEFRA C Rules, unless at the time of issuance the CMU and the CMU Lodging and Paying Agent have procedures in place so as to enable compliance with the certification requirements under the TEFRA D Rules.

<sup>18</sup> Except as otherwise disclosed, it is assumed that any Notes issued under the Programme shall be regarded as a form of loan capital within the meaning of the Finance Act 1986.

## HONG KONG SFC CODE OF CONDUCT

- 52 Rebates: [A rebate of [●] bps is being offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMI's otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.] / [Not Applicable]
- 53 Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: [Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent – Overall Coordinators to provide] / [Not Applicable]
- 54 Marketing and Investor Targeting Strategy: [if different from the Offering Circular]

## [USE OF PROCEEDS

*Give details if different from the “Use of Proceeds” section in the Offering Circular.]*

### **Financial/Trading Position**

*[To insert statement relating to any material adverse change of the Issuer’s financial or trading position since its latest financials.]<sup>19</sup>*

## **STABILISATION**

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

## **PURPOSE OF PRICING SUPPLEMENT**

This Pricing Supplement comprises the final terms required for issue and admission to trading on the [Hong Kong Stock Exchange] of the Notes described herein pursuant to the U.S.\$5,000,000,000 Medium Term Note Programme.

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<sup>19</sup> This is a disclosure requirement of the Hong Kong Stock Exchange.



## **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement [and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading].

Signed on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch:

By: \_\_\_\_\_

Duly authorised

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

### **CLEARING SYSTEM ACCOUNTHOLDERS**

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

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

Each of the persons shown in the records of Euroclear and/or Clearstream and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an “**Accountholder**”) must look solely to Euroclear and/or Clearstream and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Note Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

If a Global Note or a Global Note Certificate is lodged with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled, or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note or Global Note Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Note Certificate must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Note Certificate.

### **CONDITIONS APPLICABLE TO GLOBAL NOTES**

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

*Payments:* All payments in respect of the Global Note or Global Note Certificate which, according to the Conditions, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to

satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

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

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

*Exercise of put option:* In order to exercise the option contained in Condition 11(f) (*Redemption at the option of Noteholders*) the bearer of the Temporary Global Note or Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Partial exercise of call option:* In connection with an exercise of the option contained in Condition 11(d) (*Redemption at the option of the Issuer*) in relation to some only of the Notes where such Notes are held with Euroclear and/or Clearstream, the Temporary Global Note or Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream (to be reflected in the records of Euroclear and Clearstream as either a pool factor or a reduction in principal amount, at their discretion).

*Notices:* Notwithstanding Condition 21 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, (i) deposited with a depository or a common depository for Euroclear and/or Clearstream and/or any other relevant clearing system (other than the CMU, in respect of which see (ii) below), notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 21 (*Notices*) on the date of delivery to Euroclear and/or Clearstream and/or any other relevant clearing system or (ii) deposited with a sub-custodian for the CMU, notices to the Noteholders may be given by delivery of the relevant notice to the CMU, and any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to the CMU.

## CAPITALISATION AND INDEBTEDNESS

As at 30 June 2023, the Bank had an issued share capital of RMB59,086 million divided into approximately 12,679 million H shares of RMB1.00 each and approximately 46,407 million A shares of RMB1.00 each.

The following table sets out the Bank's consolidated capitalisation and indebtedness as at 30 June 2023.

This table should be read in conjunction with the audited consolidated financial statements of the Bank and related notes thereto included elsewhere in this Offering Circular:

	<b>As at 30 June 2023</b>	
	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
<b>Debt</b>		
Debt securities issued .....	914,749	126,150
<b>Shareholders' Equity</b>	-	-
Share capital .....	59,086	8,148
Other equity instrument .....	104,899	14,466
Capital reserve .....	74,473	10,270
Other comprehensive income .....	2,719	375
Surplus reserve .....	26,245	3,619
General reserve .....	81,554	11,247
Retained earnings .....	189,422	26,122
Total equity attributable to equity shareholders of the Bank .....	538,398	74,248
Non-controlling interests .....	2,279	314
<b>Total equity</b> .....	<b>540,677</b>	<b>74,563</b>
<b>Total capitalisation<sup>(2)</sup></b> .....	<b>1,455,426</b>	<b>200,712</b>

Notes:

- (1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB7.2513 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 June 2023.
- (2) Total capitalisation equals the sum of debt and total equity.

## DESCRIPTION OF THE BANK

### OVERVIEW

The Bank is a national joint stock commercial bank committed to establishing itself as one of the most innovative commercial banks in the PRC. The A shares of the Bank have been listed on the Shanghai Stock Exchange (Stock Code: 601818) since August 2010 and the H shares of the Bank have been listed on the HKSE (Stock Code: 6818) since December 2013. Since its operations commenced on 18 August 1992, the Bank has provided comprehensive and competitive financial products and services to a wide range of customers primarily in the PRC, including retail customers, corporate customers, government agencies and financial institutions, and has conducted a proprietary trading business and other trading operations for the Bank's clients. Because of its outstanding performance in business, the Bank has won many awards and was ranked 27th in "Top 1000 World Banks" in 2022. To adapt to changing market trends and the development of the macro-economy and the banking sector in the PRC, the Bank will continue to intensify its business transformation efforts, diligently develop its capital-efficient operations, build a diversified financial services platform, support the development of the PRC economy and promote technological innovation. The Bank believes that these core initiatives will facilitate the growth of its business.

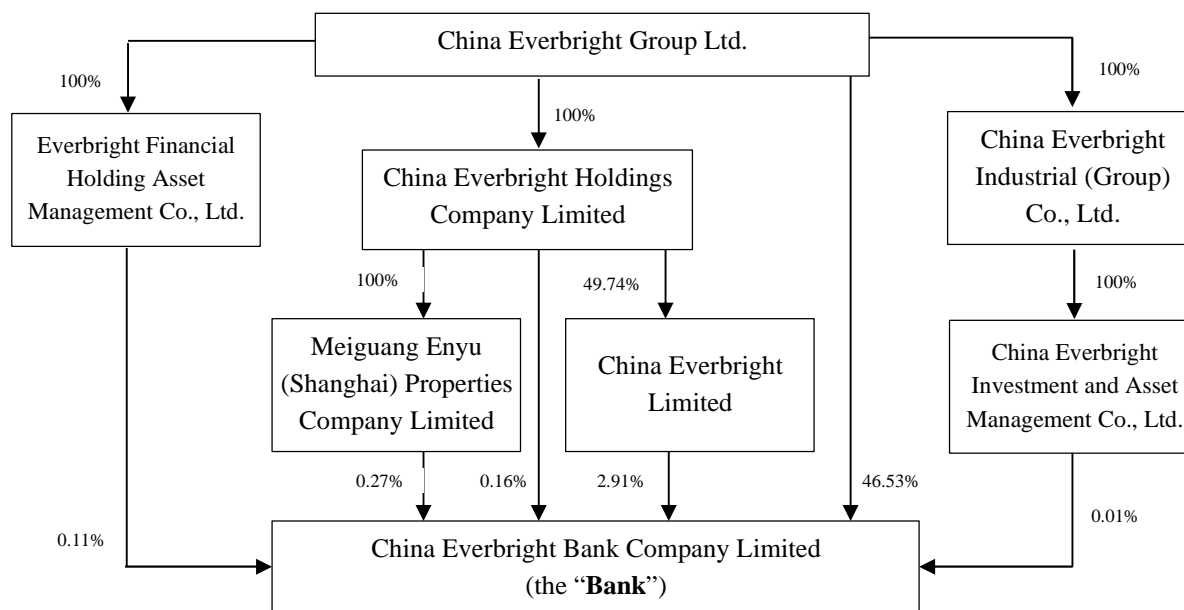
The Bank's principal business segments are corporate banking, retail banking and financial market business. The Bank's corporate banking business consists primarily of corporate deposits and loans, inclusive finance, investment banking and transaction banking. The Bank's retail banking business consists primarily of retail customers and AUM, retail deposits, retail loans, wealth management, private banking, credit card business, as well as digital banking and cloud fee payment. The Bank's financial market business primarily covers treasury business, interbank business, asset management business and asset custody business.

In recent years, the Bank's business scale and customer base have continued to expand. The Bank's total assets, net loans and advances to customers and total deposits from customers grew from RMB5,368,163 million, RMB2,942,435 million and RMB3,480,642 million, respectively, as at 31 December 2020, to RMB5,902,069 million, RMB3,239,396 million and RMB3,675,743 million, respectively, as at 31 December 2021 and further grew to RMB6,300,510 million, RMB3,499,351 million and RMB3,917,168 million, respectively, as at 31 December 2022. As at 30 June 2023, the Bank's total assets, net loans and advances to customers and total deposits from customers amounted to RMB6,757,928 million, RMB3,663,930 million and RMB4,156,940 million, respectively. The Bank's net profit grew from RMB37,928 million for the year ended 31 December 2020, to RMB43,639 million for the year ended 31 December 2021 and further grew to RMB45,040 million for the year ended 31 December 2022. For the six months ended 30 June 2023, the Bank's net profit amounted to RMB24,219 million, representing a decrease of 3.30 per cent. compared with the six months ended 30 June 2022.

The Bank also strives to provide comprehensive financial services to its customers, which further enhances the Bank's net fee and commission income and net profit. The Bank's net fee and commission income continues to grow from RMB24,409 million for the year ended 31 December 2020, to RMB27,314 million for the year ended 31 December 2021 and decreased to RMB26,744 million for the year ended 31 December 2022. For the six months ended 30 June 2022 and 2023, the Bank's net fee and commission income was RMB14,835 million and RMB13,445 million, respectively. The Bank's impairment losses on assets decreased from RMB56,932 million for the year ended 31 December 2020, to RMB54,795 million for the year ended 31 December 2021 and further decreased to RMB50,609 million for the year ended 31 December 2022, while the NPL remained stable at 1.38 per cent., 1.25 per cent. and 1.25 per cent., respectively. The Bank's impairment losses on assets for the six months ended on 30 June 2022 and 2023 were RMB29,025 million and RMB26,597 million, respectively, with the NPL at 1.30 per cent. as at 30 June 2023. As at 30 June 2023, the Bank's liquidity coverage ratio was 116.48 per cent.

The Bank's head office is located in Beijing and the Bank has a nationwide branch network. The Bank's branch network further expanded to the international market by establishing its first overseas branch in Hong Kong in December 2012 and later in Seoul, Luxembourg, Sydney, Macau and Tokyo. The Bank has a strategic focus on the PRC's more economically developed regions, such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta and has supported the Belt and Road Initiative and free trade zones in the PRC.

The following chart sets out a simplified corporate structure of the Bank which shows, among other things, the direct shareholding in the Bank of certain shareholders as at the date of this Offering Circular:



## RECENT DEVELOPMENTS OF THE BANK

### Changes in issued shares

On 17 March 2023, the RMB30 billion A-share convertible bonds issued by the Bank in March 2017 were delisted upon maturity. A cumulative amount of RMB22.731 billion was converted to 6,596,456,061 shares, and RMB7.633 billion was redeemed upon maturity. The proceeds from these convertible bonds were used for the Bank's business development. This conversion upon maturity supplemented the Bank's common equity tier-1 capital, enhancing the capital strength of the Bank.

In March 2023, China Huarong Asset Management Co., Ltd. ("**China Huarong**") converted 140,186,860 of the above convertible bonds it held at the Bank into ordinary A shares of the Bank through conversion of convertible bonds. The number of shares converted was 4,184,682,388. Before this conversion, China Huarong did not hold any ordinary share of the Bank. After this conversion, China Huarong held 4,184,682,388 ordinary shares of the Bank, accounting for 7.08 per cent. of the total number of ordinary shares of the Bank. China Everbright Group Ltd. converted 29,091,530 of the above convertible bonds it held at the Bank into ordinary A shares of the Bank through conversion of convertible bonds. The number of shares converted was 868,403,880. Before this conversion, China Everbright Group Ltd. directly and indirectly held 27,015,296,587 ordinary shares of the Bank, accounting for 49.999 per cent. of the total number of ordinary shares of the Bank. After this conversion, China Everbright Group Ltd. directly and indirectly held 27,883,700,467 ordinary shares of the Bank, accounting for 47.19 per cent. of the total number of ordinary shares of the Bank.

## **Business Opening of Macau Branch of the Bank**

In recent years, the Bank has taken actions to expand its operations outside Mainland China. Now it had six overseas institutions outside Mainland China, with branches in Hong Kong, Macau, Seoul, Luxembourg and Sydney and a representative office in Tokyo. The application for establishing the Bank's Macau Branch was approved by CBIRC (now the NAFR) in November 2020. In July 2022, the Bank's application for the establishment of Macau branch was approved by the Macau Special Administrative Region Government. In March 2023, the Macau Branch of the Bank was officially opened for business.

## **Completion of the profit distribution for 2022**

On 21 June 2023, the 2022 Annual General Meeting of the Bank considered and approved the profit distribution plan for 2022, and distributed cash dividends to all ordinary shareholders at RMB1.90 (before tax) per ten shares. As at 30 June 2023, all the cash dividends totalling RMB11,226 million had been distributed.

## **COMPETITIVE STRENGTHS**

The Bank's principal competitive strengths include:

### **Distinguished shareholders engaged in diversified financial fields**

The shareholders of the Bank are distinguished financial institutions engaged in diversified operation and coordinated development of both finance and industry with a full range of financial licences. China Everbright Group Ltd. ("CEG") is a large financial holding conglomerate directly under the administration of the central government of China, and also one of the Fortune Global 500 companies. Its business scope encompasses financial services and non-financial industries including environment, tourism, healthcare and high-tech. CEG's advantages in comprehensive finance, collaboration between finance and industry, and coordination between Chinese mainland and Hong Kong SAR, provide the Bank with a solid platform for offering comprehensive finance and implementing industry-finance collaboration.

### **Unified Sunshine brand**

The Bank has advantages in its unified Sunshine brand. Upholding the business philosophy of "Sharing Sunshine, Innovating Life", over the years, the Bank has stepped up its efforts to build the "Sunshine" brand series and launched hit product series including Sunshine Wealth Management, Cloud Fee Payment, Sunshine Inclusive Finance Cloud, Auto Full Pass, Sunshine E-financing Chain, Sunshine Receivables Express (Guang Xin Tong) and Sunshine Logistics Express (Wu Liu Tong).

### **Outstanding innovative gene**

The Bank has an outstanding innovative gene. The Bank was established in the trends of competitive financial market in China, and grew stronger through exploration and innovation. Inspired by innovation awareness, it became the first bank that launched the RMB wealth management products, the first to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks obtaining dual qualifications as both enterprise annuity fund custodian and account manager in China. Besides that, it has forged China's largest open-ended payment platform, Cloud Fee Payment and has achieved positive results through innovation.

Giving full play to the advantages of special funds for fintech innovation, the Bank improved the innovation management mechanism and enhanced innovation guidance and incentives to promote innovation-oriented development, and supported project cultivation and incubation relying on innovation funds. As at the end of 2022, the Bank initiated 86 innovation projects, of which 36 projects achieved phased targets.

Great achievements were made in digital transformation with CEB characteristics, which was highly recognized in the industry. The Bank was awarded the "Best Digital Bank Award" and "Best Scenario Innovation Award for Digital Banking" by China Financial Certification Authority (CFCA). CEB Mobile

Banking won the “Outstanding Digital Technology Innovation Award” by JRJ.com and “Outstanding Mobile Banking for 2022” by Hexun.com. “Social Security Cloud Fee Payment” won the Gold Award at the 5th Digital Finance Innovation Competition. Cloud Fee Payment, Sunshine Receivables Express (Guang Xin Tong) and Sunshine Payment Express (Guang Fu Tong) were awarded “Excellent Cases of Digital Transformation in Chinese Banking Industry”, and Cloud Fee Payment and Sunshine Logistics Express (Wu Liu Tong) were awarded “Digital Inclusive Finance Innovation Achievements of China”.

### **Leading roles and strategic transformation in wealth management businesses and other businesses**

Committed to building a first-class wealth management bank, the Bank has obtained certain competitive advantages in some businesses.

In wealth management, the Bank has seized development opportunities in a precise manner by staying at the forefront in initiating strategic transformation in wealth management, which has led to continuous market share expansion, well-received wealth management capabilities, and strong advantages in wealth management and asset management. The fee-based businesses not occupying the Bank’s risk assets have gained growth momentum with its proportion growing continuously, becoming a key driver of the Bank’s operating income.

In investment banking, the Bank has built first-mover advantages as the pioneer in the industry is able to provide corporate customers with comprehensive investment banking services. In digital banking, the Bank has built an open service system by opening its platforms based on its open-ended platforms, which has also become an industry-leading business model. In financial market business, the Bank has maintained stable and compliant operation with its trading strategies highly recognized in the market. In retail banking, the Bank has improved its capabilities of value creation and high-quality development continuously, providing new drivers for the sustainable development of the Bank.

### **Prudent risk management**

The Bank proactively implements comprehensive and effective risk management measures. Based on the Basel III framework, the Bank established a comprehensive risk management system covering various aspects of its businesses, adopted an internal ratings system with high sensitivity, improved risk assessment and risk-adjusted pricing ability and increased capital efficiency of its operations. The Bank’s comprehensive risk management methods and techniques have become increasingly diversified to ensure effective control of asset quality. The Bank’s operation management system has been continuously improved to make risk management more proactive, forward-looking and predictable, laying a solid foundation for long-term and sustainable development.

The continued improvement of the Bank’s risk management capability has enabled the Bank to effectively handle the challenges brought by the recent economic downturn and manage its overall risks. The Bank had firmly safeguarded the Bank’s risk management bottom-line across the board and strengthened the credit risk management. As at 30 June 2023, the Bank’s NPL ratio was 1.30 per cent.

### **Advanced IT platform and industry-leading digital banking innovation**

The Bank has advantages in technology-driven innovation. The Bank has continuously advanced in-depth integration between business and technology, and build the “123+N” digital Everbright development system, namely a combination of “one smart brain, two technological platforms, three service capabilities and N digital hit products.” The Bank has continuously increased technological inputs, improved technological governance, and enhanced basic technological capabilities to empower business development. The Bank strove hard to build a technology-led and data-driven technology development system with Everbright characteristics, to accelerate tech empowerment and promote bank-wide digital transformation. The “Wealth +” open platform with CEB Mobile Banking and Cloud Fee Payment apps at the core has attracted more



users, and the scale of traffic, customer conversion and value contribution have all been on continuous improvement.

The Bank's hit products such as Sunshine Inclusive Finance Cloud, Sunshine E-financing Chain, Sunshine Receivables Express (Guang Xin Tong), Sunshine Logistics Express (Wu Liu Tong), Sunshine Fast Loan (Guang Su Dai), Sunshine Housing Express (An Ju Tong) and Sunshine Flexible Employment Express (Ling Gong Tong) have gained good market recognition. As the investment in technology increases, the technology governance system has been further optimized, and the technology foundation and the ability to empower business development have been consolidated.

## **STRATEGIES**

The Bank will adhere to reform and the Bank is committed to creating greater value for shareholders, customers, employees and the society, and the Bank regards "building itself into a first-class wealth management bank" as its strategic vision. Ensuring that the financial work is politically oriented and can better represent the people, the Bank, as a resolute implementer of national strategies, proactively serves and integrates into China's new development pattern. Leveraging China Everbright Group's advantages including a complete range of financial licenses, collaboration between finance and industry, and coordination between Chinese mainland and Hong Kong SAR, the Bank upholds a customer-centered business philosophy and shifts focus from managing its own balance sheet to helping customers improve their financial statements based on customers' changing needs, promotes the building of a comprehensive financial ecosystem featuring "one customer, one Everbright, and one package of comprehensive services", so as to build competitive advantages in wealth management, so as to achieve high-quality development and create greater value for the society, shareholders, customers and employees.

### **Implement the strategy of "building a first-class wealth management bank" and transformation of wealth management**

Upholding the strategic vision of "building a first-class wealth management bank", the Bank focuses on the main task of high-quality development and regards digital operation as the path. The Bank determines three North Star Metrics (NSMs) — AUM (Assets Under Management), FPA (Finance Product Aggregate) and GMV (Gross Merchandise Volume), leads its three main business segments to provide customers with comprehensive financial services, works on key business areas such as wealth management, comprehensive finance and transaction banking, enhances capabilities in customer base management, intelligent risk control, product innovation and middle-office construction as well as professional capabilities of the whole team, and strives to achieve high-quality development.

During 2022, the Bank firmly upheld a customer-centered business philosophy, accelerated digital transformation, and expanded key businesses such as wealth management, comprehensive finance and transaction banking, to improve the quality and efficiency of financial services for the real economy. Targeted support was given to key areas including major national projects, manufacturing industry, technological innovation, inclusive finance, green finance, rural revitalization, private enterprises, SMEs and household consumption, thus effectively controlling operational risks, strengthening value creation capabilities, continuously promoting high-quality development and contributing CEB's strengths to Chinese modernization. Inspired by innovative spirit, the Bank became the first bank that launched the RMB wealth management products, the first to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks obtaining dual qualifications as both enterprise annuity fund custodian and account manager in China. Besides that, it has forged China's largest open-ended payment platform Cloud Fee Payment, launched and developed Wealth E-SBU, and achieved remarkable innovation results.

### **Supporting the real economy and enhance sustainability of development**

Upholding the original purpose of finance, the Bank provided targeted support for the country's key economic areas and weak links, with the total volume of credit up 8.01 per cent. in 2022 compared with the end of the previous year. The Bank held a series of service activities titled "Serving Enterprises for Economic Stability", and took incentive and restrictive measures such as devising separate credit plans for key areas, making preferential policies for differentiated internal funds transfer pricing, and strengthening balanced scorecard evaluation. Compared with the end of the previous year, the Bank's inclusive loans to SMEs, medium- and long-term manufacturing loans, green loans and inclusive agriculture-related loans grew by 28.82 per cent., 40.74 per cent., 59.95 per cent. and 39.03 per cent. in 2022 respectively, higher than the average growth rate of the Bank's loans. By responding to the complex and fast-changing external environment, the Bank, rooted in the real economy, advanced business development and improved profitability steadily.

### **Promote business structural adjustment and strengthen wealth management features**

The Bank optimized the allocation of resources, vigorously expanded green fee-based business, and facilitated the transformation towards asset-light and integrated operations. The annual income from fee-based businesses not occupying the Bank's risk assets including wealth management, agency service, settlement and custody amounted to RMB11,411 million, a year-on-year increase of 4.97 per cent. in 2022. In corporate banking, the Bank accelerated the integrated transformation of "commercial banking + investment banking + asset management + transaction banking", innovated the one-stop account opening service for corporate customers, promoted mobile customer visiting among managers, and launched a series of competitive products including Sunshine Receivables Express (Guang Xin Tong), Sunshine Logistics Express (Wu Liu Tong), Sunshine Payment Express (Guang Fu Tong) and Sunshine Housing Express (An Ju Tong). In retail banking, the Bank utilized digitalization to empower full-life-cycle customer management and scenario marketing, strengthened the ability to acquire customers in batches and take in quality deposits through payroll agency and social security services, facilitated the coordination of CEB Mobile Banking and Cloud Fee Payment apps, and promoted the issuance of themed wealth management products featuring common prosperity, rural revitalization, green development and elderly care. In financial market business, the Bank enhanced the ecosystem development of customers, sped up the development of the "Integrated Digital Service Platform for Interbank Institutions", and built digital channels for interbank customers covering sales, agency service, market-making and matchmaking, to expand the interbank customer ecosystem.

### **Improve risk governance system and heighten risk resistibility**

In adherence to a sound and prudent risk management policy, the Bank improved its risk management system, promoted more forward-looking risk management, and strengthened the ability to deal with various risks. The Bank reinforced whole-process asset quality management, promoted a mechanism to dispatch risk managers and embed risk control measures to business front-end, and shifted approval to earlier procedures. It stepped up efforts to dispose and recover non-performing assets and maintained stable asset quality. To refine the credit industry research management system, the Bank reinforced portfolio monitoring as well as penetrated risk monitoring of large-value credit customers, and enhanced the accuracy of marketing service and risk control. The Bank deepened the building of an automated approval management system and risk warning platform, and built a pre-review and consultation mechanism at front and middle offices.

### **Increase investment in technology and accelerate digital transformation**

The Bank kept strengthening the input of technological resources and the cultivation of technology talents. During 2022, the Bank's investment in technology reached RMB6,127 million, accounting for 4.03 per cent. of its operating income, up RMB341 million or 5.89 per cent. from the end of the previous year; the number of technical personnel was 3,212, up 851 compared with the end of the previous year. The Bank deepened the integration of business and technology, advanced the implementation of new strategic plans for

technological development, and concentrated on the building of business middle office, data middle office and technology middle office. The Bank made all-out efforts to launch Transaction Banking Products “Yi” Series 2.0, build a comprehensive intelligent marketing system for retail banking, increase service items and output channels for the Cloud Fee Payment platform, and accelerate the expansion of key business scenarios such as logistics industry, housing transactions, off-campus education, flexible employment, and medical healthcare. The Bank formulated digital transformation plans to build an open digital ecosystem.

## THE BANK’S PRINCIPAL BUSINESSES

The Bank’s principal business segments are corporate banking, retail banking and financial market. The following table sets forth, for the periods indicated, the Bank’s operating income by business segments:

	For the six months ended 30 June				For the year ended 31 December			
	2022		2023		2021 (restated)		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	<i>(RMB in millions, except percentages)</i>							
Corporate banking....	30,376	38.68	28,223	36.88	59,693	38.92	57,619	37.94
Retail banking .....	33,007	42.03	34,258	44.76	63,380	41.33	65,998	43.46
Financial market business.....	15,395	19.60	14,088	18.41	29,953	19.53	28,051	18.47
Other business.....	(247)	(0.31)	(38)	(0.05)	340	0.22	197	0.13
Total.....	78,531	100.00	76,531	100.00	153,366	100.00	151,865	100.00

### Corporate Banking Business

The Bank provides a broad range of financial products and services to government agencies, financial institutions and corporations. Corporate banking constitutes the Bank’s primary source of income and consists primarily of corporate deposits and loans, inclusive finance, investment banking and transaction banking.

The corporate banking line of the Bank resolutely implemented national strategies, proactively served and integrated into China’s new development pattern, and took the initiative to work with state ministries and commissions in the major work of “expanding effective investment”, serve the real economy and stabilize the economy. Following the strategic plan of “building a first-class wealth management bank”, the Bank gave full play to the guiding role of FPA, a North Star Metric, and continued to expand the scale of FPA by advancing transformation through integration of investment banking, commercial banking and private banking. Adhering to the customer management concept featuring “stratified and grouped management, data-driven operation, channel coordination and conversion from transaction to contribution”, the Bank regarded the management of strategic customers as a key part of its business to inject new momentum into the development of corporate banking business. Placing potential customers at the center, the Bank strengthened list-based customer management and guidance on marketing strategies. Relying on basic customers, the Bank promoted online, digitalized and intensified operation modes to drive steady growth among various customer groups. Moreover, the Bank strengthened digital transformation and continued to promote the upgrading of the eight major systems, including Corporate Customer Relationship Management System, Online Banking and Mobile Banking, Inclusive Finance 2.0, Transaction Banking “Yi” Series 2.0, Customer Classification Management System, Strategic Customer Management Subsystem, Investment Banking System (IBS), and Corporate Banking Management and Accounting System. Operating income from corporate banking accounted for 41.82 per cent., 38.92 per cent., 37.94 per cent., 38.68 per cent. and 36.88 per cent. of the Bank’s total operating income for the years ended 31 December 2020, 2021, 2022 and

for the six months ended 30 June 2022 and 2023, respectively. As at 30 June 2023, the Bank's FPA totalled RMB4.80 trillion, and the number of corporate customers reached 973,000.

### ***Customer Base***

The Bank has extensive customer relationships with many large Chinese business groups and leading companies, government agencies, financial institutions and SMEs which the Bank believes have strong growth potential. The Bank has provided banking services to a large number of state-owned enterprises under the direct administration of the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), as well as to a large number of enterprises included in the Top 500 Enterprises of the PRC List jointly published by the PRC Enterprise Confederation and the PRC Enterprise Directors Association (中國企業聯合會及中國企業家協會). The Bank has developed relationships with more than 1,000 large business groups and leading companies in their respective industries in the PRC. The Bank believes that it is one of the few PRC commercial banks approved by MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of MOF, (ii) the authorised payment of expenditures on behalf of MOF and (iii) the non-tax revenue collection on behalf of MOF. The Bank is a leading domestic underwriter of short-term commercial paper and medium-term notes in the PRC. In addition to expanding the Bank's customer base, the Bank has also focused on optimising the Bank's customer mix.

SMEs are strategically important to the Bank's development and growth. The Bank mainly focuses on the following three types of SMEs: (i) supply chain participants who have advanced production facilities and equipment as well as advanced technologies to provide long term supporting services or supplies to large state-owned enterprises, leading companies, government agencies and other core clients; (ii) SMEs clustered in certain regions or industries who have brands with sound reputations and high market shares in these regions or industries; and (iii) high-tech SMEs which have been included in the national SME administration and service system, including technological SMEs within national-level high-tech industrial parks, software parks, industrial bases for the Torch Programme (a national programme to develop high and new technologies) and national university technology parks.

The Bank also focuses on developing long-term relationships with customers in economically more developed regions in the PRC such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, as well as in those industries which are strategically important to the PRC economy. The Bank also continued to adjust its loan portfolios. As at 30 June 2023, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) leasing and commercial services, (iv) real estate and (v) wholesale and retail trade, which represented 19.97 per cent., 15.95 per cent., 15.10 per cent., 8.18 per cent. and 8.83 per cent. of the Bank's total loans and advances, respectively, and together represented 68.03 per cent. of the balance of the Bank's total loans and advances as at the same date.

### ***Major Products and Services***

#### ***Corporate Deposits and Loans***

Adhering to its fundamental purpose of serving the real economy, the Bank launched a series of events titled "Serving Enterprises for Economic Stability" to provide more credit support in key areas such as national key projects, manufacturing industry, inclusive finance, green finance and technology innovation. Following the principle of "strengthening settlement, transaction and volume", the Bank relied on transaction banking, settlement business, platform introduction and source funds to boost deposit growth, strengthened chain marketing and business volume conversion, and increased low-cost deposits. The Bank promoted digital transformation and upgraded digital service platforms including "Sunshine Corporate Easy Win", "Sunshine Inclusive Finance Cloud" and "Sunshine Supply Chain Cloud Platform", so as to provide customers with convenient online services and improve customer experience. Centering on scenarios such as payment and

agency payment, the Bank spared no effort to enrich cash management products such as Cloud Treasury Management App (Yun Cai Zi), Interbank Transaction Express (Kua Hang Tong), and Bidding Express (Zhao Biao Tong). Furthermore, the Bank promoted digitalization to empower customer marketing, product innovation and business expansion, and stuck to the risk bottom line to operate in compliance. Efforts were made to fend off risks, strengthen risk prevention and maintain sound asset quality. As at 30 June 2023, the balance of corporate deposits (including the corporate business-related portion in marginal deposits) amounted to RMB2,887,546 million, representing an increase of RMB107,189 million or 3.86 per cent. over the end of the previous year. The balance of core RMB corporate deposits increased by RMB165,876 million or 6.86 per cent. The balance of RMB corporate loans (excluding discount loans) was RMB2,108,396 million, an increase of RMB176,946 million or 9.16 per cent. over the end of the previous year.

#### *Inclusive Finance*

The Bank fulfilled its social responsibilities of serving SMEs and people's well-being, developed a long-effect mechanism to help SMEs become confident, willing, qualified and able to apply for loans. By enhancing financial service capabilities for SMEs, the Bank eased the difficulties of SMEs and helped ensure overall economic stability. Focusing on core enterprises, the Bank facilitated the optimization and upgrading of industrial chains and supply chains, and developed more than 130 inclusive ecological chains. The Bank launched a promotion event titled "Serving Specialized, Sophisticated, Distinctive and Innovative Enterprises with Joint Efforts" to step up marketing efforts on tech enterprises, and provided more credit support for specialized, sophisticated, distinctive and innovative enterprises as well as technology start-ups. More financial resources were channelled to weak links of the economy and SMEs in need, especially those in accommodation, catering, retail, tourism, culture and transportation. The Bank actively carried out the policy of temporarily postponing principal and interest repayment on loans, allowing SMEs to apply for repayment extension through various channels, and supported their requests for renewal or extension based on market principles. As at 30 June 2023, the balance of inclusive loans for SMEs amounted to RMB346,766 million, an increase of RMB41,449 million or 13.58 per cent. over the end of the previous year, which was higher than the average loan growth rate of the Bank. The number of inclusive loan customers reached 429,200, an increase of about 3,900 customers over the end of the previous year. The weighted average interest rate of new loans was 4.12 per cent., down 32 bps over the end of the previous year, and the NPL ratio was 0.77 per cent., indicating stable asset quality.

#### *Investment Banking*

The Bank provides investment banking services and financial advisory services to its corporate customers. The Bank believes that it was among the first batch of PRC commercial banks to be qualified to underwrite short-term commercial paper when the PRC government started to permit this business in May 2005. Since then, the Bank has actively sought to develop its capabilities and has become a market leader in this product area. The Bank's main products include short-term commercial paper, medium-term notes, extra short-term commercial paper, private placement notes, SME combined notes and asset-backed notes. For the six months ended 30 June 2023, the Bank underwrote 401 debt financing instruments of non-financial enterprises in the interbank bond market with the amount of RMB260,510 million, with newly granted merger and acquisition loans amounting to RMB21,479 million. It issued three credit asset-backed securitization (ABS) projects with a total amount of RMB30 million.

In line with the business philosophy of combining commercial banking, investment banking, asset management and transaction banking, the Bank placed emphasis on the building of FPA system, improved the capability to innovate products and provide professional services in investment banking, gave play to multi-dimensional drivers in investment banking including bond financing, M&A financing, structured financing, equity financing and business matchmaking, and fostered new competitive edges through the integration of commercial banking and investment banking. During 2022, the Bank underwrote different innovative debt financing instruments such as technological innovation notes, green debt financing instruments (including carbon neutrality bonds), rural revitalization notes, Panda bonds and energy supply

bonds, covering various national key strategic areas including advanced manufacturing, technological innovation, rural revitalization and carbon neutrality. The Bank issued five credit securitization projects and promoted M&A business to facilitate mixed ownership reform of SOEs, M&A of listed companies, and policies for easing burdens and difficulties of real estate enterprises.

#### *Transaction Banking*

The Bank's Transaction Banking Department provides customers with comprehensive transaction banking services covering international settlement, trade finance, supply chain finance and cash management. The Bank kept enriching the spectrum of transaction banking products and refining its "all-scenario, full-category and omni-channel" financial solutions to meet the comprehensive financial needs of customers. The Bank established various channels to provide scenario-based financial services for core enterprises on supply chains, public resource trading centers and corporate customers via Sunshine E-financing Chain, Sunshine Supply Chain Cloud Platform and Sunshine Cash Management System. The Bank also expanded the supply and coverage of the "Sunshine Wages" financial services to help safeguard the legitimate rights and interests of rural migrant workers. Relying on technological innovation, the Bank served new formats and new modes of foreign trade such as market procurement and cross-border e-commerce platforms, improved the functions of corporate mobile banking with more online products to facilitate import and export enterprises in cross-border payment and settlement, and advanced the development of international settlement and cross-border RMB business. As at 30 June 2023, the Bank provided wage payment guarantee for rural migrant workers with a cumulative amount of RMB10,600 million, serving 1,468 corporate customers. The balance of the on- and off-balance sheet trade finance business was RMB497,804 million.

#### **Retail Banking Business**

The Bank offers its retail banking customers a wide range of products and services, including retail deposits, wealth management, private banking, retail loans, credit card business, digital banking and Cloud Fee payment. Focusing on building the digital retail banking and following the guideline of customer-oriented philosophy, the Bank deepened structural reform of retail banking, and formulated a "dual-curve" new development model. The Bank deeply engaged in the "first curve" by giving play to the advantages of outlets and professional customer managers to boost offline operation capacity. The Bank expanded the "second curve" to establish a more intensive, scenario-based and platform-based business model, and accelerated service transformation and upgrading. Meanwhile, the Bank strengthened digital-driven development and continued to deepen the integrated operation of retail customers, with the total number of retail customers increased and quality improved. The Bank accelerated structural adjustments on the liability side, leading to the expanded scale, optimized structure and reduced cost of retail deposits. The Bank advanced business transformation on the asset side, initiated intensive operation, supported the development of inclusive finance, and cultivated hit products of Sunshine retail loans, leading to the rapid growth of scale and stable asset quality of retail loans. The Bank continued to deepen wealth management transformation, optimized product spectrum, enhanced asset allocation capability, and adapted to customers' diversified investment needs while accompanying customers.

The Bank's retail banking business has experienced continued growth in recent years and as at 30 June 2023, it represented the largest component of the Bank's loan portfolio. The Bank's personal loans accounted for 42.64 per cent., 43.26 per cent., 42.53 per cent. and 40.54 per cent. of the Bank's total loans as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, and the Bank's personal deposits (including personal demand deposits and personal time deposits) accounted for 23.13 per cent., 23.35 per cent., 27.22 per cent. and 28.79 per cent. of the Bank's total deposits from customers as at the same dates, respectively. For the years ended 31 December 2020, 2021, 2022 and for the six months ended 30 June 2022 and 2023, the Bank's retail banking business generated operating income of RMB58,682 million, RMB63,380 million, RMB65,998 million, RMB33,007 million and RMB34,258 million, respectively, representing 41.09 per cent., 41.33 per cent., 43.46 per cent., 42.03 per cent. and 44.76 per cent. of the Bank's total operating income, respectively. Specifically, for the six months ended 30 June 2023, the net interest income from retail banking

was RMB25,246 million, up 9.83 per cent. from the same period of previous year, accounting for 46.13 per cent. of the total net interest income of the Bank for the same period. For the six months ended 30 June 2023, the net non-interest income from retail banking reached RMB9,012 million, up 10.06 per cent. from the same period of previous year, accounting for 41.34 per cent. of the total net non-interest income of the Bank for the same year.

## ***Major Products and Services***

### ***Retail Customers and AUM***

The Bank gave full play to the retail customer management committee to ensure that relevant mechanisms and systems fully play their roles, and adopted a retail customer management strategy featuring “stratified and grouped management, data-driven operation, channel coordination and conversion from transaction to contribution”. The Bank optimized organizational structure, and set up a clear retail customer management model that is stratified and grouped. The Bank established a customer operation center and gradually realized intensive management of all groups of basic customers. The Bank improved centralized management of medium- and high-end customer groups mainly via offline channels. The Bank established middle offices for retail banking, cultivated digitalization capability, and established a digital customer management model covering all products, all channels and the entire chain, so as to improve the comprehensive contributions of customers.

### ***Retail Deposits***

Guided by the high-quality development philosophy, the Bank deepened the integrated operation of deposit businesses to expand the scale, optimize the structure and reduce the cost of retail deposits. In order to acquire customers in batches, the Bank actively expanded customer acquisition channels and scenarios such as social security, people’s livelihood, health and medical care, business district operation, community property management, transportation, culture and education, tourism, consumption payment and internet innovation platforms. Furthermore, the Bank strengthened the coordination between corporate banking and retail banking to develop its payroll agency business, optimized “Payroll Manager”, an integrated financial service platform based on payroll agency services, promoted “Payroll Pass”, an enterprise administration service platform, carried out targeted marketing events such as “Premium Pay” and “Payday Afternoon Tea”, and conducted characteristic customer group management in payroll agency services. In addition, the Bank stepped up channel coordination, actively expanding quick payment business by linking CEB cards to third parties, and increased transaction volume via online platforms, thus retaining settlement funds. The Bank strengthened “debit card + credit card” linkage, and created a powerful synergy of debit card and credit card businesses for customer acquisition and activation, which effectively improved customer loyalty and service experience. As at 30 June 2023, the balance of retail deposits (including the retail business-related portion in marginal deposits) of the Bank amounted to RMB1,203,288 million, representing an increase of RMB136,829 million or 12.83 per cent. over the end of the previous year.

### ***Retail Loans***

The Bank actively fulfilled its social responsibilities with multiple moves including vigorously developing retail inclusive finance, strengthening credit supply for SMEs, helping new citizens with their entrepreneurship and employment, and proactively helping customers in need. The Bank served people’s demand for buying property as a necessity or for betterment, properly handled customers’ early repayment, and contributed to the sound development of real estate industry. The Bank rectified online loan platforms as regulators required, accelerated the building of its proprietary online lending business, and provided customers with convenient, various and diversified online financing services. Meanwhile, the Bank further promoted intensive operation, standardized products, and digitalized processes, continuously improving digital capabilities. Focusing on the whole process covering pre-lending, lending and post-lending as well as the full-cycle management covering customer marketing, access, service and relationship termination, the Bank proactively built a comprehensive risk management system to achieve coordinated development in

terms of scale, efficiency and quality. As at 30 June 2023, the balance of retail loans (excluding credit card business) posted RMB1,064,321 million, an increase of 0.85 per cent. over the end of the previous year.

### *Wealth Management*

With AUM as a North Star Metric, the Bank accelerated wealth management transformation, enriched the contents of inclusive wealth management, and rolled out a series of inclusive finance products. Through “dual-curve” integrated development, the Bank improved the value of retail banking channels in all respects and injected new vitality into retail banking. By building offline tiered and professional wealth manager teams and forging a new management mode featuring “integrated lobby marketing management” at outlets, the Bank improved the offline service efficiency of outlets. The Bank developed an online open wealth management ecosystem, enhanced cooperation with external partners, expanded the scope of “financial + non-financial” services, and established a whole-journey and full-life-cycle customer companion system. Moreover, the Bank strengthened asset allocation capability, improved the investment research and investment advisory system, and enriched the wealth management and agency product spectrum to suit customers’ diversified investment needs. As at 30 June 2023, net fee income from personal wealth management stood at RMB4,347 million, accounting for 32.33 per cent. of the total. Specifically, income from agency insurance business grew by 81.03 per year on year.

### *Private Banking*

The Bank further promoted the DSC high-net-worth customer management pattern featuring databased customer introduction (D), scenario-based customer acquisition (S) and whole-journey companion (C). Using the data insight model to promote the scenario marketing with distinctive features, the Bank acquired 6,520 private banking customers. By launching five major scenarios including Sunshine Housing Express (An Ju Tong), intra-CEG Coordination, Corporate-private Banking Collaboration, Hainan Free Trade Port, and Mainland-Hong Kong Collaboration, the Bank newly acquired 4,338 private banking customers through scenario finance. The Bank improved the whole-journey customer companion service capability and forged the full-channel coordinated service capability via channels of CEB Mobile Banking, video IC (investment consultation), private banking (experience) center and offline professional teams. With all these efforts, the number of monthly active users reached 55,300, up 40.36 per cent. over the end of the previous year, and 23 offline private banking (experience) centers were established. In addition, the Bank strengthened corporate private banking collaboration and diversified coordination, created an integrated service model of “commercial banking + investment banking + private banking” and innovated relevant product system. The Bank comprehensively improved wealth management capabilities across the board, and promoted tri-dimensional balanced development of publicly-offered funds, privately-offered funds and insurance products. The Bank seized the opportunity brought up by customers’ demand for wealth safety and security, and optimized product supply by increasing the supply of robust, guaranteed and inclusive products, achieving an increase of RMB17,051 million in agency AUM, with a scale of RMB2,96,046 million, an increase of 6.11 per cent. over the end of the previous year. The Bank worked on investment advisers and private banking wealth managers teams and built “wealth ladder” asset allocation application tools and platforms, transforming the business model from single product sales to portfolio marketing and asset allocation. During the reporting period, fee-based income from agency business was RMB1,764 million, and agency insurance premium was RMB8,998 million, an increase of 89.69 per cent. year on year. The fee-based income from agency insurance business was RMB811 million, up 81.03 per cent. year on year. The Bank built the “dual platform” feature of wealth management, shared the middle-office functions of the two platforms of CEB Mobile Banking and Cloud Fee Payment such as transaction, data and operation, and formed open ecosystems with their own distinctive characteristics and positioning. The Bank continued to organize online customer investment education, livestreaming and other operational activities, launched intelligent automated investment plan, investment income statement and other functions, and optimized the redemption and online dual-recording (sound and picture recording) functions of Spare Money Wallet (Zhang Xin Bao), a money fund product. The product channel of CEB Mobile Banking was connected to the Financial



Knowledge Community”(Jin Zhi Liao), where interactive PK columns of public offering, insurance and other topics were set up. The MAU of the three main product channels increased by 35.11 per cent. over the end of the previous year. The Bank constructed the zone for elderly care of CEB, serving a total of 964,400 customers. The Bank pressed ahead with the Cloud Fee Payment “microfinance” ecosystem and created one-stop service featuring “convenient payment + inclusive finance” by launching the internet fund business of Sunshine Fee Payment (Jiao Fei Bao) app, with the number of fund and insurance customers increased by 257,100, and wealth wallet accounts increased by 1,209,400, an increase of 18.81 per cent. over the end of the previous year. As at 30 June 2023, the Bank had 59,759 private banking customers, an increase of 3,233 customers or 5.72 per cent. over the end of the previous year. The AUM amounted to RMB601,455 million, representing an increase of RMB33,270 million or 5.86 per cent. over the end of the previous year.

#### *Credit Card Business*

The Bank firmly promoted credit card business to return to the origin of consumption, strengthened the introduction of young and high-value consumers, and rolled out the series of CEB Youth Credit Card products targeting at young customers, such as the Yue series and Yao series. As a result, the proportion of young customers and high-quality customers with a steady risk profile maintained steady growth. In order to boost customer loyalty of credit cards, the Bank accelerated the building of merchant service system in four consumption scenarios – “Dining Appointment”, “Shopping Appointment”, “Entertainment Appointment” and “Car Appointment”, with various brand marketing campaigns such as “Friday Discounts” and “Happy Shopping Festival”. The Bank launched the Sunshine Life app version 7.0, attracting 13,975.7 thousand monthly active users (MAU). The Bank then deepened the stratified and grouped management of consumers and accelerated its efforts in the building of merchant service system and brand marketing campaigns to improve the ecosystem of the Sunshine Life app. As at 30 June 2023, the number of MAU was 14,900.2 thousand, up 29.31 per cent. year on year. Moreover, the Bank further refined its installment business and drove up the proportion of interest bearing assets by optimizing policy portfolio to dive deep into the existing business and expand business that will bring incremental growth. It improved risk management level by enhancing its differentiated access management and credit management, proactively controlling potential high-risk assets and applying diversified mechanisms for recovering and disposing overdue loans, thus keeping the overall risk level under control. The Bank deepened technology and data empowerment, worked on the building of intelligent sales system and the automatic upgrading of outbound call platforms, and added and reviewed over 420 customer group labels, improving business agility and fineness. The Bank continued to improve the review procedure and work mechanism for the protection of customers’ rights and interests, and upgrade the customer protection hotline system to improve customer services. As at the end of the reporting period, the Bank had a total of 49,545.8 thousand credit card customers, of which 1,899.2 thousand were newly added. The transaction volume was RMB1,243,923 million. The overdraft balance at the 30 June 2023 (excluding the payment adjustments to transitional accounts) recorded RMB452,376 million, and the income from the credit card business posted RMB22,541 million, up 4.90 per cent. year on year.

#### *Digital Banking and Cloud Fee Payment*

The Bank continued to promote the building of digital banking and accelerated digital transformation across the Bank. As at 30 June 2023, 99.11 per cent. of counter transactions were handled through electronic channels. Adhering to the customer-centered business philosophy, the Bank focused on building three main areas including Cloud Fee Payment, scenario-based finance and dual platform mechanism (also the “wealth +” open service ecosystem with CEB Mobile Banking and Cloud Fee Payment apps at its core), so as to improve digital, intelligent and efficient service capability. With the Cloud Fee Payment platform, the Bank promoted convenient livelihood services and inclusive finance, with continuously increasing service items, expanding output channels and widening service coverage, and facilitated local governments to increase digital capability in collection of non-tax revenues and collection of personal contributions to social security. The Bank released the Convenient Fee Payment Industry Report of China for eight consecutive years, and

maintained its leading edges as China's largest open-ended and convenient fee payment platform. As at 30 June 2023, the platform offered 15,241 fee payment service items cumulatively, an increase of 750 items or 5.18 per cent. The payment service items were exported to 773 platforms cumulatively, an increase of 30 platforms or 4.04 per cent. The Bank processed 1,287 million of transactions, up 13.49 per cent. year on year, with the total amount of payment reaching RMB314,519 million, up 27.11 per cent. year on year. The annual total number of active users was 379 million, an increase of 16.38 per cent. year on year. The Bank expanded financial scenarios.

Meanwhile, the Bank concentrated on the development of scenario-based finance, and realized rapid development in Sunshine Logistics Express (Wu Liu Tong), Sunshine Housing Express (An Ju Tong), Sunshine Flexible Employment Express (Ling Gong Tong) and other key businesses. Specifically, on Sunshine Logistics Express (Wu Liu Tong), the Bank cooperated with a total of 68 leading enterprises and served more than 8.9 million cargo owners and drivers by accelerating the horizontal expansion of the industry's leading enterprises and vertical deep cooperation, basically covering all the top 20 network freight service suppliers. For the six months ended 30 June 2023, the number of transactions was 73,149.3 thousand, an increase of 77.19 per cent. year on year, and the transaction amount was RMB98,764 million, up 15.53 per cent. year on year. On Sunshine Housing Express (An Ju Tong), the Bank, relying on the housing transaction scenario, forged in-depth cooperation with leading enterprises in the industry such as KE Holdings Inc., and during the reporting period the transaction amount was RMB220,101 million, up 78.39 per cent. year on year. The Bank strengthened efforts in the building of dual platforms to improve comprehensive online operation capability and customer experience. On CEB Mobile Banking, the Bank gave full play to the advantages of CEB Mobile Banking as the main base for online business of retail customers, further optimized the special zone of "Wealth Management Night Market (Li Cai Ye Shi)", and strengthened financial services for the elderly, which received positive feedback from users. On Cloud Fee Payment, the Bank improved the featured "life service + micro finance" services by launching more small-value inclusive financial products, and further increased the capability of traffic attraction and customer conversion. As at 30 June 2023, CEB Mobile Banking app had 59,753.3 thousand registered users, up 8.63 per cent. year on year and 20,739.1 thousand monthly active users, up 29.47 per cent. year on year. The total number of directly-linked users of Cloud Fee Payment was 171 million, marking an increase of 11.76 per cent. over the end of the previous year, and the number of directly-linked MAU reached 11,453,300, an increase of 18.55 per cent. year on year.

### **Financial Market Business**

The Bank's financial market business primarily covers treasury business, inter-bank business, asset management business and asset custody business. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts. The Bank also trades in debt securities, derivatives and foreign currency trading for its own accounts.

Conscientiously implementing the steady growth requirement, the Bank enhanced the operation, investment and transaction capacities of the financial market business to ramp up support for the manufacturing industry, inclusive finance, SMEs, green finance and rural revitalization. Starting with digital transformation, the Bank completed the construction of the "Integrated Digital Service Platform for Interbank Institutions", promoted the steady growth of GMV, a North Star Metric. Giving full play to "Sunshine Wealth Management" in wealth management, the Bank continued to enrich investment and financing services for new infrastructure and people's livelihood improvement. The Bank developed capital market investment business to consolidate its leadership in securitized asset investment and better meet the needs of real enterprises in investment and financing. The Bank worked harder to coordinate the development of the first, second and third pillars of pension, shaping a pension financial ecosystem.

For the years ended 31 December 2020, 2021 and 2022 and for the six months ended 30 June 2022 and 2023, operating income from the Bank's financial market business amounted to RMB24,225 million, RMB29,953 million, RMB28,051 million, RMB15,395 million and RMB14,088 million, respectively, representing 16.96

per cent., 19.53 per cent., 18.47 per cent., 19.60 per cent. and 18.41 per cent. of the Bank's total operating income, respectively.

### ***Treasury Business***

The Bank acted in strict accordance with regulatory requirements, and adopted investment and trading strategies to improve efficiency in the allocation of financial assets and promote overall economic development. Leveraging on its advantages in money market trading, the Bank strengthened market-based debt taking and ensured liquidity safety of RMB and foreign currencies. The Bank strengthened market research and analysis, closely followed market trends, and improved bond portfolio management with an emphasis on central government bonds, local government bonds, policy financial bonds and high-grade debentures, staying at the forefront among joint-stock banks in terms of government bond underwriting. In terms of agency business, the Bank developed personalized, differentiated and customized financial products to meet various customer needs for asset appreciation and risk hedging. In addition, the Bank enhanced business coordination and resource integration to improve the Bank's comprehensive capability to generate profits. As at 30 June 2023, the balance of bonds in the proprietary account amounted to RMB1,308,046 million, accounting for 19.36 per cent. of the total assets, 54.16 per cent. of which were treasury bonds and local government bonds.

### ***Interbank Business***

The Bank fully implemented the national strategy of ensuring overall economic stability, and provided more support for key areas such as manufacturing, inclusive finance, SMEs, green finance and rural revitalization. The Bank strengthened specialized interbank business management, and maintained an appropriate scale to ensure compliance and prudence in its operation. Through forward-looking market research and analysis, the Bank provided targeted financial services to the real economy, refined asset structure and accelerated business transformation to improve the quality and efficiency of interbank business. With GMV as a North Star Metric, the Bank followed the business philosophy of serving interbank customers, explored the diversified development path, and regarded interbank business as a new profit growth opportunities. The Bank enhanced capability building in wealth management, agency market-making, business matchmaking, payment and settlement, and enriched the contents of interbank customer management. In addition, the Bank continued to pay attention to liquidity safety and facilitated liquidity management across the Bank. Adhering to the bottom line of risk management, the Bank kept business risks under strict control, enhanced the monitoring and early warning of credit risks, and maintained the stability of asset quality. For the six months ended 30 June 2023, the Bank conducted business cooperation with nearly 4,000 interbank customers, and the balance of interbank deposits stood at RMB547,445 million.

### ***Asset Management Business***

In order to meet the diversified customer needs for wealth management, the Bank continued to enrich the "Colorful Sunshine" NAV wealth management product spectrum, and launched wealth management products under various themes including inclusive finance, common prosperity, support for servicemen, rural revitalization, green development and publicly-offered REITs. Moreover, the Bank developed ten pension wealth management products to meet the long-term elderly care needs of customers and suit their life-cycle characteristics. The Bank was one of the first to be licensed for personal pension wealth management business, the first to complete the agency wealth management business for the strategic reserve fund of provincial social security fund, and one of the first to attract insurance funds to invest in wealth management products. In order to strengthen investment capability, the Bank developed the systemic structure combining production, research and investment, conducted data-based research, and empowered investment with financial instruments. With such efforts, the Bank strengthened the multi-asset allocation strategy, and became one of the most active financial institution investors of REITs. The Bank adhered to operation with compliance, fulfilled risk control responsibilities, and improved its initiatives and forecasting abilities in risk control to ensure high-quality development of wealth management business.

As at 30 June 2023, the Bank recorded RMB1,223,648 million in balance of non-principal-guaranteed wealth management products within the scope of consolidated management, representing an increase of 3.24 per cent. from the year ended 31 December 2022. Among these, the balance of NAV wealth management products stood at RMB1,187,049 million, accounting for 97.01 per cent.. For the six months ended 30 June 2023, the Bank accumulatively issued RMB1.24 trillion of non-principal-guaranteed wealth management products, and cumulatively created RMB15,700 million of value for investors.

Committed to “value symbiosis and sharing”, the Bank gave full play to the role of the comprehensive asset custody platform, integrated various business segments such as corporate banking, retail banking, interbank business and wealth management, enhanced coordinated marketing efforts, and achieved continuous increase in value contribution of custody business. The Bank carried out business operation in a well-coordinated way, improved the emergency response mechanism, and adopted measures to ensure uninterrupted, safe and steady operation of the custody business. The Bank conducted stratified and grouped marketing campaigns to consolidate customer base, and achieved rapid growth in the total number of customers. The Bank optimized product strategies based on market changes, actively promoted publicly-offered REITs, expanded the categories of trust custody services, and spared no effort to accelerate pension finance business, becoming one of the first to conduct personal pension business in China. The Bank strengthened technological empowerment, improved product spectrum and business system, and enhanced the online, automated and digital operation ability of custody business. For the six months ended 30 June 2023, the Bank’s after-tax income from custody business amounted to RMB877 million.

## **PRODUCTS AND SERVICES PRICING POLICY**

The interest rates the Bank charges on its RMB-denominated loans are generally regulated by PBOC. For RMB-denominated corporate loans and personal loans (other than personal residential housing mortgage loans), there has been no lower limit on the interest rate since 20 July 2013 and no upper limit since 29 October 2004. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates with customers on such loans.

Interest rates for the Bank’s RMB-denominated demand and time deposits cannot be higher than 150 per cent. of the applicable PBOC benchmark interest rate. However, the Bank is permitted to provide negotiated time deposits to insurance companies and the National Council for Social Security Fund of the PRC under certain circumstances. The Bank is also permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.\$3 million or the equivalent.

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by NAFR and the National Development and Reform Commission of the PRC.

In compliance with applicable regulatory requirements, the Bank prices its products based on criteria including the risk profile of the Bank’s assets, an individual customer’s contribution to the Bank’s business, the Bank’s costs, the expected risk- and cost-adjusted returns and the Bank’s internal fund pricing benchmarks. In addition, the Bank considers general market conditions and market prices for similar products as well as services offered by its competitors.

## **DISTRIBUTION CHANNELS**

The Bank provides its customers with services through its multi-channel distribution network. The Bank’s branch network covers a large portion of the more economically developed areas in the PRC. As at 30 June 2023, the Bank had 39 tier-one branches, 115 tier-two branches, 1,156 business outlets (including inter-city sub-branches, county-level sub-branches, intra-city sub-branches, banking departments of branches, and

community banks) in the PRC. As at 30 June 2023, the Bank had 6 overseas institutions outside Mainland China, with branches in Hong Kong, Seoul, Luxembourg, Sydney and a representative office in Tokyo. The application for establishing the Bank's Macau Branch was approved by CBIRC in November 2020 (and the preparations for the establishment of the Macau Branch were in progress), and the application to overseas regulators and other preparations were in progress. The Bank's distribution network is complemented by various digital banking channels. For more information on the Bank's digital banking channels, see *"The Bank's Principal Businesses – Digital banking"*. The Bank's head office is responsible for the overall decision-making and management of the Bank. The Bank's tier-one branches are generally located in the capital cities of provinces, autonomous regions or municipalities and certain other strategically important cities, while its tier-two branches are located in other cities within the PRC's provinces and autonomous regions. The tier-two branches report to the tier-one branches in their respective region and are able to establish lower-tier network outlets in the same city.

## INFORMATION TECHNOLOGY

The Bank considers information technology to be one of the driving forces of the Bank's development. The Bank has constructed a multi-level structure of information technology systems covering all aspects of its business operations, including channel management, customer management, product management, transaction processing, financial management, risk management, decision-making support and sharing support. Substantially all of the Bank's business transactions are processed and maintained by its information technology system. The Bank believes that the Bank's advanced information technology system has greatly improved, and will continue to improve, the Bank's efficiency, the quality of the Bank's customer service and the Bank's risk and financial management capabilities.

The Bank held steadfast to its blueprint and accelerated the building of the "123+N" digital banking development system, with substantial growth in core indicators. Continuously empowered by "one smart brain", the Bank developed over 1,000 training algorithm models, up 22 per cent. from the previous year, and realized the cross application of multimodal bio-metrics identification covering over 600 scenarios, up 13 per cent. from the previous year. "Two technological platforms", namely cloud computing platform and big data platform, were further consolidated. The cloud computing platform 3.0 (i.e. "Full Stack Cloud" or "Quan Zhan Yun") realized automatic and controllable operation, and received enhanced authentication for "Distributed System Stability Measurement Model" from China Academy of Information and Communications Technology (CAICT), with nearly 90 per cent. of the Bank's application systems uploading to the cloud. The big data platform supported efficient computing, and the total amount of data on the platform exceeded 12 PB, an increase of 42 per cent. over the same period of the previous year. "Three service capabilities" were further improved with a focus on mobilized, open-ended and ecosystem-based development, and the new digital operation model based on the customer-centered business philosophy was created. The "N (numerous) digital hit products" adhered to the people-centered attributes of financial work, and provided customers with convenient online financial services such as Cloud Fee Payment, Cloud Payment, Sunshine Digital Loans, Sunshine Logistics Express (Wu Liu Tong), Overseas Finance Cloud and Sunshine E-financing Chain.

The Bank optimized the technology innovation mechanism, launched the "Golden Idea" incubation program, and achieved encouraging results in technology innovation projects. During 2022, 79 technology projects obtained patents or software copyrights, including the "Yin Bao Tong Information Management System" and "Unified Terminal Safety Operation Management System". Moreover, 22 technological projects, including the "Online Sales Platform Based on Artificial Intelligence for Wealth Customers" and "Sunshine RPA Process Automation Platform" won recognition and awards in the industry.

The Bank invested more in technology and put more efforts in building talent teams. During 2022, the Bank invested RMB6,127 million in technology development, an increase of RMB341 million or 5.89 per cent. over the previous year, accounting for 4.03 per cent. of the operating income.

The Bank strengthened efforts to ensure safety during critical periods of time. The Bank organized activities such as network security and data securities inspections, “technological mine-sweeping”, disaster recovery drills and other activities to enhance the safe operation capability of information systems. During 2022, the Bank’s information systems operated steadily, with no major security incident occurred.

The Bank outsources some applications and information technology functions to independent third parties. The Bank selects suitably qualified outsourcing companies through a bidding process and conducts strict scrutiny of such third parties. Generally, the Bank enters into service contracts with outsourcing companies and then manages and supervises their daily operations. In addition, the Bank carries out inspections to assess their overall service quality and their main service personnel on a regular basis. In order to reduce the risks associated with the outsourcing, the Bank monitors the whole outsourcing process. In addition, the Bank focuses on the continued improvement of its technological capabilities throughout the outsourcing process, as well as the transfer of information.

## **COMPETITION**

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in the PRC. The Bank currently competes primarily with large commercial banks and other national joint stock commercial banks. The Bank also faces increasing competition from other financial institutions, including commercial banks and foreign banks operating in the PRC. The Bank’s competition with other commercial banks and financial institutions in the PRC primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, coverage of distribution network and brand recognition, as well as information technology capabilities. Furthermore, the Bank faces competition in the provision of financial services to its customers from non-banking institutions such as securities firms and insurance companies.

The Bank’s competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its World Trade Organisation commitment, the PRC government eliminated measures restricting the geographical presence, customer base and operational licences of foreign-invested banks operating in the PRC. In addition, the PRC’s Closer Economic Partnership Arrangement with Hong Kong and Macau and the subsequent supplemental agreements, as well as the Cross-Straits Economic Cooperation Framework Agreement, allow banks from Hong Kong, Macau and Taiwan to conduct certain business in the PRC, which has also increased competition in the PRC banking industry. In addition, further policies and regulations such as the Opinion on Providing Financial Supports to Guangdong-Hong Kong-Macau Greater Bay Area issued by PBOC, CBIRC, CSRC and SAFE (中國人民銀行、中國銀行保險監督管理委員會、中國證券監督管理委員會、國家外匯局關於金融支持粵港澳大灣區建設的意見) on April 24, 2020 may provide further supports for the open-up of the banking, insurance and securities industry.

See “Risk Factors – Risks Relating to the PRC Banking Industry – The Bank faces increasingly intense competition in the PRC’s banking industry and competition from other investment and financing channels”.

In response to this competitive environment, the Bank intends to continue to implement its strategies to differentiate the Bank from its competitors and to enable the Bank to continue to compete effectively in the PRC commercial banking industry.

## **EMPLOYEES**

As at 30 June 2023, the Bank had 46,876 employees, including 919 employees of subsidiaries.

The Bank contributes to its employees’ social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank has established a performance-based compensation system whereby an employee’s compensation is determined based on his/her position and

performance review. In addition, the Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank provides its employees with training sessions in various areas, such as the international economic environment, globalisation of and competition in the finance industry, environmental-friendly finance, low-carbon economics, sustainable development, high-performance team building, banking industry innovation and service, detailed management, model-based operations, project management, corporate culture, bank development strategy, legal compliance, risk management, retail banking business, corporate banking business, financial compliance, information disclosure, electronic banking business and human resources management.

The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. The Bank has not experienced any strikes or other material labour disputes that have interfered with the Bank's operations, and the Bank believes that the relationship between the Bank's management and the labour union has been, and remains to be, good.

As at 30 June 2023, the Bank had also engaged a number of independent contract workers by signing contracting agreements with third-party human resources agencies. In accordance with the temporary supplemental or replaceable employment policy stipulated under the PRC Labour Contract Law (中華人民共和國勞動合同法), these independent contract workers generally do not hold important positions with the Bank. Such independent contract workers enter into labour contracts with the relevant third-party human resources agencies instead of with the Bank. According to the contracting agreements with the third-party human resources agencies, the Bank is obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. Although the Bank is under no statutory obligation to make social insurance contributions in relation to these independent contract workers under PRC law, if the third-party human resources agencies fail to do so, the Bank may be jointly liable for any claims brought by them. However, in such case the Bank would be entitled to seek indemnification from the third-party human resources agencies.

## **PROPERTIES**

The Bank is headquartered in Beijing, PRC.

For some of the properties it holds and occupies in the PRC, the Bank has not obtained title certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant valid title certificates as soon as practicable. The Bank has been unable to obtain certain of these title certificates due to various title defects or for other reasons. While there may be legal impediments to its obtaining certain of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial as compared to all of the properties it owns. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing the ability to use all of such properties at one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole.

For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly served for commercial uses including outlets, offices and ATM. As the owner of the properties, the lessors are responsible for applying relevant valid title certificates

or providing the Bank the consent to lease properties. In respect of this, the Bank has pro-actively procured these lessors to apply for the relevant valid title certificates or provide the Bank the consent to lease properties. The Bank is of the view that most of these leased properties occupied can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on its operations.

*See “Risk Factors – Risks Relating to the Bank’s Business – The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and the Bank may be required to seek alternative premises for some of the Bank’s offices or business premises due to the Bank’s landlords’ lack of relevant title certificates for some leased properties”.*

## **INTELLECTUAL PROPERTY**

The Bank’s intellectual property primarily includes trademarks, patents, domain names and copyrights. The Bank conducts business under the “China Everbright Bank,” “CEB” and “中國光大銀行” brand names.

## **INSURANCE**

The Bank maintains insurance coverage that is typical in the banking industry in the PRC and to cover amounts that the Bank believes to be adequate to its operations and circumstances.

## **LEGAL AND REGULATORY**

### **Legal Proceedings**

The Bank has been involved in some litigation and arbitration cases during its ordinary and usual course of business, most of which are initiated by the Bank for the purpose of recovering NPLs. As at the date of this Offering Circular, the Bank was not involved in any major litigation and arbitration cases. As at 30 June 2023, the Bank was involved in 444 sued litigation and arbitration cases pending final adjudication, which involved about RMB1,345 million. The above litigation and arbitration cases would not have any significant adverse impact on the financial position or operating performance of the Bank.

### **Regulatory Reviews and Proceedings**

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including PBOC, NAFR, MOF, CSRC, SAMR, SAFE, NAO and SAT, as well as their respective local offices. These audits and examinations have previously resulted in findings of non-compliance issues and the incurrence of certain penalties. Although these issues and penalties did not have any material adverse effect on the Bank’s business, financial condition and result of operations, the Bank has implemented remedial and preventative measures to protect against the recurrence of such incidents. The Bank believes that, save as disclosed in this Offering Circular, there were no other material breaches and material incidents of regulatory non-compliance.



## DESCRIPTION OF THE ISSUER

### BACKGROUND

The Issuer was established in December 2012 as the first branch of the Bank outside Mainland China. The Issuer is positioned to leverage on the advantages brought along by the cross-border business linkage, tapping into Hong Kong's open market regime as well as its unique position as an offshore Renminbi centre.

As at the date of this Offering Circular, the Chief Executive Officer and Chief Risk Officer of the Issuer were Mr. CAI Mingjie and Mr. WU Yik Tin, Desmond, respectively. As at 30 June 2023, the Issuer had 226 employees.

### BUSINESS ACTIVITIES

The Issuer is a licensed bank in Hong Kong, with its office at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong, and is currently focusing on its wholesale banking business. It also provides featured banking services through its cross-border business collaboration with the Bank, with a focus on developing international settlement business, corporate business, trade financing business, treasury business and other businesses.

The Issuer primarily focuses on the Hong Kong, Macau and Taiwan markets, as well as the Greater China region, and targets corporate clients ranging from blue-chip companies, large-scale or medium-scale red-chip companies in these regions as well as multinational corporations.

The Issuer provides a comprehensive range of tailor-made products and services to its corporate clients, such as foreign exchange trading, deposits and remittance, trade financing, treasury products, various Renminbi banking services, syndicated loans, project loans and joint cross-border financing. In addition, the Issuer collaborates with local and overseas financial institutions to provide a financial services platform for its clients.

### Major Products and Services

#### *Corporate Deposits*

The Issuer provides deposit services denominated in Hong Kong dollars and various foreign currencies with deposit term and rates that are competitive in the market to satisfy different financial demands in the daily operations of its corporate clients.

#### *Remittance*

Leveraging on the Bank's network throughout Hong Kong, Mainland China and overseas markets, the Issuer provides remittance services for its clients to facilitate their money transfer and allocation and trade settlement.

#### *Trade Finance*

The Issuer offers international settlement and trade financing services and solutions to its clients.

#### *Loan*

The Issuer provides tailor-made professional advice and solutions for its clients based on their business development and financial requirements, ranging from overdrafts to loans.

#### *Treasury Products*

The Issuer formulates plans catering for the market and provides trade services for its clients to timely seize opportunities in the global market.

### ***Renminbi Business***

The Issuer provides its clients with a wide range of Renminbi banking services by tapping into the Bank's nationwide branch network.

### ***Financial Institution Business***

Through its close collaboration with local and overseas financial peers and partners, the Issuer establishes a strong one-stop integrated financial services platform for its clients.

### ***Global Markets Business***

The Issuer is licensed for Type 1 and Type 4 regulated activities under the SFO and is able to advise and deal in securities for its clients.

## **HONG KONG REGULATORY GUIDELINES**

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

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

- each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches and the HKMA has the right to allow returns to be made at less frequent intervals;
- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interest of depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by the licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;
- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;
- licensed banks are obliged to report to the HKMA immediately if there is a likelihood of becoming unable to meet their obligations;
- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the licensed bank's systems of control of the licensed bank or other matters as the HKMA may reasonably require; and

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

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

## RISK MANAGEMENT

### OVERVIEW

As a commercial bank, the Bank is subject to a number of risks, primarily including credit risk, market risk, operational risk, liquidity risk and compliance risk. In order to manage these risks, the Bank is committed to establishing a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting and control of such risks. The Bank has been dedicated to strengthening its risk management, with the NPL ratio of the Bank's total loans and advances to customers being 1.38 per cent., 1.25 per cent., 1.25 per cent. and 1.30 per cent. as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively.

The Bank's principles for risk management are to steer the optimisation of business portfolios by using the Bank's economic capital management framework and risk pricing mechanism to facilitate the match between the returns and the risks assumed, and to maintain the Bank's risk exposure within acceptable risk levels in coordination with the implementation of the Bank's overall business strategies and comprehensive risk management system. On this basis, the Bank ultimately aims to maximise returns to its shareholders by maintaining capital adequacy levels that balance the Bank's risk exposure with its strategic objectives while striving to comply with the relevant regulatory requirements.

The Bank's risk management principles are as follows:

- (i) Comprehensive risk management: to establish and refine the Bank's comprehensive risk management covering various major risks;
- (ii) Independent risk management: the Bank's risk management system is kept independent from the Bank's business operational system; and
- (iii) "Creating value through effective risk management": the Bank creates business value by achieving a balance between risk and return and a balance between control and efficiency.

The Bank's risk management objectives are as follows:

- (1) To cultivate a proactive risk management culture of "creating value through effective risk management" by:
  - improving the Bank's policies and procedures, strengthening the Bank's training and implementing a position certification system to improve the quality of the Bank's business and risk management personnel;
  - senior management setting an example for the Bank's staff and increasing accountability in order to raise staff's awareness of risk; and
  - including risk management performance as an evaluation criterion for staff appraisal, branches, sub-branches and various departments.
- (2) To formulate and adhere to proactive and prudent risk management policies by:
  - applying differentiated policies at different levels, standardising the policy and management procedure through expert participation, regular reviews, and implementing the Bank's principles of fully identifying risks, accurately assessing risks, and taking reasonable risks;
  - establishing regular review mechanisms and continuous optimisation of the relevant mechanisms in order to better balance the relationship between principles and flexibility, the relationship between differentiation and consistency and the relationship between economic interests and social responsibility; and

- enhancing the Bank’s policy execution system.
- (3) To build up a risk management organisational matrix by:
- building up the Bank’s risk management organisational structure and system in accordance with the principles of vertical management for credit risk, centralised management for market risk and hierarchical management for operational and compliance risks in order to reflect the risk management needs of the Bank’s business development;
  - improving the Bank’s risk management organisational matrix and extending such structure to tier-two branches, cross-city and county-level sub-branches;
  - defining a clear allocation of functions and responsibilities among the Bank’s various committees, departments, units and personnel to prevent any gap or overlap of duties and authorities, and to increase the Bank’s risk management efficiency; and
  - ensuring the independence and professionalism of the Bank’s Risk Management Department and aligning its functions closer to market conditions and the Bank’s business objectives.
- (4) To ensure prudent and effective risk management processes by:
- focusing on the different characteristics of credit risk, market risk, operational risk, liquidity risk and compliance risk and building corresponding risk management processes;
  - implementing a system of comprehensive early warnings, prompt risk reporting and a swift response to risks; and
  - ensuring that the Board of Directors, its Risk Management Committee and senior management promptly monitor various risks and adopt effective measures to prevent and resolve such risks.
- (5) To set up an appropriate and active advanced technology support system for proactive risk management by:
- following the core principles of Basel III and adopting the best practices of banks both within and outside the PRC;
  - setting up a technology support system that covers effective measurement, analysis and management of credit risk, market risk, operational risk, liquidity risk and compliance risk; and
  - utilising advanced technology to support more specialised and targeted risk management processes.

## **KEY RECENT IMPROVEMENTS IN RISK MANAGEMENT**

The key risk management improvements the Bank has made in recent years are as follows:

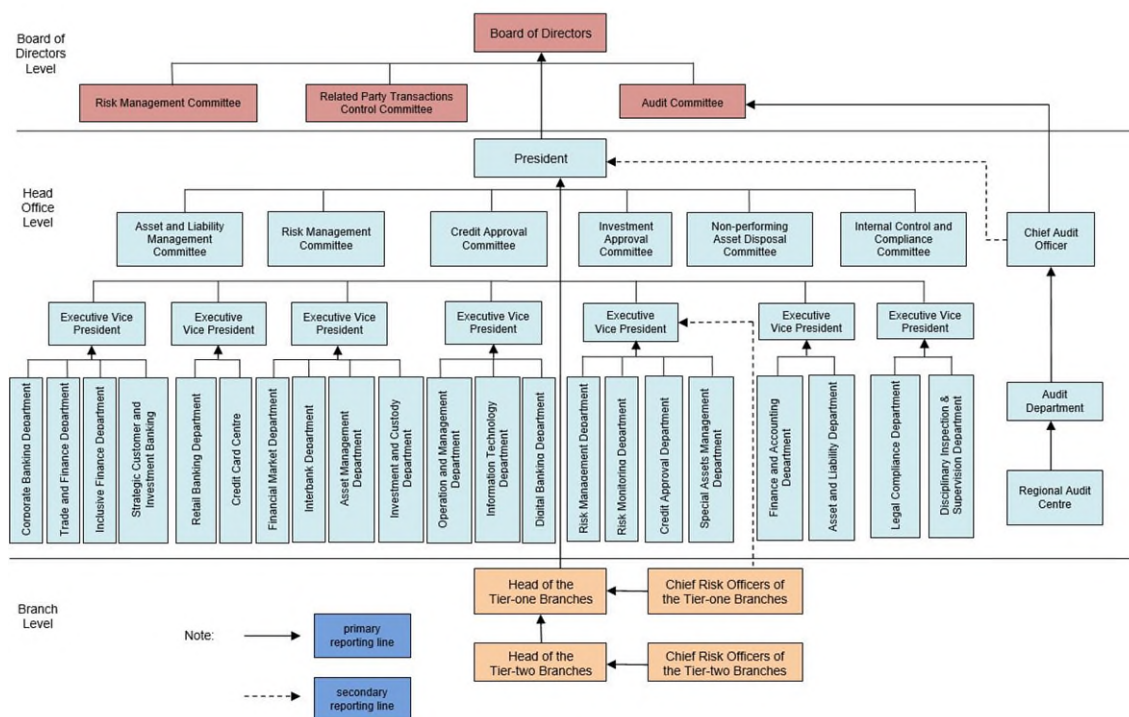
- During 2019, the Bank continued to improve its comprehensive risk management system, improved the credit structure, held a prudent and sound liquidity risk management policy, improved its market risk management system, actively established an organisational structure and management system for large exposures management, incorporated country risk into its comprehensive risk management system, continuously emphasised responsibilities of the “first line of defence” in operational risk management, strengthen the compliance risk management, established a reputational risk management mechanism applicable to the whole bank, formulated money laundering risk management policies and revised the AML internal control rules, upheld the business strategy of

“aggregate management, prudent implementation, differential credit extension and strict risk control” in the real estate sector and firmly conducted the supply-side structural reform.

- The ability to manage the Bank’s liquidity needs for its day-to-day operations is one of the key priorities for the Bank. In response to concerns about the tightening of liquidity in the PRC banking industry from time to time which resulted in significant temporary fluctuations in the inter-bank lending rate during certain periods, the Bank has emphasised amongst its departments the overriding importance of sound liquidity, increased its reserve level, and arranged for stronger short-term liquidity commitments, as well as implemented further upgrades to its internal controls to mitigate potential operational risk, including: (i) centralising liquidity gap solutions through inter-bank financing under the Bank’s head office; (ii) enhancing the daily critical point calibration mechanism; (iii) re-evaluating the operational and liquidity risk management system and the reporting mechanism; (iv) strengthening the Bank’s procedures in emergency management; and (v) controlling the scale of the Bank’s inter-bank business and executing improved matching of inter-bank assets and liabilities.
- During 2022, the Bank formulated the Management Measures for Liability Quality (Trial) in accordance with relevant regulatory requirements, established its own liability quality management system, improved the organizational structure for liability quality management, clarified the responsibilities of the Board of Directors, senior management, relevant departments and operating institutions in liability quality management, and specified the liability quality management strategy, management procedure, reporting system, information disclosure and emergency plan. The Bank strictly implemented the requirements for liability quality management, and closely monitored relevant limit indicators. Through these efforts, the Bank recorded a steady growth in total liabilities and a steady decrease in liability cost with a diversified and reasonable structure, the overall liability quality condition was good, and the six major elements of liability quality management was implemented well in general.

## RISK MANAGEMENT STRUCTURE

The chart below illustrates the Bank’s risk management structure:



## **Board of Directors and Board Committees**

The Board of Directors is the highest decision-making authority within the Bank in terms of risk management and is responsible for determining the overall risk management strategies and making important decisions for the Bank. It is also responsible for: determining the Bank's risk tolerance; examining the risk precaution measures formulated by the Bank's senior management; deciding on the fundamental management system and the establishment of the Bank's internal management organisation; appointing senior management; examining the internal control assessment reports provided by management, audit and regulatory authorities; reviewing and commenting on the effectiveness of the Bank's internal control system; and supervising senior management's continuous improvement of the Bank's internal control system. The Board of Directors performs its risk management functions through the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee.

The Risk Management Committee is responsible for formulating the Bank's risk management strategies and overall risk tolerance, and implementing such strategies and risk tolerance upon approval of the Board of Directors. It is also responsible for: supervising senior management in their management of credit, market, operational, liquidity, compliance and reputational risks; evaluating the risk policy, management situation and risk tolerance of the Bank; assessing the Bank's risk management system and making recommendations to the Board of Directors; preparing periodical risk management reports for submission to the Board of Directors; developing management targets with respect to the Bank's capital adequacy ratio and monitoring the same; reviewing and approving matters related to the implementation of Basel III; supervising Senior Management's performance of anti-money laundering (AML) duties, and enhancing the effectiveness of data governance; and advising on related information disclosure.

The Audit Committee is responsible for supervising and evaluating the Bank's internal control function; overseeing the Bank's risks, compliance status, accounting policies, financial reporting procedures and financial position; reviewing the Bank's financial information and its disclosure, and taking charge of the annual audit; supervising and guiding the internal audit, examining important policies and reports such as internal audit charter, and reviewing medium- and long-term audit plans and annual audit plan; supervising and evaluating external auditors; coordinating internal and external audits; and reviewing and supervising the mechanisms for employees of the Bank to report misconducts related to financial report, internal control, etc.

The Related Party Transactions Control Committee is responsible for the implementation of policies and guidelines relating to the review, approval, management and supervision of the Bank's related party transactions; assessment of the potential risks they may give rise to; preparation of reports to the Board of Directors on the overall status, risk level and structural distribution of related party transactions conducted in the year; and formulation of the related party transactions management measures for approval by the Board of Directors.

For further details of the respective responsibilities of the Bank's Board of Directors, as well as the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee, see "*Directors, Supervisors and Senior Management – Board of Directors Committees*".

## **Senior Management and Special Committees**

Based on the risk management strategies reviewed and approved by the Board of Directors, the senior management formulates, implements and manages various policies, systems, rules and limits covering a wide range of risks during the course of their day-to-day operations and management functions in order to ensure that all types of risks are effectively managed and controlled. The Bank's senior management has established the following special committees: the Asset and Liability Management Committee, the Risk Management Committee, the Credit Approval Committee, the Non-performing Asset Disposal Committee and the Internal Control and Compliance Early Warning Committee, which coordinate, organise and supervise their respective risk management functions.

### ***President***

The Bank's President is responsible for the operation and management of the Bank, including overall risk management and implementation of decisions made by the Board of Directors. The Bank's President submits business plans to and implements such plans upon approval by, the Board of Directors. The Bank's President also formulates the Bank's internal management organisational structure, core management policies and specific rules and procedures. The President may undertake other functions and exercise other powers as conferred upon him under the articles of association or by the Board of Directors.

### ***Executive Vice President in Charge of Risk Management***

The Bank's Executive Vice President in charge of risk management reports to the Board of Directors' Risk Management Committee and the President on bank-wide risk exposure, material matters relating to risk and corresponding solutions, as well as the organisation and operation of the Bank's risk management system. The Bank's Executive Vice President in charge of risk management is also responsible for formulating and, upon obtaining the relevant approval, implementing the Bank's risk management framework, principles and strategies based on the Bank's overall development strategies. Furthermore, based on his authority, the Bank's Executive Vice President in charge of risk management: approves and supervises the implementation of risk management indicators for various business activities, bank-wide risk management policies and reporting processes; carries out assessments of the risk management system; examines and approves the detailed rules on risk management; and is responsible for tailoring the Bank's risk management system to achieve its risk management objectives. The Chief Risk Officers of tier-one branches report to the Bank's Executive Vice President in charge of risk management.

### ***Special Committees under Senior Management***

- **Risk Management Committee.** By taking into consideration the external economic environment and the Bank's business development and risk management, the Risk Management Committee reviews the Bank's risk management strategies and provides suggestions on amendments to such strategies to the Bank's President at the executive meetings. It is also responsible for: the review of the Bank's risk management policies, procedures and rules and regulations, as well as their implementation upon submission and approval in accordance with the management procedure; the review of reports on the bank-wide risk profile, material matters relating to risk and risk management, and the organisation and operation of the Bank's risk management functions; and the review of risk management issues raised by relevant departments of the Bank's head office and by the Bank's branches.
- **Asset and Liability Management Committee.** The Asset and Liability Management Committee is responsible for reviewing and providing guidance for the Bank's business development plans. It is also responsible for reviewing and determining annual targets and plans for the allocation of assets, liabilities and off-balance sheet items and making adjustments to such targets and plans in accordance with specific circumstances. Further, it regularly reviews reports on the bank-wide asset and liability status. It is also responsible for the management of bank-wide liquidity risk and the interest rate risk of banking books.
- **Credit Approval Committee.** The Credit Approval Committee is responsible for the examination and approval of credit applications that are beyond the limits of authority of the Credit Approval Department of the Bank's head office and for providing guidance on matters relating to credit examination and approval throughout the Bank.
- **Non-performing Asset Disposal Committee.** The Non-performing Asset Disposal Committee reviews and approves procedures, incentive measures and relevant policies for the disposal and recovery of non-performing assets as well as examines and approves asset disposal proposals, the repayment of debts by assets, loan foreclosure on repossessed assets, loan write offs and litigation relating to non-performing assets and risk agency matters.



- **Internal Control and Compliance Early Warning Committee.** The Internal Control and Compliance Early Warning Committee reviews early warning signal reports, approves proposals for handling early warning signals, instructs relevant departments to conduct special investigations, implements action plans in relation to early warning signals and performs other compliance functions with respect to the management of early warning signals.

## **Head Office Risk Management Departments**

### ***Risk Management Department***

The Risk Management Department coordinates and puts in place comprehensive risk management for credit, market and operational risk. It is responsible for: formulating policies and procedures for risk management; regular review and modification according to actual circumstances, and setting out relevant implementation rules; formulating, tracking and improving the Bank's credit policies, risk management system and methods and the rules and processes of making credit-related decisions; compiling and collating various types of risk management reports and reporting to senior management, the Asset and Liability Management Committee and the Risk Management Committee of the Bank and the Risk Management Committee of the Board of Directors in a timely manner; formulating strategic plans for the Bank's credit portfolios composition; analysing the performance of the Bank's credit portfolios; and organising, developing and maintaining risk management systems and models.

### ***Credit Approval Department***

In accordance with the Bank's credit policies and procedures, the Credit Approval Department is responsible for: examining, considering and approving various types of credit business applications within their limit of authority; administering the specific delegation of credit approval authority in the Bank's credit business; formulating plans for credit approval authority delegation in the Bank's credit business; organising, monitoring, administering and appraising the bank-wide implementation of credit approval authority delegation; and periodically reviewing the credit examination and approval activities of lower-level credit approval functions.

### ***Credit Management Department***

The Credit Management Department performs three core functions: (i) data analysis and model building at the portfolio level, (ii) post-credit-granting review and management and risk warning at the business level, and (iii) key operating procedure control at the process level. The Credit Management Department is responsible for coordinating credit risk monitoring and portfolio management for large, medium, small and micro-sized credit granting operations at the Bank. Additionally, the Credit Management Department conducts industry and credit asset portfolio data analysis, formulates and maintains the Bank's post-credit-granting management system, reviews and examines credit and loans granted to corporate and retail customers, monitors and administers key credit business procedures, and monitors events associated with material risks.

### ***Legal and Compliance Department***

The Legal and Compliance Department is responsible for: coordinating and organising the management of internal control, compliance risk and legal risk within the Bank; developing the relevant compliance risk management policies and systems; providing guidance for implementing bank-wide compliance tasks; organising legal and compliance inspections for the Bank's businesses and communicating with external regulatory authorities in connection with compliance matters.

### ***Special Loan Administration Department***

The Special Loan Administration Department is responsible for: formulating implementation rules on the management of non-performing assets; managing NPL; filing claims against borrowers who become bankrupt or insolvent, or handling follow-up work against borrowers who are liquidated or dissolved;

handling debt restructuring in relation to non-performing assets; assessing the rating, interest suspension, waivers of interest and other issues relating to non-performing assets and reporting to the Non-performing Asset Disposal Committee for approval; and preparing application materials relating to debt write-offs for submission to the Non-performing Asset Disposal Committee for examination and approval.

### ***Other Departments***

In addition to those set forth above, certain other departments also implement risk management policies and procedures and perform certain management functions within their scope of operation.

## **Risk Management Structure at the Branch and Sub-branch Levels**

### ***Tier-one Branches***

The Bank has implemented a programme to assign Chief Risk Officers to tier-one branches. While Chief Risk Officers at the branch level are directly under the leadership of the Bank's head office, they also report to the local branch heads and are subject to the guidance of the Risk Management Department, Credit Approval Department, Credit Management Department, Special Loan Administration Department and Legal and Compliance Department in the Bank's head office in relation to business matters so as to maintain the independence of the risk management of tier-one branches. Chief Risk officers at the branch level supervise the Risk Management Department, Special Loan Administration Department and Legal and Compliance Department of their respective branches and are responsible for managing the credit risk of such branches and examining and approving loans within their limit of authority. They also assist the branch heads in managing operational and compliance risks.

The Head of Tier-one Branches are ultimately responsible for tier-one branch-level operational and management matters. They are in charge of the overall risk management tasks of their local branches and are responsible for creating a favourable atmosphere for risk management and for establishing an effective risk management system. Based on the principle of the hierarchical management of operational and compliance risks, branch heads are responsible for establishing branch-level operational risk and compliance risk management systems at the request of the Bank's head office and have primary responsibility for the management of such risks at the branch level. In accordance with the principle of vertical management of credit risk, branch heads support their respective branch's Chief Risk Officers in managing credit risk by examining the branch/regional marketing guidelines and by exercising the "veto right" in the dual approval process for corporate credit applications.

### ***Tier-two Branches, Cross-city and County-level Sub-branches***

In order to standardise the risk management of tier-two branches, cross-city sub-branches and county-level sub-branches and to promote the healthy and orderly development of the Bank's businesses, the Bank has begun to apply the risk management system of tier-one branches to its tier-two branches, cross-city sub-branches and county-level sub-branches.

## **CREDIT RISK MANAGEMENT**

Credit risk is the risk of loss that the Bank may suffer from default by an obligor or counterparty of his/her obligations or commitments under a contract. The Bank continued to strengthen loan concentration management and established a tiered risk monitoring mechanism for large-value credit customers. The Bank is exposed to credit risk mainly in the form of loan portfolios, investment portfolios, guarantees and balance sheet and off-balance sheet credit risk exposure. To address the Bank's off-balance sheet credit risk, the Bank spent more efforts to strengthen management by optimizing structure and risk management system of off-balance sheet business. Furthermore, the Bank intensified efforts in industry research with remarkable achievements in commercialization of industry research results. The Bank also applied big data and artificial intelligence (AI) to upgrade traditional risk control technologies so as to facilitate digital transformation of management system and centralised its credit risk management.

The Bank classified assets in a strict manner so as to reveal risk profile dynamically and objectively. Sticking to a prudent and sound provision policy, the Bank conducted impairment testing and provisioning strictly in line with the new accounting standards for financial instruments. Besides, the Bank refined the whole-process asset quality management mechanisms, strengthened portfolio monitoring and penetration risk monitoring for large-value credit customers, and stepped up risk prevention in key areas. It also intensified the disposal of existing non-performing loans, and broadened disposal channels.

The Bank manages credit risk by adopting normalised and unified processes and standards for its credit business. The Risk Management Department of the Bank's head office, in conjunction with other relevant departments, regularly reviews and modifies the workflow and standards adopted for the Bank's credit business. Credit risk management includes corporate credit, retail credit and financial institution credit management and may be broadly divided into three segments, namely: (i) acceptance of credit applications and credit investigations; (ii) credit examination and approval; and (iii) opening of credit lines and post-disbursement management.

### **Management of Credit Risk Associated with Corporate Credit Business**

#### ***Acceptance of Credit Applications and Credit Investigation***

All applications made to the Bank for corporate credit are handled by the Bank's customer relationship managers. The Bank adheres to the "two-person investigation" principle in carrying out its credit investigations. The primary customer relationship managers and supporting customer relationship managers conduct comprehensive investigations on applicants or target customers, collect relevant information and data and thoroughly assess the credit applicant's eligibility for credit, the customer's solvency, business compliance by which the credit will be utilised and the reasonableness of credit plans. The credit investigation consists mainly of on-site investigation, which is supplemented by indirect investigations. Visits are made to the applicant's financial department, production and operation premises, key managers, clients and creditors with a view to obtaining first-hand data and gaining a comprehensive understanding of the production and operation, management, financial affairs, credit status, and industry information relating to the applicant. If necessary, the Bank may verify the authenticity of the information provided by customers through third party credit investigation agencies, relevant governmental departments, social intermediaries and other commercial banks and file such information for the Bank's records. If a customer relationship manager determines that an applicant meets the requirements of the Bank's credit policies and the basic criteria for credit, the customer relationship manager will request that the applicant submits their credit application and the relevant documents required in connection with the credit application.

The risk managers work in parallel with the customer relationship managers during the credit investigation process to uncover and assess credit risk and provide their opinions on the appropriateness of credit extension. The analysis and assessment of credit business usually include: (i) risk rating; (ii) assessment of credit business; and (iii) assessment of collateral.

#### *(iv) Risk rating*

The Bank's rating of risks associated with the corporate loan business generally consists of borrower rating and facility rating. In general, the Bank carries out both borrower rating and facility rating for the Bank's normal risk corporate loan business and, if the loan is guaranteed, the Bank carries out guarantor rating. Borrower rating is an assessment of a borrower's willingness and ability to repay its debts in the future, based on a comprehensive analysis of the quantitative and qualitative risk factors of a borrower (or a guarantor), and the rating results are shown by credit ratings. The Bank's borrower rating system is composed of 24 different grades, with each individual grade corresponding to a probability of default (PD) in a one-year horizon. Facility rating is an assessment of the expected loss rate (ER) of specific transactions. A comprehensive consideration of borrower rating and default loss

rate is shown as the product of the PD and loss given default (LGD). The assessment results are classified into 12 grades.

The Bank uses an internal rating system to rate the risks associated with the Bank's corporate credit business. The Bank's internal rating system, which was developed under the guidance of Basel II, was introduced on a bank-wide basis in 2004. On the basis of business performance indicators and data on the financial status of customers and through customer assessment models, the system measures the probability of default of customers, and, on that basis, computes the preliminary results of customer rating. The customer relationship managers are responsible for the preliminary assessment of borrower rating and risk managers are responsible for review and approval of the borrower rating. The Bank treats credit risk rating results as an important basis for decision-making for its credit business, and have established clear guidelines on thresholds based on risk ratings.

(v) *Assessment of credit business*

The investigation and assessment of the first source of repayment is the primary part of the credit investigation. Customer relationship managers are responsible for credit analysis and assessment.

The analysis and assessment of credit risk mainly include investigation of: (i) the integrity of a borrower; (ii) authority for a borrower to borrow funds; (iii) use of loans; (iv) profitability of the borrower and the professional management capability for the operation of such borrower; (v) professional knowledge of the borrower; (vi) prospects of the industry in which the borrower operates; (vii) repayment terms; (viii) sources of repayment funds; (ix) forecast of cash flow in various business cycles; (x) current credit and financial information of the borrower and relevant members of its group company; and (xi) valuation of collateral (or pledge) and its validity as well as the ability of guarantors to repay for borrowers and the validity of the guarantee.

(vi) *Assessment of collateral*

For loans with collateral, the value of collateral is usually required to be evaluated by independent appraisers. While different loan-to-value ratios will apply to loans secured by collateral based on the type and the specific condition of such collateral, the ratio should not generally exceed the maximum loan-to-value ratio for such type of collateral. Set out below are the loan-to-value ratios for major types of collateral:

<b>Major types of collateral</b>	<b>Maximum loan-to-value ratio</b>
Land use right mortgage (assignment).....	70%
Real estate.....	40%-60%
Machinery and equipment .....	30%-40%
Certificates of deposits, treasury bonds, financial bonds.....	80%-90%
Warehouse receipts, bill of lading.....	70%
Other rights <sup>(1)</sup> .....	40%-80%
Other movable assets .....	50%

Note:

- (1) Mainly include other property rights that may be pledged pursuant to the laws and administrative regulations of the PRC, such as receivables, transferable fund shares and shareholder rights.

Where loans are to be guaranteed by a third party with joint and several liability, the Bank conducts an assessment of the guarantor's financial status, credit records and ability to repay for borrowers.

### ***Credit Examination and Approval***

#### *Approval Authority*

The Bank's Credit Approval Departments are independent from the Bank's business operation units. The examination and approval of credit follow the principles of objectivity and impartiality and opinions as to decision-making are given independently without any interference from internal or external factors. All credit projects are handled in conformity with the stipulations set by the Bank with respect to the investigation and granting of credit and the processes for examination and approval.

The Bank's normal-risk corporate loans are examined and approved by the Bank's authorised approval authorities and personnel, including the Bank's head office's Credit Approval Committee and Credit Approval Department, the Chief Risk Officer of the SME Business Department of the Bank's head office, the Chief Risk Officers of the branches, the general manager of the Risk Management Department of the branches as well as the heads of branch-level SME credit management centres and other authorised personnel, in each case according to the particular authorities granted to them. The Bank's low-risk corporate loans are examined and approved by authorised examination and approval officers in various business lines.

#### *Examination and Approval Process*

(i) Normal-risk corporate credit business

Generally, the credit approval process includes the following stages of review and approval:

- (1) the customer relationship manager completes a credit investigation report and, upon approval from the persons in charge of the relevant operational units, submits the report to the branch risk manager for review and issuance of a review report;
- (2) upon review by the branch-level risk manager, any matter within the authority of the general manager of the branch-level Risk Management Department will be sent to him/her for review and approval. The general manager of the branch-level Risk Management Department directly issues rejections of credit applications and sends accepted applications to the head of the branch-level corporate banking business, who holds veto power, for review and as part of the dual approval process. The head of the branch-level corporate banking business then signs his or her opinion and issues the decision;
- (3) upon review by the branch-level risk manager, any matter that exceeds the authority of the general manager of the branch-level Risk Management Department must be submitted as a separate review report to the branch-level Credit Review Committee for comments (certain applications are not subject to this review process and can be directly submitted to branch-level risk officer). Credit applications not approved by the Credit Review Committee are submitted to the Chief Risk Officer, who then issues the rejections. Credit applications that have been reviewed and approved by the Credit Review Committee are submitted to the branch's Chief Risk Officer for approval within the limits of his authority as part of the dual approval process, and then submitted to the branch head, who holds veto power, for review and approval; and
- (4) credit applications accepted by the Chief Risk Officer but that exceed the Chief Risk Officer's approval authority may only be submitted to the Bank's head office if the branch head signs a written consent. All credit applications submitted to the head office by the branches and relevant departments of the head office are initially examined for preliminary approval by a junior examination officer of the Credit Approval Department, and then submitted to the competent higher-level review officer or institution for final approval. In accordance with the

different features of credit applications, such applications may be approved by meetings or by authorised officers of the Credit Approval Department of the Bank's head office.

(ii) Examination and approval of credit applications from SMEs

For the Bank's SME customers, the approval process generally follows the above process for credit applications. However, an SME applicant of a tier-one branch shall also undergo credit investigation by the SME credit management centre of the Risk Management Department of that branch, followed by a report issued on the investigation. Any applications approved at this stage will then be examined for approval by the head of the branch-level SME credit management centre, unless such approval would exceed his authority, in which case the application will be referred to the general manager of the branch-level Risk Management Department or the branch-level Chief Risk Officer for examination and approval within the limits of his authority. An application which has been approved by the head of the branch-level SME credit management centre within the limits of his authority will then require the issuance of a signed opinion from the general manager of the SME Business Department, who holds a veto right.

For tier-two branches, cross-city sub-branches and county-level sub-branches that have a Chief Risk Officer, an application by an SME customer must be investigated by the risk manager of the branch or sub-branch and then submitted to the Chief Risk Officer of the branch or sub-branch for examination and approval within the limits of his authority. Where the approval of an application requires higher authority, the application will be referred to the tier-one branch Chief Risk Officer for examination and approval within the limits of his authority.

Since 2012, the Bank has implemented various measures in order to proactively address potential risks in connection with the downturn in macroeconomic conditions, as well as strengthen the Bank's risk management and improve asset quality. First, the Bank implemented improved business modelling and improved risk mitigation functions. Second, the Bank strengthened its risk monitoring system and conducted real-time surveillance and on-site examinations. Third, the Bank maintained monitoring of risks associated with SMEs, enhanced monitoring of customers with NPL and increased the Bank's clearing and recovery efforts.

(iii) LGFV credit business

For the Bank's LGFV credit business, the Bank has implemented a risk management system that governs the whole process of the extension of such credit by adhering to commercial principles and by standardising the Bank's operations. In conducting risk assessments to ensure that the borrowers (particularly with respect to new loans) meet the Bank's credit standards, the Bank takes into account the overall solvency of the LGFVs and their debt servicing ability so as to prudently evaluate the risks associated with granting loans to such entities, including collateral risk and maturity risk. In the post-disbursement stage, the Bank continuously monitors factors that may affect repayment and the Bank uses a comprehensive early warning system to identify, categorise, report and address maturity risk. The Bank has developed rating tools that classify the underlying risks of loans to such entities in a more accurate and objective manner and analytical tools to strengthen maturity risk analysis and monitoring.

CBRC requires PRC banks to classify LGFV loans in accordance with the level of cash flow coverage, which refers to a borrower's cash flow divided by the total loan principal and the interest incurred. As at 31 December 2017, the cash flow of the majority of the Bank's LGFV borrowers was sufficient to cover 100 per cent. (or above) of the principal and the interest incurred. The remaining loans were secured by valid guarantees or collaterals or those originated from economically developed regions equivalent to or above the prefectural level.

(iv) Corporate real estate loan business

The Bank requires the implementation of credit life cycle process management for the Bank's corporate real estate loan business, which means that the Bank focuses on mid-to high-end customers and have put in place a specialised and centralised management system for the Bank's entire corporate real estate loan business. The Bank has established the real estate finance centre under the Corporate Banking Department of the Bank's head office, which is responsible for coordinating the Bank's corporate real estate loan operations and reviewing relevant project proposals. The Credit Approval Committee of the Bank's head office, the real estate credit approval centre of the Credit Approval Department and the Chief Risk Officers at the branch level are authorised to carry out the examination and approval of loan applications. After credit extension, the Bank requires that the utilisation of credit match the construction progress of a real estate development project. During the post-disbursement stage, the Bank requires that management, control and risk investigation for loans be strengthened by strictly monitoring the source of funds for repayment and conducting regular reappraisals of the value of collateral and pledged assets. Since 2008, the Bank has been conducting special stress tests on real estate loans and loans granted to industries related to real estate and developing risk measurement tools for loans granted to industries related to real estate.

(v) Low-risk corporate credit business

The Bank's low-risk corporate credit business is conducted through a special credit approval process, and applications are examined and approved by authorised approval officers from the corporate banking business line within the limits of their authority. Low-risk corporate credit applicants are required to fulfil the following conditions: (1) the collateral and pledged assets are cash-equivalent assets or guarantees provided by financial institutions recognised by the Bank; (2) the security provided can discharge in full the obligations relating to the Bank's creditor's rights (including principal, interest and service fees); and (3) the security is not legally defective and there is no associated policy risk.

### ***Opening of Credit Lines and Post-disbursement Management***

#### *Opening of Credit Lines*

The opening of credit lines involves fulfilling prerequisites for the granting of credit, entering into relevant contracts, loan reviews and making necessary accounting entries. After a credit application is approved, a credit line can be opened only after a disbursement approval centre at the branch level has determined upon examination that the prerequisites for the granting of credit have been fulfilled, the credit contract has been signed by an authorised person, the relevant legal procedures have been completed and the validity of any security has been confirmed. Substantially all of the Bank's credit contracts are in the standard form prescribed by the Bank's Legal and Compliance Department, and those that are not are subject to approval by the Bank's Legal and Compliance Department.

#### *Post-disbursement Management*

The Bank has established a post-disbursement management system with defined responsibilities and standardised methods to continuously monitor factors that may affect repayment. The Bank conducts off-site and on-site inspections and applies risk modelling techniques on the basis of the Bank's experience in order to detect the potential risks associated with a specific borrower, issue early warnings and adopt remedial measures. Customer relationship managers are responsible for the day-to-day credit check on the operating conditions and use of credit by their respective borrowers, so as to detect any signs of potential credit default and to adopt risk mitigation measures as soon as possible. Risk monitoring centres of the Risk Management/Credit Management Departments at the branch level are responsible for post-disbursement organisation, supervision, guidance, inspection and reporting. The Bank emphasises monitoring factors that may have a negative impact on the ability of borrowers to make repayment, mainly including (i) the operating and overall credit risk status of a borrower, including its receivables and inventory, changes in operating cash flow and unusual cash outflows; (ii) the status of projects into which

loans are injected; and (iii) the condition of assets collateralised or pledged as security for credit, as well as the condition of guarantors.

#### *Early Warning*

Following the principles of prompt reporting and quick response, the Bank has established a comprehensive early warning system that sets out early warning processes, including identification, categorisation, verification, reporting, handling and cancellation. The Bank has three types of early warnings based on their degree of urgency and have designed action plans to deal with different types of early warnings so that business units are able to take the necessary measures to deal with risks promptly. The Bank's head office maintains a Risk Management Committee, and each branch has early warning committees, which coordinate the early warning work of the Bank's head office and the branches, respectively. The Bank's head office's Risk Management Committee and the branch-level early warning committees are responsible for early warning management at their respective levels and hold regular meetings to review the status of systematic risk and individual risk in order to deal with early warning signals promptly and to assess the results of response measures.

#### *Loan Classification and Provision of Reserve*

In 1999, in accordance with the requirements of regulatory authorities, the Bank started to apply a five-category loan classification system. The Bank carries out loan classification and makes provisions for losses in accordance with the relevant requirements of PRC regulations as well as the requirements of PRC and international accounting standards.

The classification of loan risks and estimation of expected losses are carried out at different levels. Customer relationship managers are responsible for the preliminary classification of risks as well as for estimating the losses of NPL, the results of both of which are then subject to review by risk managers. At the credit application stage, reports are submitted to the upper level following credit granting procedure to obtain determination from the relevant examination and approval institutions, and the scope of authority for determination is the same as the scope of authority for examination and approval. For the day-to-day management of existing credit, the Bank's head office Credit Management Departments, Chief Risk Officers at the branch level and branch risk managers make the final determination within the limits of their authority.

At the beginning of 2007, on the basis of the Bank's existing five-category classification system and internal rating-based approach, the Bank adopted a 12-category loan classification system that refined the Bank's loan classification in accordance with the default risks of a corporate borrower and facility risk arising from the loan. Based on the varying degrees of credit asset risk, the Bank's 12-category loan classification further expands the "normal" grade under the original five-category loan classification system into seven grades, which are expressed from P1 to P7. The original "special mention" class is further broken down into two grades, which are expressed by SM1 and SM2. Loans under "sub-standard", "doubtful", and "loss" classes remain unchanged and are collectively referred to as non-performing credit assets.

<b>12-Category Loan Classification</b>	<b>Names under the Five Category Classification</b>	<b>Names under the 12-Category Loan Classification</b>
1	Normal	Grade 1 Pass (P1)
2	Normal	Grade 2 Pass (P2)
3	Normal	Grade 3 Pass (P3)
4	Normal	Grade 4 Pass (P4)
5	Normal	Grade 5 Pass (P5)



<b>12-Category Loan Classification</b>	<b>Names under the Five Category Classification</b>	<b>Names under the 12-Category Loan Classification</b>
6	Normal	Grade 6 Pass (P6)
7	Normal	Grade 7 Pass (P7)
8	Special Mention	Grade 1 Special Mention (SM1)
9	Special Mention	Grade 2 Special Mention (SM2)
10	Sub-standard	Sub-standard (SS)
11	Doubtful	Doubtful (DF)
12	Loss	Loss (LS)

Through this loan classification system, the Bank classifies corporate loans on the basis of both quantitative and qualitative factors by analysing the default risk of a corporate borrower and facility risk arising from the loan and considering the estimated impairment losses.

The Bank's loan classification system is designed to help the Bank to better monitor changes in the Bank's asset quality, detect potential credit risks and more effectively conduct post-disbursement management of the Bank's loan portfolio. The Bank believes that this system has helped the Bank strengthen its loan monitoring capabilities.

The Bank makes provision for losses arising from different types of its corporate credit assets in two ways: individually assessed provisions and collectively assessed provisions. Loss estimation is carried out on an individual basis for non-performing credit assets, whereas collective loss provisions are applied to credit assets classified as "normal" and "special mention".

#### *Termination of loans to potential high-risk customers*

The Bank has established an exit management mechanism for potential high-risk customers in order to optimise the Bank's portfolio of borrowers and prevent potential risks from materialising. Potential high-risk customers are those who are expected to suffer an adverse impact on their repayment ability or to experience adverse changes in their financial condition. For such customers, the Bank normally reduces credit limits, terminates credit lines, ceases the renewal of credit facilities and requests the provision of additional risk mitigation and other measures in accordance with the relevant provisions of their respective loan contracts.

#### ***NPL Management***

The Bank proactively manages NPL to reduce the associated risks to its loan portfolio, promptly write off doubtful debts and improve its recovery on disposals.

The Non-performing Asset Disposal Committees at the Bank's head office and branch level are responsible for managing and recovering the Bank's NPL. They are also responsible for approving disposal and recovery plans for non-performing assets, including asset restructuring, settlement of loans by taking collateral, write-off of loans and other related issues. Steps taken for the recovery of NPL mainly include collection, foreclosure on collateral, legal proceedings, reduction or waiver of interest, loan restructuring, write-offs and collection by third parties.

#### **Credit Risk Management for Retail Credit Business (Excluding Credit Cards)**

##### ***Acceptance of Credit Applications and Credit Investigation***

When handling a new business, a customer relationship manager of the Bank's retail credit business is required to have a face-to-face interview with the credit applicant, and all documents must be signed by the applicant in the presence of the manager. The applicant will be requested to sign an application form and

provide his or her identity card, proof of income, transaction contracts, certification of ownership of assets collateralised or pledged as security, a written undertaking from the guarantor (if any) and materials proving the guarantor's creditworthiness. The Bank mainly relies on income, credit history and loan repayment ability to assess the applicant.

The Bank's retail credit business customer relationship managers are responsible for assessing retail credit applicants and completing the reporting materials required for approval. The assessment mainly focuses on the credit risk of the applicant and the valuation of the loan collateral. The Bank conducts its credit investigations through on-site investigations, telephone interview and information inquiries as well as through other channels and methods to verify the authenticity of loan-related information. For mortgage loans that are doubtful or that are particularly large, customer relationship managers may take additional verification steps by making "home visits". The appraisal of the collateral for retail loans is similar to the appraisal of the collateral for corporate loans. In the case of secured loans, the Bank usually requests an independent appraiser approved by it to appraise the security provided.

On the basis of the results of inquiries made with the personal credit database of PBOC, and in light of the results of the assessment of the applicant's risk profile and the risk mitigation factors, retail customer relationship managers will prepare reporting materials for approval.

### ***Credit Approval***

The Bank's retail credit approval is carried out by branch Chief Risk Officers or persons authorised by them within the limits of their authority, except for high-risk retail credit business applicants, which must go through panel examination and approval. The Bank's retail credit business is mainly approved by authorised individuals.

### ***Loan Disbursement and Post-disbursement Management***

After the loan applications of individual customers are approved, the authorised signatory of the Bank's business units, the borrower and the guarantor (if any), jointly enter into retail loan contracts and a disbursement will be made after the loan prerequisites are satisfied. In the Bank's retail loan monitoring, the Bank focuses on the repayment ability of the borrower and the status of assets collateralised or pledged as security and any change in their value. The Bank adopts a five-category classification for retail loans by reference to the risks associated with the loans.

Once a loan becomes overdue, the customer relationship manager or specific collectors will, in the context of the individual circumstances leading to the overdue balance and the accompanying risks, demand repayment through various actions, including the use of telephone, e-mail, letters and home visits.

Based on the actual conditions of non-performing retail loans, repayment will be demanded from the borrowers and guarantors by one or several of the following ways: collection, litigation, appointment of factoring agents or repayment of loans by assets.

### **Credit Card Risk Management**

#### ***Identification of Credit Risk***

The Credit Card Centre imposes different criteria for credit cards granted to different types of customers, making full use of risk measurement methods such as application grading models, behaviour assessment models, initial credit line models and dynamic management of credit lines so as to manage credit card risk in a quantitative manner, which enables the Bank to carry out differential management of customers with differing risk profiles and income statuses. On this basis, the Bank decides whether a card should be issued and, if so, what type of card should be issued and what credit limit should be granted. The Bank's Credit Card Centre has improved risk management level by enhancing its differentiated access management and credit management, proactively controlling potential high-risk assets and applying diversified mechanisms for recovering and disposing overdue loans, thus keeping the overall risk level under control.

The Bank's Credit Card Centre has set up a specialised risk data analysis team, which pays close attention to the macroeconomic development of the PRC as well as the development of the credit card business in the banking industry. Furthermore, based on the requirements of the Bank's business, the Bank collects information relating to credit risk control measures of other banks through a number of channels and provide such information to risk policy-makers for their reference. Based on the Bank's business planning and risk management targets, the Bank adjusts its credit card policy in line with the current forecast of the credit card business in a timely manner.

The Bank investigates and identifies potential customer credit risks through a number of channels, including making full use of internal and external credit investigation means such as the Bank's credit card blacklist system, the personal credit information database of PBOC, the identity verification system of the Ministry of Public Security, China UnionPay's risk information sharing system and the industry-wide risk information sharing system.

### ***Credit Risk Control System***

The Credit Card Centre has established the Risk Management Department, Credit Approval Department, Collection Management Department, Strategy Research Department and other departments so as to strengthen the exchange and coordination of information related to risk prevention. The Bank updates guidelines for the examination and approval of credit card applications every year. The guidelines set out the Bank's risk management guiding principles, classify the clients into different types, namely supported, restricted and prohibited, and clarify the approval process for special cases. The Bank has developed its own examination and approval management system, online credit limit adjustment system, electronic debt collection system and operational risk reporting system. In addition, the Bank has carried out operational risk and control self-assessment (RCSA) for the purpose of identifying risks and refining the Bank's internal controls. The Credit Card Centre has introduced the TRIAD customer management system which aims to improve the Bank's customer satisfaction through effective allocation of resources under the Bank's customer credit line management and behaviour management, while controlling risk.

### **Credit Risk Management for Financial Institution Credit Business**

The Bank's financial institution credit business primarily includes (i) investments in domestic financial bonds and other quoted securities, financial institution placements and borrowing, and trading of derivatives and (ii) investments in overseas negotiable instruments and overseas financial institution placements. The Bank sets up credit limits with respect to countries, regions and domestic and overseas counterparties. Such limits are subject to the approval of the Credit Approval Department and the Credit Approval Committee of the Bank's head office within their respective limits of authority.

### **Credit Risk Management System**

The Bank's credit risk management systems include the Bank's corporate credit risk management system, retail credit risk management system and financial institution credit risk management system.

The Bank's corporate credit risk management system allows for the electronic handling and streamlining of the credit granting process, from credit application, review and approval to disbursement approval and post-disbursement management. The Bank pursues the continued development of its corporate loan risk management system to enhance its functions. In particular, by targeting credit extensions to micro-enterprises, the Bank has developed an electronic procedure and risk model catering to the characteristics of micro-enterprises in the Bank's risk management system, which provide systemic support for the whole procedure, including risk identification, measurement, monitoring, mitigation and control.

The Bank's retail credit risk management system is a comprehensive retail loan risk management system, which comprises an analysis modelling software, decision-making engines, process management and numerous relevant data sets, which are key to the establishment of a comprehensive risk management system

for the Bank. The entire retail credit management process can be managed through this electronic system, which includes loan applications, on-line approval, loan disbursement and post-disbursement management.

The Bank's financial institution credit risk management system facilitates the process of information collection and credit applications, customer rating, credit approvals, disbursement and post-disbursement monitoring in relation to financial institutions.

## **LIQUIDITY RISK MANAGEMENT**

Liquidity risk refers to the risk where although a bank is solvent, it may be unable to obtain sufficient funds in a timely manner or at a reasonable cost, to cope with asset growth or settle due and payable debts. Most of the funds held by the Bank come from the deposits of the Bank's customers. In recent years, the Bank's customers' deposits have grown in quantity and diversified in types and term length. Based on an estimation of the Bank's future cash flow, the Bank takes action to maintain an appropriate percentage of liquid assets.

The Bank's Asset and Liability Management Committee is responsible for managing the Bank's overall liquidity. The Asset and Liability Management Committee, with the Bank's President as its chairman, is responsible for formulating policies relating to liquidity based on relevant regulatory requirements and the principle of prudence. The objectives of the Bank's liquidity policies are as follows:

- to maintain the Bank's liquidity at a stable and sufficient level and to ensure that the Bank is in a position to fulfil payment obligations in a timely manner and meet its liquidity demands relating to its assets, liabilities and off-balance sheet operations, both in the case of normal business operations and in stressed circumstances, by setting up a methodical and comprehensive liquidity risk management system; and
- to make reasonable and timely adjustments to the scale and structure of the Bank's assets and liabilities based on market changes and business development and to pursue the maximisation of profits and the minimisation of costs in order to maintain an appropriate level of liquidity with an aim to ensure the "safety, liquidity and efficiency" of the Bank's capital.

The Bank's Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the Department on a timely basis.

The Bank mainly adopts a liquidity gap analysis to measure liquidity risk and adopts different scenario analysis and stress tests to assess the impact created by the relevant liquidity risk. While the Bank reduces its liquidity risk by term matching, diversification of liabilities and other on-balance sheet business adjustments in light of internal transfer pricing and external pricing, the Bank also attempts to adjust for any liquidity shortfall by making use of monetary swaps and other financial derivatives. The Bank continuously develops effective contingency plans to respond to various possible liquidity risks.

## **MARKET RISK MANAGEMENT**

Market risk means the risk of losses to the Bank's businesses resulting from an adverse movement of market prices, including interest rates, exchange rates, commodity prices and stock prices.

The Board of Directors bears ultimate responsibility for monitoring and managing the Bank's exposure to market risk to ensure that the Bank can effectively identify, measure, monitor and control the different types of market risk to which the Bank's businesses are exposed. The Risk Management Committee of the Board of Directors is responsible for monitoring market risk management within its limit of authority delegated by

the Board of Directors and reviewing the Bank's strategies, policies and procedures relating to market risk management together with relevant proposals on the acceptable market risk level put forward by senior management. Most of the market risks to which the Bank is exposed in its business operations and development are concentrated in the Bank's treasury management, including (i) money market activities, (ii) investment portfolio management and (iii) treasury transactions on behalf of customers. The Planning and Finance Department is responsible for the day-to-day monitoring and management of the underlying interest rate risk and foreign exchange risk of banking books. The Risk Management Department is responsible for establishing and improving the Bank's market risk management system, formulating market risk management policies and identifying, monitoring and reporting the Bank's market risk exposure.

In accordance with the requirements of regulatory authorities and the general practices of the banking industry, the Bank divides its on and off-balance sheet assets into two categories: trading books and banking books. Based on the nature and characteristics of the relevant accounts, the Bank adopts methods to identify, measure, monitor and control market risk. Trading books refer to the financial instruments and commodities positions that could be traded freely. Banking books represent business other than trading books. The Bank primarily measures and monitors the market risk associated with trading books through sensitivity analysis, scenario analysis and foreign currency gap analysis. The Bank measures and monitors the market risk associated with banking books through sensitivity gap analysis, effective duration analysis and scenario simulation analysis.

The Bank aims to effectively identify, measure and monitor factors relating to market risk. In order to ensure that the market risk the Bank assumes is within its risk tolerance, the Bank has established a tiered cap system for market risk management. The first tier sets a cap on the level of overall market risk exposure deemed acceptable to the Bank. The second tier sets exposure caps on both interest rate and foreign currency risk. Third- and fourth-tier caps are business- and product-type specific. To ensure the implementation of the Bank's tiered cap system, the Bank has implemented a suite of cap management procedures, covering application, approval, monitoring, early warning, reporting and action plans with respect to such caps.

### **Interest Rate Risk Management**

The Bank's interest rate risk mainly relates to the repricing risk in the Bank's commercial banking business and the risk of the Bank's treasury position. The objectives of the Bank's interest rate risk management are to develop measures to monitor and control interest rate risk, to establish proper mechanisms to measure, analyse and follow up on changes of such risk and to take appropriate steps before escalation of interest rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of interest rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations.

The Bank's Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Bank regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value. The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

In the Bank's interest rate risk management, the Bank has taken steps in conducting active management of assets and liabilities, and applying the results of gap analysis of asset-liability management to the adjustment of portfolios and the control of liability costs so as to increase the Bank's bank-wide net interest margin.

The Bank assesses the interest rate risk relating to banking books mainly through repricing gap analysis and net profit and interest income simulation analysis. The Bank regularly monitors the position of the gap and conducts stress tests by using gap data. On this basis, the Bank adjusts repricing term structures of interest-earning assets and interest-bearing liabilities and uses derivatives to hedge against interest rate risk. At the same time, the Bank closely monitors the movement of interest rates of local and foreign currencies, and, in line with changes in market interest rates, adjusts the Bank's interest rates for deposits and loans denominated in both local and foreign currencies so as to mitigate interest rate risk.

With respect to the Bank's financial market business, the Bank adopts such techniques as duration and present value per basis point to measure interest rate risk, and applies stress tests and scenario analysis to monitor and control risks.

### **Foreign Currency Risk Management**

The Bank's foreign currency risk primarily arises from the proprietary foreign currency portfolio within the Treasury Department's proprietary investments, and other foreign currency transactions. The objectives of the Bank's foreign currency risk management are to develop measures to monitor and control foreign currency risk, to establish proper mechanisms to measure, analyse and follow up on changes in such risk and to take appropriate steps before escalation of foreign currency risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of foreign currency risk and to safeguard the safety, liquidity and profitability of the Bank's business operations. The Bank's foreign currency risk is reflected in the mismatch of the currencies in which the Bank's assets and liabilities are denominated and the possible adverse impact of foreign currency fluctuation on the Bank's profit and capital in foreign currencies.

The Bank has adopted foreign currency risk management measures across the Bank to centralise the management of exchange risks related to the Bank's account. The Bank endeavours to match relevant foreign currency assets with liabilities and controls the exchange risks by making available and utilising various currency sources. The Bank strictly controls risk exposure in foreign exchange settlement and sales and takes measures to improve the position-closing method for foreign exchange settlement and sales. The Bank also implements a "multiple price quotations per day" mechanism to reduce exchange risk. The Bank actively researches, designs and develops various derivative financial instruments and innovative financial products, aiming at managing foreign currency risk by utilising appropriate financial instruments.

## **OPERATIONAL RISK MANAGEMENT**

Operational risk represents the risk of loss associated with deficiencies and failures of internal processes, personnel and information systems, or external events. The operational risk that the Bank faces primarily includes, among others, internal and external fraud, damage to tangible property, disruptions to the Bank's operations or information technology system and problems associated with transaction settlement as well as business processes management. Operational risk also includes legal risk but does not include strategic or reputational risk.

The Bank's operational risk management aims to control operational risk within an acceptable range, to increase service efficiency and optimise work flow, to lower management costs and increase profitability, to reduce the impact of contingencies and to ensure the normal and continuous operation of the Bank's business.

The Bank has established a hierarchical operational risk management structure, operating under the guidance of the operational risk management policies formulated by the board and implemented by the Bank's senior management, with three lines of defence. The Board of Directors is ultimately responsible for operational risk management. The Bank's senior management actively leads the relevant initiatives; branch-level management teams are responsible for operational risk management at their respective branches, with branch heads having ultimate responsibility at branch level.

Business units and functional departments constitute the first line of defence to safeguard against operational risk, directly bearing and managing the operational risk of their own departments or lines and assuming primary responsibility for operational risk management. The Risk Management Department and Legal and Compliance Department constitute the second line of defence to safeguard against operational risk, and are responsible for establishing an operational risk management framework and guarding, supporting and monitoring the implementation of the Bank's operational risk management at all levels. The Internal Audit Departments and Discipline and Inspection Departments constitute the third line of defence against operational risk. The Internal Audit Departments are responsible for auditing the implementation of the

Bank's operational risk management system across the Bank and reporting related issues to the senior management and the Audit Committee of the Board of Directors, and the Discipline and Inspection Departments carry out investigations and culpability verifications and ensure that the relevant individuals are held accountable for any operational issues identified.

The Bank has preliminarily established an operational risk identification and assessment system, which is based on operational risk and control self-assessment (RCSA), supplemented by an operational risk event reporting system and key operational risk indicators and supported by internal audit and compliance assessments. Under the hierarchical management of operational risk, different business lines or business departments are responsible for applying the relevant tools to identify, assess and control operational risk and adopt appropriate risk management measures.

The Bank has implemented the operational risk and control self-assessment (RCSA) process and has incorporated this into the daily work of the Bank's business lines, branches and sub-branches. The RCSA is implemented by the institute or department that assumes direct responsibility for operational risk for the purpose of internally assessing operational risks and effectiveness of control in accordance with the principles of operational risk management.

The Bank has established an operational risk reporting system whereby various business lines and various branches and sub-branches are required to report on operational risk events in accordance with the predetermined reporting scope, route and format. The operational risk reporting system helps to pinpoint weak links in operational risk control by identifying the spread of losses, and can be used to verify the results of operational risk control self-assessment so as to evaluate the quality of the RCSA.

The Bank has set up a key risk indicator (KRI) system for operational risk, which covers the Bank's main risk categories and key product groups. By continuously monitoring key risk indicators, the Bank aims to keep abreast of changes in its operational risk exposure and to enhance the Bank's adaptable supervision capabilities so as to actively manage operational risk and be able to issue early warnings prior to the occurrence of potential operational risk incidents.

## **COMPLIANCE RISK MANAGEMENT**

Compliance risk refers to the risk of legal sanctions, regulatory penalties, material financial losses, or reputational damage to a commercial bank resulting from the failure to comply with applicable laws and regulations as well as relevant industry standards. Compliance risk management is an important part of the Bank's overall risk management and the Bank has accordingly placed strong emphasis on compliance risk management throughout the Bank's internal control structure and procedures. The Board of Directors is ultimately responsible for matters relating to compliance risk and the Legal and Compliance Departments at both the Bank's head office and at the branch level take responsibility for coordinating bank-wide compliance risk management, including the implementation of an integrated and coordinated compliance risk management system and the adoption of tracking and monitoring measures. The Bank continuously provides effective guidance, monitoring, alerts, identification and assessment with respect to compliance risk, and actively promotes systematic compliance management.

## **LARGE EXPOSURE MANAGEMENT**

The Bank implemented the requirements of the Administrative Measures for Large Exposures of Commercial Banks (Decree No.1 of CBIRC in 2018), and carried out work relating to measurement, monitoring and system optimization of large exposures in an orderly fashion, thus effectively bringing customer concentration risk under control. For the six months ended 30 June 2023, all limit indicators for the Bank's large exposures were controlled within the regulatory scope.

## **COUNTRY RISK MANAGEMENT**

The Bank established a country risk management system that fits in with its risk profile, set risk limits and conducted regular monitoring, carried out country risk stress tests, and formulated procedures for handling material risk events. For the six months ended 30 June 2023, the Bank was granted above investment grades in national and international ratings of country risk exposures, and accrued adequate country risk provisions in accordance with regulatory requirements.

## **REPUTATIONAL RISK MANAGEMENT**

The Bank regarded reputational risk stability as the overall objective, and incorporated it into the comprehensive risk management system according to the principle of full coverage of reputational risks, covering all on- and off-balance-sheet business sectors, as well as all branches and subsidiaries. It further optimized procedures and specified responsibilities to integrate reputational risk management into business development and customer service. Efforts were also put into early warning checks for hidden risks, assessment and training relating to reputation risks, thus effectively improving reputational risk response capability and management level. For the six months ended 30 June 2023, the Bank did not incur any material reputational risk event that could seriously endanger the reputation of the Bank.

## **CAPITAL MANAGEMENT UNDER COMPREHENSIVE RISK MANAGEMENT**

The Bank believes it has an established capital management system and promotes organic integration between the Bank's capital management, risk management and assets and liabilities management units. The Bank also strengthened its valued-based portfolio management system to enhance its systematic risk management capability.

The Bank's capital management organisational structure encompasses the board, supervisory committee and senior management. The Bank emphasises efficiency in the Bank's capital management by using RAROC (Risk-Adjusted Return On Capital) /EVA (Economic Value Added) indicators as guidance. The Bank also utilised a number of tools in its capital management, such as (i) advanced audit mechanisms, (ii) a multi-tiered capital management and internal capital adequacy assessment programme (ICAAP) and (iii) a risk-weighted assets system at the accounting level (including standard and advanced methods for capital measurement).

### **Anti-Money Laundering**

In accordance with relevant legal and regulatory requirements on anti-money laundering, the Bank has formulated rules, regulations and policies for the monitoring, reporting and managing of money laundering risk, which are reviewed on an annual basis and revised as necessary to satisfy the Bank's own risk management requirements and those of relevant regulators.

The Bank carries out anti-money laundering training by internal or third-party consultants to increase the awareness among the Bank's staff of money laundering risks. The Bank has established an anti-money laundering leading team and an anti-money laundering work office. The anti-money laundering leading team is responsible for spearheading the Bank's bank-wide anti-money laundering initiatives, formulating and overseeing the implementation of relevant laws and regulatory rules on the identification and handling of large transactions and suspicious transactions. It is comprised of the respective heads of the Legal and Compliance Department, Operation Management Department, Transaction Banking Department, Corporate Banking Department and other related departments. Each such department bears management responsibility for anti-money laundering activities in accordance with its authority. The anti-money laundering work office is within the Legal and Compliance Department, and is responsible for the day-to-day bank-wide management of money laundering risk and coordinating the reporting of anti-money laundering work of



relevant departments, and the consolidation and reporting of the data of large transactions and suspicious transactions.

## **INTERNAL CONTROL**

The Bank continues to enhance its internal control functions and its corporate governance and strives to achieve the best practice standards of the banking industry.

The Bank maintains a three-tiered internal control management system, which consists of the decision-making level, the implementation level and the supervision and evaluation level.

### **Decision-making Level**

The Board of Directors has ultimate decision-making authority and is mainly responsible for deciding the Bank's internal control strategy and making the most significant business decisions. The Board of Directors is also responsible for reviewing the internal control reports submitted by the Bank's senior management, auditors and regulators, conducting all overall assessment of the integrity and effectiveness of the bank-wide internal control system, and supervising senior management to carry out continuous improvement and refinement of the Bank's internal control system.

### **Implementation Level**

The Bank's senior management is supervised by the Board of Supervisors and is responsible for: (i) implementing the various strategies, policies, systems and procedures approved by the Board of Directors; (ii) establishing an organisational structure with specific authorisation and duties as well as clear reporting lines; (iii) setting up a procedure for identifying, measuring and managing risks; developing and implementing sound and effective internal control measures; and (iv) adopting measures to rectify any existing internal control deficiencies.

The special committees under senior management, including, among others, the Risk Management Committee, the Asset and Liability Management Committee and the Internal Control and Compliance Early Warning Committee, are responsible for internal control and risk management within their respective limits of authority.

Business departments in the Bank's head office are responsible for departmental internal control matters, including the implementation of internal control policies and procedures, identification and management of internal control deficiencies and timely reporting on their internal control efforts to senior management.

Management at the branch level is responsible for branch-level internal control matters, including, at the request of senior management or the business departments of the Bank's head office, the formulation of specific detailed implementation rules and business procedures and the establishment and enhancement of internal control mechanisms.

### **Supervision and Evaluation Level**

The Board of Supervisors is responsible for supervising the Bank's compliance with the relevant laws and regulations, as well as supervising the Board of Directors and senior management in their performance of their respective duties and inspecting and supervising the Bank in connection with matters relating to internal control. The Audit Department is responsible for carrying out audits, supervision and assessment of the Bank's business operations, internal control and risk profile across the Bank.

## **INTERNAL AUDIT**

Pursuant to the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) issued by CBRC, the Bank began to reform its internal audit system at the end of 2006. The Bank has put in place an independent vertical audit management system under which the Bank's audit functions are

accountable to the Board of Directors and report to the Board of Directors, the Audit Committee of the Board of Directors and the Bank's senior management. The Bank has also implemented an internal audit organisational structure comprising the Audit Department of the Bank's head office and five audit centres. The Audit Department and the audit centres are independent of other business departments and branches.

They conduct their audit, supervision and assessment of matters relating to the business and operational management, internal control and risk profile across the Bank and supervise the audited authorities and departments to perform their duties by carrying out routine audits, special audits and audits into economic liabilities arising from existing and departing officers. The Audit Department is responsible for: (i) carrying out audits of the Bank's business operations, internal controls and risk profile across the Bank; (ii) making consistent efforts to improve review and supervision of the Bank's internal controls; and (iii) continuously strengthening the normalisation and standardisation of the Bank's internal control process, which has resulted in the quality and results of the Bank's audits improving continuously and promoted stable and healthy business operations across the Bank.

The Audit Department is responsible for auditing and assessing bank-wide operational activities, risk profile, internal control and corporate governance effectiveness; formulating the parameters for audit work and audit business systems across the Bank; formulating and organising the implementation of annual work plans; managing and giving guidance to the audit centres; and conducting audits of the line departments, key businesses of the Bank's head office and key branches.

Each regional audit centre is responsible for the implementation of annual work plans at the regional level and examining and assessing business operations, risk profile, internal control and corporate governance of branches within its region.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

#### Directors

The following table sets out certain information relating to the Bank's directors as at the date of this Offering Circular. The business address of the Bank's Directors is at China Everbright Center, No.25 and No.25 A Taipingqiao Avenue, Xicheng District, Beijing 100020, PRC.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Appointment Date</u>
Mr. WANG Jiang .....	59	Chairman of the Board of Directors, Non-executive Director and Secretary of the Communist Party of China ("CPC") Committee	2 August 2022
Mr. WU Lijun .....	58	Vice Chairman of the Board of Directors, Non-executive Director	25 March 2020
Mr. WANG Zhiheng .....	49	Executive Director, President, Deputy Secretary of the CPC Committee	13 March 2023
Mr. QU Liang .....	56	Executive Director, Executive Vice President and Member of CPC Committee	5 February 2021
Mr. YAO Wei .....	47	Non-executive Director	5 February 2021
Mr. ZHU Wenhui .....	45	Non-executive Director	31 August 2023
Mr. LIU Chong .....	53	Non-executive Director	26 December 2019
Mr. LI Wei .....	52	Non-executive Director	30 August 2021
Mr. WANG Liguang .....	65	Independent Non-executive Director	10 January 2017
Mr. SHAO Ruiqing.....	65	Independent Non-executive Director	5 August 2019
Mr. HONG Yongmiao.....	59	Independent Non-executive Director	12 September 2019
Mr. LI Yinquan .....	67	Independent Non-executive Director	11 June 2020
Mr. HAN Fuling .....	58	Independent Non-executive Director	25 May 2021
Mr. LIU Shiping .....	60	Independent Non-executive Director	18 January 2022

**Mr. WANG Jiang**, aged 59, has been Secretary of the CPC Committee of the Company since March 2022. Mr. Wang Jiang has served various positions in China Construction Bank, including Deputy Director of credit risk management department of Shandong Branch; President of Shandong Dezhou Branch; Deputy Secretary of the CPC Committee and Vice President of Shandong Branch; Secretary of the CPC Committee and President of Hubei Branch; and Secretary of the CPC Committee and President of Shanghai Branch. Mr. Wang Jiang also has served as Member of the CPC Committee and Vice President in Bank of Communications; Deputy Governor of Jiangsu Province; Deputy Secretary of the CPC Committee, Vice Chairman and President of Bank of China ("BOC"); Deputy Secretary of the CPC Committee, Vice chairman and President of China Construction Bank. Mr. Wang Jiang obtained a doctorate degree in economics and is a Delegate to the 13th National People's Congress.

**Mr. WU Lijun**, aged 58, has served as Vice Chairman and Non-executive Director of the Bank since March 2020. He is currently Deputy Secretary of CPC Committee, Vice Chairman and General Manager of CEG. He served as Deputy Director (Deputy Bureau Director Level) of the State Material Reserve Regulatory Centre of the Ministry of Domestic Trade, Person in Charge of the Information Centre, Deputy Director

(Presiding) of the Training Centre, Director of the Personnel Education Department and Director of the Party Organisation Department of the CSRC. He also served as Member of the CPC Party Committee and Assistant Chairman of the CSRC, Chairman of the Board of Directors and CPC Party Secretary (Deputy Minister Level) of the Shenzhen Stock Exchange. He obtained a doctorate degree in economics from Renmin University of China. He is a senior economist.

**Mr. WANG Zhiheng**, aged 49, has served as Executive Director and President of the Bank since March 2023 and Deputy Secretary of the CPC Committee of the Bank since December 2022. He currently serves as Member of the CPC Committee and Executive Director of CEG. He successively served as Deputy Division Chief of Corporate Planning Division of Corporate Banking Department of the Head Office, Chief Officer and Deputy General Manager of Human Resources Department of the Head Office, Member of the CPC Committee and General Manager of Guangdong Provincial Branch, Secretary of the CPC Committee and General Manager of Qinghai Provincial Branch, Head of Organization Department of the CPC Committee, General Manager of Human Resources Department of the Head Office, Secretary of the CPC Committee and General Manager of Beijing Branch, Member of the CPC Committee and Executive Vice President of the Head Office of BOC. He holds a master's degree in economics and is qualified as an economist.

**Mr. QU Liang**, aged 56, has served as Executive Director of the Bank since February 2021, Executive Vice President of the Bank since March 2020, and member of CPC Committee of the Bank and Secretary of CPC Committee and General Manager of Beijing Branch of the Bank since September 2018. He served as Vice General Manager of the Corporate Business Department of Henan Provincial Branch of Industrial and Commercial Bank of China (“ICBC”); Director of General Office, General Manager of the Corporate Banking Department II, General Manager of the Corporate Banking Department I of Zhengzhou Branch of China Merchants Bank (“CMB”); Vice General Manager of the Corporate Banking Division at the CMB head office, Secretary of the CPC Committee, General Manager of CMB Hohhot Branch; Secretary of the CPC Committee, General Manager of CMB Chongqing Branch; Commissioner of Office of Leading Group for Deepening Overall Reform (Department Head of Group Headquarters level) of CEG. He graduated from Zhengzhou University with a bachelor's degree in politics, and obtained a master's degree in economic law, at Zhengzhou University. He is a senior economist.

**Mr. YAO Wei**, aged 47, has served as Director of the Bank since February 2021 and is currently Standing Member of CPC Committee and Chief Accountant of Overseas Chinese Town Group Company Limited. He successively served as Deputy Director and Director of Asset Division (Fixed Assets), and Head of the Internal Control Group of Account Division of the Finance Department in Daya Bay Nuclear Power Operations and Management Co., Ltd.; staff, Budget Director, Tax Manager, Senior Manager and Chief of General Finance Division of Finance Department in China General Nuclear Power Group Corporation; Chief Accountant of CGN Wind Energy Co., Ltd.; Chief Accountant of CGN Meiya Power Holdings Co., Ltd. (later renamed as CGN New Energy Holdings Co., Ltd.); Vice General Manager (Presiding) and General Manager of the Finance Department, General Manager of the Finance and Asset Management Department of China General Nuclear Power Group Corporation; Chief Accountant of CGN Solar Energy Development Co., Ltd.; Chairman of CGNPC International Limited and Executive Director of Shenzhen Nengzhihui Investment Co., Ltd. He graduated from Zhongnan University of Economics and Law majoring in accounting and obtained a bachelor's degree in economics. He is a certified public accountant.

**Mr. ZHU Wenhui**, aged 45, has served as Non-executive Director of the Bank since August 2023. He currently serves as Member of the Party Committee, Vice President and Chief Financial Officer of China Huarong Asset Management Co., Ltd. He successively served as Project Manager of the Finance Department of CITIC Group Corporation; Project Manager of CITIC Australia Pty Limited and CITIC Resources Australia Pty Ltd, Senior Project Manager, Advanced Executive, Senior Executive and Director of the Finance Department, Director and Assistant to the General Manager of the Treasury Department, and Deputy General Manager of the Finance Department of CITIC Group Corporation. He has concurrently served as

Director of each of CITIC Industrial Investment Group Corp., Ltd., CITIC Press Corporation and CITIC Engineering Design & Construction Co., Ltd. He holds a master's degree in economics and a master's degree in Business Administration. He is a senior economist and a certified public accountant of Australia.

**Mr. LIU Chong**, aged 53, has served as Non-executive Director of the Bank since December 2019. He currently serves as Member of CPC Committee and Secretary of the Party Committee and Chairman of COSCO Shipping Development Co., Ltd., and concurrently as Non-executive Director of China Cinda Asset Management Co., Ltd. He successively served as Deputy General Manager of China Shipping Investment Co., Ltd., Deputy General Manager of China Shipping Logistics Co., Ltd., Chief Accountant of China Shipping (Hainan) Haisheng Co., Ltd., Director of Capital Management Department of China Shipping (Group) Company, Chief Accountant of China Shipping Container Lines Co., Ltd., and General Manager of China Shipping Investment Co., Ltd., and Vice Chairman of China International Marine Container (Group) Ltd. He graduated from Sun Yat-sen University majoring in economics and obtained a bachelor's degree in Economics. He is a senior accountant.

**Mr. LI Wei**, aged 52, has served as Non-executive Director of the Bank since August 2021. He currently serves as Secretary of the Party Committee, Vice Chairman and General Manager of China Re Asset Management Company Ltd.; and Chairman of China Re Asset Management (Hong Kong) Company Limited. Mr. Li was Member of the Party Committee of Huatai Property Insurance Co., Ltd.; Chief Business Officer of Sun Life Everbright Life Insurance Co., Ltd.; Member of the Party Committee and Deputy General Manager of Sun Life Everbright Asset Management Co., Ltd.; Member of the Party Committee, Deputy General Manager of China Continent Property & Casualty Insurance Company Ltd., and Secretary of the Party Committee and General Manager of its Beijing branch; General Manager of the Strategic Customer Department of China Reinsurance (Group) Corporation (listed on the HKSE, stock code: 1508); and Member of the Party Committee and Deputy General Manager of China Re Asset Management Company Ltd. He graduated from the Guanghua School of Management, Peking University, majoring in business administration and obtained a master's degree in business administration.

**Mr. WANG Ligu**, aged 65, has served as Independent Non-executive Director of the Bank since January 2017. He currently works as Professor (National Second Class) of Dongbei University of Finance and Economics, Doctoral Tutor, Chief Expert of Major Bidding Projects of the National Social Science Fund, Director of China Investment Association, Executive Director of Construction Economics Branch of China Construction Industry Association, Vice Chairman of Dalian Engineering Consulting Association and Director of Dalian Yadong Investment Consulting Co., Ltd. He has served as Lecturer and Associate Professor of Dongbei University of Finance and Economics, Dean of the School of Investment Engineering Management of Dongbei University of Finance and Economics, and Member of Higher Education Engineering Management Major Evaluation Committee of Ministry of Housing and Urban-Rural Development. He graduated from Dongbei University of Finance and Economics with a bachelor's degree and a master's degree in Economics and then a doctoral degree in Industrial Economics.

**Mr. SHAO Ruiqing**, aged 65, has served as Independent Non-executive Director of the Bank since August 2019 and is currently Professor and Doctoral Tutor in accounting at Shanghai Lixin University of Accounting and Finance. He also holds positions including Vice President of China Communications Accounting Society, Executive Director of Accounting Society of China, Vice President and Chairman of the Academic Committee of Shanghai Accounting Association, Executive Director of Shanghai Audit Association, Member of Accounting & Finance Expert Advisory Committee of Ministry of Transport of the People's Republic of China, Consulting Expert of China Accounting Standards Committee of Ministry of Finance, Independent Director of China Eastern Airlines Corporation Limited, Independent Director of HUAYU Automotive Systems Co., Ltd., Independent Director of Tibet Urban Development and Investment Co., Ltd., Independent Director of Shanghai International Port (Group) Co., Ltd. He served as Teaching Assistant, Lecturer and Associate Professor of the Economics Faculty of Department of Economics of Shanghai Maritime University (during the period of which, he received the Sino-British Friendship Scholarship for

studying and research in Maritime Finance at University of Wales in the United Kingdom); Associate Professor and Dean of Accounting Faculty of Shanghai Maritime University; Professor and Dean of Finance & Accounting Faculty of Shanghai Maritime University (during the period of which, he received national fund from Studying Abroad Program and was Senior Visiting Scholar at University of Sydney, Australia); Professor and Deputy Dean of School of Management of Shanghai Maritime University; Professor, Doctoral Tutor and Dean of School of the Economics and Management of Shanghai Maritime University; Professor, Doctoral Tutor and Vice President of Shanghai Lixin University of Accounting; Deputy to the 13<sup>th</sup> Shanghai Municipal People's Congress; and External Supervisor of CMB. He respectively obtained a bachelor's degree in Economics of Shanghai Maritime University, a master's degree in Management of Shanghai University of Finance and Economics and the doctoral degree in Management of Tongji University. He is entitled to a special government allowance provided by the State Council, and is also an honorary fellow member of the Association of International Accountants.

**Mr. HONG Yongmiao**, aged 59, has served as Independent Non-executive Director of the Bank since September 2019, and is currently Distinguished Researcher of the Academy of Mathematics and Systems Science of Chinese Academy of Sciences, Distinguished Professor of the School of Economics and Management of University of Chinese Academy of Sciences, Member at Academy of Sciences for the Developing World, Fellow of Econometric Society, Vice Chairman of Economics Professional Teaching Mentoring Committee of Higher College of Ministry of Education, Co-editor of *China Journal of Econometrics*. He was previously President of the Chinese Economists Society and Independent Non-executive director of ICBC. He respectively obtained a bachelor's degree in Science and a master's degree in Economics of Xiamen University, and a doctoral degree in Economics of University of California, San Diego in the United States.

**Mr. LI Yinquan**, aged 67, has served as Independent Non-executive Director of the Bank since June 2020. He is currently Director of China Merchants Capital Investment Co., Ltd. He also served as Independent Non-executive Director of Genertec Universal Medical Group Company Limited, Million Cities Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited and Kimou Environmental Holding Limited, and Lizhi, Inc. He served as Assistant General Manager, Deputy General Manager Level Cadre of International Business Department, Head of the Preparatory Group of the New York Branch, Deputy General Manager of HR & Education Department and Deputy General Manager of the Hong Kong Branch of the Agricultural Bank of China. He also served as General Manager of the Planning and Finance Department, Chief Financial Officer (Chief Accountant), Vice President of China Merchants Group Co., Ltd., as well as General Manager, CEO and Chairman of China Merchants Capital Investment Co., Ltd. and Executive Director of China Merchants Holdings (International) Company Limited, Non-executive Director of China Merchants Bank Co., Ltd., Executive Director of China Merchants Energy Shipping Co., Ltd. and Executive Director of China Merchants China Direct Investments Limited. He graduated from the Graduate School of the People's Bank of China from which he obtained a master's degree in economics. He later obtained a master's degree in finance for development in Finafrica Institute, Italy. He is a senior economist.

**Mr. HAN Fuling**, aged 58, has served as Independent Non-executive Director of the Bank since May 2021 and is currently Professor and Doctoral Tutor of School of Finance, and Director of Financial Securities Research Institute of Central University of Finance and Economics. He is Consultant of the Financial and Economic Affairs Committee of the National People's Congress of the PRC, the PBOC, the CSRC, and the Ministry of Human Resources and Social Security. He is Commentator of Xinhua News Agency and CCTV Financial. He concurrently serves as Independent Non-executive Director of Beijing Highlander Digital Technology Co., Ltd., China Resource and Environment Co., Ltd. and Yibin Tianyuan Group Co., Ltd. He served as Deputy Dean of the Economics Department of University of Science and Technology Beijing, and Macro Analyst and Researcher of the Research and Development Department of the China's Securities Market Research Design Center (Co-Office); Dean of Department of Finance of Central University of Finance and Economics; Independent Non-executive Director of Xinjiang Zhongtai Chemical Co., Ltd. He

obtained a master’s degree in business administration from University of Science and Technology Beijing, and a doctorate degree in Economics from Silesian University in Poland. He is Postdoctoral Fellow at the Research Institute of Economics of the Chinese Academy of Social Sciences.

**Mr. LIU Shiping**, aged 60, American nationality, is currently Chairman of Global Business Intelligence Consulting Co., Professor and Doctoral Tutor, Director of Research Center of Finance and Technology of University of Chinese Academy of Sciences. He is also Adjunct Professor at Tongji University, Chief Scientist of the Key Special Project of the National Key Research and Development Program “Internet of Things and Smart City Key Technologies and Demonstration”, Vice Chairman of XBRL China Executive Committee, Vice Chairman of the National Next Generation Internet Industry Technology Innovation Strategic Alliance, Member of Information Technology Committee of China Association of Listed Companies, Member of the Independent Board Committee of the China Association of Listed Companies, Vice President of Guangdong Financial Innovation Research Association, Honorary Dean of the Guangdong Jinchuang Blockchain Research Institute, Senior Consultant of the People’s Government of Qianjiang District, Chongqing, Consultant of the Technology Advisory Group of Chengdu Municipal People’s Government, Member of the Advisory Committee of the People’s Government of Yibin, Sichuan Province, Independent Director of Zhejiang Tailong Commercial Bank Co., Ltd., Independent Director of Industrial Bank Co., Ltd. (a company listed on the Shanghai Stock Exchange, Stock Code: 601166), Independent Director of Aixin Life Insurance Co., Ltd.. He served as Researcher at the Institute of Economics at Iowa State University in the United States, Senior Business Analyst at Purvidin Financial Corporation, Chief Consultant of the Business Intelligence of IBM’s Global Services Department, Head of the Global Team of Data Mining Application in the Financial Industry, Independent Director of People.cn Co., Ltd. (a company listed on the Shanghai Stock Exchange, Stock Code: 603000), and Chair Professor of Fuzhou University. He obtained a master’s degree and a doctorate degree in economics from North Carolina State University in the United States, and a master’s degree in statistics from Iowa State University in the United States.

### Supervisors

The following table sets out certain information relating to the Bank’s supervisors as at the date of this Offering Circular:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointment Date</b>
Mr. LU Hong .....	59	Member of CPC Committee, Chairman of the Board of Supervisors, Shareholder Supervisor, Chairman of Working Committee of Labour Union	26 March 2021
Mr. WU Junhao.....	57	Shareholder Supervisor	19 November 2009
Mr. LI Yinzong .....	58	Shareholder Supervisor	28 December 2021
Mr. WANG Zhe .....	62	External Supervisor	15 November 2016
Mr. QIAO Zhimin.....	70	External Supervisor	12 September 2019
Ms. CHEN Qing .....	62	External Supervisor	28 September 2022
Mr. SHANG Wencheng ..	47	Employee Supervisor	26 July 2019
Mr. YANG Wenhua.....	54	Employee Supervisor	19 September 2022
Mr. LU Jian.....	51	Employee Supervisor	19 September 2022

**Mr. LU Hong**, aged 59, has served as Member of CPC Committee of the Bank since March 2009. He concurrently serves as Chairman of the Board of Supervisors, Shareholder Supervisor, and Chairman of Working Committee of the Labor Union of the Bank. He joined the Bank in March 1994 and successively served at various positions of the Bank, including Manager of the Securities Department, Division Chief in

the Office of the Board of Directors, Assistant General Manager of the Planning and Treasury Department, General Manager of the Planning and Finance Department of Beijing Branch, Deputy General Manager of the Finance and Accounting Department, Deputy General Manager and General Manager of the Planning and Finance Department of the Head Office, Secretary to the Board of Directors, Vice President and Executive Director of the Bank from September 2009 and March 2021. He was Engineer in the Planning Institute of the Ministry of Railways and Manager in the Investment Banking Department of Huaxia Securities Co., Ltd. He graduated from Shanghai Railway Institute and holds a master's degree in railway engineering and a doctoral degree in applied economics of Xi'an Jiaotong University. He holds a certificate of senior accountant.

**Mr. WU Junhao**, aged 57, has served as Supervisor of the Bank since November 2009. He is General Manager of the Financial Management Department of Shenergy (Group) Limited and concurrently serves as Director of Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He successively served as Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., and Deputy Director, Director and Senior Director of the Asset Management Department and Deputy (Acting) Director of the Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a master's degree in Enterprise Management at East China Normal University.

**Mr. LI Yinzong**, aged 58. He is currently Director of China Everbright Holdings Company Limited. He has served as Manager of Finance Department of Shenzhen Office of China Everbright International Trust and Investment Company; Secretary of Audit Office and Deputy Director of Financial Audit Office of Audit Department of China Everbright Group Limited; Assistant General Manager of Finance Department, Deputy Director of Investment Management Department (Director Level, Deputy Bureau Level), Director of the Audit Department of China Everbright Holdings Company Limited; Director and Chairman of Shenzhen Everbright Real Estate Co., Ltd.; Non-executive Director of Everbright Grand China Assets Limited (a company listed on the HKSE, stock code: 3699); and Chief Representative of the Macau representative office of CEG. He was also General Manager of China Everbright (Macau) Limited. He holds a bachelor's degree in economics. He is a senior accountant and a certified public accountant.

**Mr. WANG Zhe**, aged 62, has served as External Supervisor of the Bank since November 2016. He is currently Secretary General of Association of Shanghai Internet Financial Industry and serves concurrently as Vice President of Shanghai Financial Association and Independent Director of Boill Healthcare Holdings Limited. He successively served as Clerk of Monetary Division and Deputy Division Chief of General Office of the PBOC, Manager of China Gold Coin Shenzhen Commercial Centre, Deputy General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Centre, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman and Secretary of CPC Committee of Shanghai Gold Exchange, and Secretary of CPC Committee of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a master's degree.

**Mr. QIAO Zhimin**, aged 70, has served as External Supervisor of the Bank since September 2019. He is concurrently Independent Director of Wuhan Rural Commercial Bank Co., Ltd. He successively served as Deputy Division Director of the Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch and Deputy General Manager of the General Planning Department of Head Office of BOC; Deputy Director-General of the Accounting Department and Deputy Director-General of the Banking Supervision Department I of PBOC; Chief of Regulation Team (Director-General Level) for ICBC; Director of the Finance and Accounting Department of former CBRC; Vice Chairman of the Fourth Session of the Board of Supervisors and Chairman of the Fifth Session of the Board of Supervisors for China Minsheng Banking Corp., Ltd.; and Independent Non-executive Director of the Bank. He graduated from



Hunan College of Finance and Economics and majored in Finance. He holds a master's degree and a certificate of senior accountant.

**Ms. CHEN Qing**, aged 62, who has served as External Supervisor of the Bank since September 2022. She successively served as Deputy Division Chief of Finance Department of National Audit Office; Deputy Division Chief, Division Chief and Full-time Supervisor (Division Chief level) of BOC; Full-time Supervisor (Division Chief level) of Agricultural Bank of China; Supervisor (Deputy Director General level), Head of Office of Board of Supervisors, Head of Audit Supervision Bureau of Bank of Communications. She concurrently served as Committee Member of Discipline Inspection Commission, Committee Member of Commission for Discipline Inspection, Head of Women Commission of the Labor Union, Employee Supervisor of Bank of Communications. She holds an MBA degree and is qualified as a senior auditor. She was a gainer of the State Council Special Allowance in 2018.

**Mr. SHANG Wencheng**, aged 47, who has served as Employee Supervisor of the Bank since July 2019, is currently General Manger of the Auditing Department of the Bank. He served as Deputy Chief of the Financial Management Division of the Finance and Planning Department, Accredited Financial Supervisor (Senior Manager Level) of the Credit Card Centre, Accredited Financial Supervisor (Senior Manager Level) of the Information Technology Department, Senior Manager of the Financial Management Division, Senior Manager of the Management Accounting Division of Planning and Finance Department, Deputy Director of Auditing Centre (East) (First Assistant General Manager Level Head Office) and Deputy General Manager of the Audit Department of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree, and then obtained a doctor's degree of Dongbei University of Finance and Economics in finance. He is a senior economist and a certified public accountant.

**Mr. YANG Wenhua**, aged 54, has served as Employee Supervisor of the Bank since September 2022. He currently serves as General Manager of Legal & Compliance Department of the Bank. He concurrently serves as Director of Office of Accountability Committee. He joined the Bank in 2006 and successively served as Assistant General Manager and Deputy General Manager of Credit Approval Department of the Bank, General Manager of Asset Preservation Department, and General Manager of Special Assets Management Department of the Bank. He successively served as Deputy General Manager of Beijing Zhichun Road Sub-branch, Secretary of Executive Vice President of the Head Office, Deputy General Manager of General Management Sub-department of Corporate Banking Business Department, and Deputy General Manager of Risk Policy Department of CITIC Industrial Bank. He holds a master's degree in economics and is qualified as an economist.

**Mr. LU Jian**, aged 51, has served as Employee Supervisor of the Bank since September 2022. He currently serves as Director of Office of Board of Supervisors of the Bank. He joined the Bank in 2000 and successively served as Deputy Director and Senior Manager of Financial Management Division of Planning and Finance Department of the Head Office, Deputy General Manager of Changzhou Sub-Branch of Nanjing Branch (General Manager level of a tier-1 branch department), and Accredited Financial Director (Senior Manager level), Senior Manager of Financial Management Division and Assistant General Manager to Electronic banking Department of the Head Office from Planning and Finance Department, Assistant General Manager and Deputy General Manager of Finance and Accounting Department of the Bank. He holds a bachelor's degree in economics and is qualified as a senior accountant and a certified public accountant.

### **Senior Management Members**

The following table sets out certain information relating to the Bank's senior management members as at the date of this Offering Circular:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Mr. WANG Zhiheng .....	49	Executive Director, President and Deputy Secretary of CPC Committee
Mr. DONG Tiefeng.....	55	Member of CPC Committee, Secretary of Discipline Inspection Committee (Executive Vice President level)
Mr. QU Liang .....	55	Executive Director, Executive Vice President, Member of CPC Committee
Ms. QI Ye.....	53	Executive Vice President, Member of CPC Committee
Mr. YANG Bingbing.....	52	Executive Vice President, Member of CPC Committee, Risk Officer
Mr. ZHANG Xuyang.....	50	Secretary to the Board of Directors, Chief Business Supervisor

The biographies of the senior management personnel are as follows:

**Mr. WANG Zhiheng** - please refer to “*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*”.

**Mr. DONG Tiefeng**, aged 55, has served as Member of CPC Committee and Secretary of Disciplinary Committee (Executive Vice President Level) since December 2020. He served as Deputy Division Chief of Chinese Bank Supervision Division, Deputy Division Chief of Foreign Bank Supervision Division II, Division Chief of Foreign Bank Supervision Division I of Supervision Department I of PBOC, Division Chief of Chinese Bank Supervision Division of Banking Supervision Department I, Deputy Director of Banking Supervision Department I, Deputy Director of Human Resources Department, Deputy Director of Party Committee Organisation Department, Inspector of Human Resources Department (also Party Committee Organisation Department) of the former CBRC, General Manager of Legal & Compliance Department of China Everbright Bank, Deputy Director-General of Party Organisation Department, Deputy Director-General of Publicity Department, Deputy Director-General of Human Resources Department (department head), Director-General of Party Committee Organisation Department, Director-General of Publicity Department, Deputy Director-General of Human Resources Department, Vice Principal of Party School of China Everbright (Group) Corporation, Director-General of Party Committee Organisation Department, Director-General of Publicity Department, Director-General of Human Resources Department, Vice Principal of Party School, Member of Discipline Inspection Committee, Member of CPC Committee of the Head Office, General Manager of Human Resource Department, Director-General of United Front Work Department of CEG, Vice Principal of both CEG Party School and Everbright Academy. He graduated from School of Economics, Hebei University, majoring in world economics, and obtained a doctoral degree in economics. He is a senior economist.

**Mr. QU Liang** - please refer to “*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*”.

**Ms. QI Ye**, aged 53, has served as Vice President of the Bank since July 2020, and Member of CPC Committee of the Bank since May 2020. She joined the Bank in 1992 and was successively Clerk of the Credit Department of the Head Office, Cadre of the Hainan Representative Office, Assistant General Manager and Executive Vice President of the Haikou Branch (Affiliated to the Branch), Deputy General Manager of the Personal Business Department of the Head Office (later renamed as the Retail Business Department), Risk Director of the Retail Banking Department (Deputy General Manager level of the Head Office), Accredited Retail Risk Director of the Risk Management Department (Deputy General Manager

level of the Head Office), Risk Director of the Micro-financial Department (General Manager level of the Head Office), Deputy General Manager (General Manager level of the Head Office) and General Manager of the Retail Banking Department, and Chief Business Supervisor of the Bank. She graduated from the Economics Faculty of Beijing Normal University majoring in economic management, and later obtained a master's Degree of Business Administration from the International Business Administration program jointly organised by the Peking University and Fordham University. She is an economist.

**Mr. YANG Bingbing**, aged 52, has served as Executive Vice President of the Bank since July 2020, and Member of CPC Committee of the Bank since May 2020. He joined the Bank in 2005 and has served successively as Assistant General Manager and Deputy General Manager of the Risk Management Department of the Head Office, Deputy General Manager (presiding) and General Manager of the Information Technology Department, and General Manager of the Electronic Banking Department, General Manager of Digital Banking Department, and Chief Business Supervisor of the Bank. He served as Deputy Principal Staff Member, and Principal Staff Member of the Unified Credit Management Division of the Risk Management Department of the Head Office (during which, he served as Deputy Director (presiding) of CEG. He graduated from Zhengzhou University with a bachelor's degree in Politics, and obtained a master's degree in Economic Law at Zhengzhou University. He is a senior economist.

## **COMPANY SECRETARY**

**Mr. ZHANG Xuyang**, aged 50, is Chief Business Officer of the Company. He has served as staff of the Market Development Department and General Office, Deputy Division Head of the Comprehensive Secretariat Division, Division Head of Secretariat Division II of the General Office, Senior Deputy Manager of the Capital Department, Division Head of the Client Business Division, Division Head of the Foreign Exchange and Structured Products Division and Assistant General Manager of the Investment Banking Department, Assistant General Manager of the Private Business Department and Director of the Wealth Management Center, Deputy General Manager of the Retail Business Department and Director of the Wealth Management Center, General Manager and Director of the Wealth Management Center, General Manager of the Asset Management Department, Leader of the Preparatory Group of Everbright Wealth Management Co., Ltd.; Vice President of Baidu, Inc. (listed on NASDAQ (stock code: BIDU) and the HKSE (stock code: 9888)), and Vice President of Duxiaoman Technology (Beijing) Co., Ltd. He was also Non-executive Director of Yixin Group Limited (listed on the HKSE, stock code: 2858), Independent Director of Bank of Suzhou (listed on the Shenzhen Stock Exchange, stock code: 002966), and Chairman of the Supervisory Committee of NetsUnion Clearing Corporation. Mr. Zhang obtained a master's degree in economics and a master's degree in science, and is Representative of the 17th National People's Congress of Qingdao and Member of the Financial and Economic Committee of the National People's Congress.

## **BOARD OF DIRECTORS COMMITTEES**

There are seven committees under the Board of Directors, namely the Strategy Committee, Audit Committee, Risk Management Committee, Nomination Committee, Remuneration Committee, Related Party Transactions Control Committee and Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The committees operate in accordance with the terms of reference established by the Board of Directors of the Bank.

### **Strategy Committee**

The Strategy Committee consists of six directors, namely Mr. WANG Jiang, Mr. WU Lijun, Mr. WANG Zhiheng, Mr. ZHU Wenhui, Mr. HONG Yongmiao and Mr. LIU Shiping, among whom Mr. WANG Jiang acts as chairman of the Strategy Committee. The primary duties and responsibilities of the Strategy Committee include (i) formulating business objectives and medium and long-term development strategies, and advising the Board accordingly; (ii) reviewing plans on capital management and replenishment, and

supervising and inspecting the implementation; and (iii) developing business plan, reform plan for operation and management mechanisms, major external investment programs and capital operation schemes, supervising and inspecting the implementation, and advising the Board accordingly.

#### **Audit Committee**

The Audit Committee consists of six directors, namely, Mr. WANG Ligu, Mr. LIU Shiping, Mr. SHAO Ruiqing, Mr. YAO Wei, Mr. ZHU Wenhui and Mr. LI Yinquan, among which Mr. SHAO Ruiqing acts as chairman of the Audit Committee. The Audit Committee has the appropriate accounting qualifications as required under Rule 3.10(2) of the Listing Rules. The primary duties and responsibilities of the Audit Committee include: (i) supervising and evaluating the Bank's internal control; (ii) inspecting the Bank's risks, compliance status, accounting policies, financial reporting procedures and financial position; (iii) reviewing the Bank's financial information and its disclosure, and taking charge of the annual audit; (iv) supervising and guiding the internal audit, examining important policies and reports such as internal audit charter, and reviewing medium and long-term audit plans and annual audit plan; (v) supervising and evaluating external auditors; (vi) coordinating internal and external audits; and (vii) reviewing and supervising the mechanisms for employees of the Bank to report misconducts related to financial report, internal control, etc.

#### **Risk Management Committee**

The Risk Management Committee consists of five directors, namely, Mr. WANG Zhiheng, Mr. LIU Chong, Mr. LI Wei, Mr. WANG Ligu, Mr. SHAO Ruiqing, among whom Mr. WANG Zhiheng acts as chairman of the Risk Management Committee. The primary duties and responsibilities of the Risk Management Committee include: (i) determining the risk management policies of the Bank and the overall risk tolerance; (ii) supervising the duty performance of the Senior Management of the Bank in controlling credit market, operational, liquidity, compliance and reputational risks, etc.; (iii) evaluating the basic risk policy, management situation and risk tolerance of the Bank; (iv) regularly submitting risk management reports to the Board of Directors; (v) drafting the Bank's management objective of capital adequacy ratio, and monitoring capital adequacy ratios; (vi) reviewing and approving matters related to the implementation of Basel III; and (vii) supervising the Senior Management's performance of anti-money laundering (AML) duties, and enhancing the effectiveness of data governance.

#### **Nomination Committee**

The Nomination Committee consists of five directors, namely, Mr. WANG Jiang, Mr. HONG Yongmiao, Mr. HAN Fuling and Mr. LI Yinquan and Mr. LIU Shiping, among whom Mr. LIU Shiping acts as chairman of the Nomination Committee. The primary duties and responsibilities of the Nomination Committee include: (i) selecting qualified candidates for Directors and Senior Management; (ii) drafting the procedures and the selection criteria for Directors and Senior Management, preliminarily reviewing the appointment qualifications and conditions of candidates, and advising the Board accordingly; and (iii) regularly assessing the Board structure, the number of Board members and the Board composition, and offering recommendations on the proposed adjustment of the Board of Directors according to the Bank's strategy.

#### **Remuneration Committee**

The Remuneration Committee consists of five directors, namely, Mr. HAN Fuling, Mr. WANG Ligu, Mr. SHAO Ruiqing, Mr. HONG Yongmiao and Mr. LI Yinquan, among whom Mr. HONG Yongmiao acts as chairman of the Remuneration Committee. The primary duties and responsibilities of the Remuneration Committee include: (i) drafting the remuneration plan for Directors and the Senior Management, making proposals to the Board and overseeing the implementation of the plan; (ii) reviewing the duty performance of Directors and the Senior Management and making suggestions to the Board on the examination and evaluation of them; and (iii) reviewing the remuneration management policies and rules of the Bank, advising the Board accordingly and supervising the implementation of these policies, etc.

### **Related Party Transactions Control Committee**

The Related Party Transactions Control Committee consists of seven members, namely Mr. LIU Shiping, Mr. HAN Fuling, Mr. WANG Ligu, Mr. SHAO Ruiqing, Mr. LI Yinquan, Mr. HONG Yongmiao and Mr. LI Wei, among whom Mr. LI Yinquan acts as the chairman of the Related Party Transactions Control Committee. The primary duties and responsibilities of the Related Party Transactions Control Committee include: (i) filing the common related party transactions; (ii) reviewing major related party transactions and submitting the results to the Board of Directors for consideration; (iii) providing detailed reports to the Board of Directors on the overall status, risk level and structural distribution of related party transactions conducted in the year; (iv) developing the related party transactions management measures and submitting the same to the Board of Directors for approval before implementation; and (vi) identifying the related parties of the Bank and reporting them to the Board of Directors and the Board of Supervisors, and timely announcing such related parties to relevant staff members of the Bank.

### **Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee**

The Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee consists of five members, namely, Mr. WANG Zhiheng, Mr. QU Liang, Mr. YAO Wei, Mr. LIU Chong and Mr. HAN Fuling, among whom Mr. WANG Zhiheng acts as the chairman of the Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The primary duties and responsibilities of the Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee include: (i) formulating development strategy plan for the Bank's inclusive finance business; (ii) reviewing the Bank's general policy, evaluation measures and annual business plan for inclusive finance; (iii) guiding and supervising the Senior Management on the development of inclusive finance work; (iv) regularly reviewing the work reports of Senior Management on consumer rights and interests protection and submitting the reports to the Board of directors, discussing and deciding relevant matters according to the authorization of the Board of Directors, and studying major issues and policies on consumer rights and interests protection; (v) guiding and urging the establishment and improvement of the Bank's management policies and mechanisms for the protection of consumer rights and interests; (vi) studying relevant audit reports, regulatory circulars and internal evaluation results related to the Bank's consumer rights and interests protection work, and urging timely rectification by the Senior Management; and (vii) supervising the comprehensiveness, timeliness and effectiveness of consumer rights and interests protection work of the Senior Management.

## **SUBSTANTIAL SHAREHOLDERS**

### **CHINA EVERBRIGHT GROUP LTD.**

As at 30 June 2023, China Everbright Group Limited directly held 24,227,813,441 A shares and 1,782,965,000 H shares of the Bank, together representing approximately 44.02 per cent. of the Bank's total issued ordinary shares.

## EXCHANGE RATES

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by 2 per cent. against U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows Renminbi to fluctuate against U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in Renminbi appreciating against U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, PBOC further widened the floating band against U.S. dollar to 2.0 per cent. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by PBOC on 11 August 2015, Renminbi depreciated significantly against U.S. dollar. Since then, the Renminbi has experienced further fluctuation in value against the U.S. dollar. On 5 August 2019, PBOC set the Renminbi's daily reference rate above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may adopt further reforms of its exchange rate system, including making Renminbi freely convertible in the future.

The following table sets forth information concerning exchange rates between Renminbi and U.S. dollar for the periods presented:

<b>Period</b>	<b>Renminbi per U.S. dollar Noon Buying Rate <sup>(1)</sup></b>			
	<b>End</b>	<b>Average <sup>(2)</sup></b>	<b>High</b>	<b>Low</b>
	<i>(RMB per U.S.\$1.00)</i>			
2011.....	6.2939	6.4475	6.6364	6.2939
2012.....	6.2301	6.2990	6.3879	6.2221
2013.....	6.0537	6.1412	6.2438	6.0537
2014.....	6.2046	6.1704	6.2591	6.0402
2015.....	6.4778	6.2869	6.4896	6.1870
2016.....	6.9430	6.6549	6.9580	6.4480
2017.....	6.5063	6.7350	6.9575	6.4773
2018.....	6.8755	6.6292	6.9737	6.2649
2019.....	6.9618	6.9014	7.1786	6.6822
2020.....	6.5250	6.8878	7.1681	6.5208
2021.....	6.3726	6.4446	6.5716	6.3435

Period	Renminbi per U.S. dollar Noon Buying Rate <sup>(1)</sup>			
	End	Average <sup>(2)</sup>	High	Low
	<i>(RMB per U.S.\$1.00)</i>			
2022.....	6.8972	6.7518	7.3048	6.3084
2023.....				
January.....	6.7540	6.7680	6.7899	6.7010
February.....	6.9325	6.8380	6.9545	6.7266
March.....	6.8676	6.8188	6.9630	6.8909
April.....	6.9110	6.8876	6.9320	6.8677
May.....	7.1100	6.9854	7.1100	6.9094
June.....	7.2513	7.1614	7.2515	7.0827
July.....	7.1426	7.1863	7.2500	7.1340
August (through 25 August 2023).....	7.2890	7.2425	7.2985	7.1651

Notes:

- (1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.
- (2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.



## TAXATION

*The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.*

### HONG KONG

#### Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Notes can be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is required to be withheld in Hong Kong in respect of any gains arising from resale of the Notes.

#### Stamp Duty

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

- (i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the “SDO”)).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

- (i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) the Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes, it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK\$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

#### Profits Tax

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

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**Inland Revenue Ordinance**”) as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits

arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum is revenue in nature and has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

In addition, the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 of Hong Kong (the “**Amendment Ordinance**”) came into effect on 1 January 2023. Under the Amendment Ordinance, certain foreign-sourced interest on the Notes accrued to an MNE entity (as defined in the Amendment Ordinance) carrying on a trade, profession or business in Hong Kong is regarded as arising in or derived from Hong Kong and subject to Hong Kong profits tax when it is received in Hong Kong. The Amendment Ordinance also provides for relief against double taxation in respect of certain foreign-sourced income and transitional matters.

## **PRC**

*The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of Mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.*

Pursuant to the Enterprise Income Tax Law promulgated on 16 March 2007 and recently amended on 29 December 2018 and the PRC Individual Income Tax Law, as amended on 31 August 2018, and their implementation regulations, an income tax is imposed on payment of interest in respect of debt securities which are issued by enterprises established within the territory of PRC to non-resident Noteholders, including non-resident enterprises and non-resident individuals. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of

the interest, unless otherwise provided in other preferential taxation policies under special taxation arrangements.

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

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

The Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Conditions. If the Bank shall perform the obligation of paying interest of the Notes in the event and only when the Issuer fails to perform its obligations of paying the interest of the Notes, the Bank will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty), and PRC VAT tax at the rate of 6.00 per cent. of the interest component of the amount payable by the Bank to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if such capital gains are determined as income sourced in the PRC and accordingly would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable, such as those provided under the arrangement for avoidance of double taxation between the PRC and Hong Kong. There is uncertainty as to whether gains realized on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as income sourced within the PRC which as a result will be subject to PRC individual income tax.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC. The above statements on VAT may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

## **THE PROPOSED FINANCIAL TRANSACTIONS TAX (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s proposal**”) for a Directive for a common financial transactions tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain,

France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission’s proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

### **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “**foreign financial institution**” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining “foreign passthru payment” and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream or the CMU currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, any Arranger, any Dealer or any Agent takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System.*

*None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### THE CLEARING SYSTEMS

#### **Euroclear and Clearstream**

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream participants are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

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

#### **CMU**

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

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

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

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Notes. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

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

## PRC CURRENCY CONTROLS

### CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled under in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow have been increased in September 2015. The PBOC permits enterprises in the Shanghai FTZ may establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pooling programme. In November 2016, PBOC Shanghai Headquarters further allowed banks in Shanghai to provide multinational enterprise groups with services of full-function onshore cash pooling, which will enable broader scope for utilising pooled cash.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

### CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as “foreign debt”) and lend Renminbi-denominated loans to foreign borrowers (which are referred to as “outbound loans”), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as “cross-border security”). Under current rules promulgated by the State Administration of Foreign Exchange of the PRC (“SAFE”) and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financing denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor (“**RQFII**”) regime and the China Interbank Bond Market (“**CIBM**”), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening up. In January 2016, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There can be no assurance that the PRC government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.



## SUBSCRIPTION AND SALE

### SUMMARY OF DEALER AGREEMENT

The Dealers have, in a dealer agreement (the “**Dealer Agreement**”) dated 7 September 2016 and as most recently amended and restated on 4 September 2023, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Forms of the Notes*” and “*Terms and Conditions of the Notes*”. The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the “**Issue Price**”), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement. The Issuer may agree to pay, through the Dealers, a commission to certain private banks on certain tranches of Notes based on the principal amount of Notes purchased by the clients of such private banks. Any such commissions will be described in the relevant Pricing Supplement.

The Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Dealer Agreement provides that the Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies from time to time for which they have received, or will receive, fees and expenses. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of the Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes, which could adversely affect the trading price and liquidity of the Notes.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them

by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilisation or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities may only be carried on by the Stabilisation Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or its subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

**Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMI(s) (including private banks)**

This notice to CMI(s) (including private banks) is a summary of certain obligations the SFC Code imposes on CMI(s), which require the attention and cooperation of other CMI(s) (including private banks). Certain CMI(s) may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Bank, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMI(s) should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMI(s) are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMI(s) should ensure that orders placed are *bona fide*, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMI(s)). CMI(s) should enquire with their investor clients regarding any orders which appear unusual or irregular. CMI(s) should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMI(s) should not place “X-orders” into the order book.

CMI should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMI (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMI (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMI is informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a “principal” basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a “principal” basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a “principal” basis may require the relevant affiliated Manager(s) (if any) to categorise it as a proprietary order and apply the “proprietary orders” requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMI (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any “Associations” (as used in the SFC Code);
- Whether any underlying investor order is a “Proprietary Order” (as used in the SFC Code); and
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Dealers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMI and investors is personal and/or confidential in nature, CMI (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMI that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealer may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMI (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been

obtained). In such event, other CMI's (including private banks) are required to provide the relevant Dealer with such evidence within the timeline requested.

## **SELLING RESTRICTIONS**

### **United States of America**

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States.

### ***Index, commodity or currency linked Notes***

Each issuance of index, commodity or currency linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

### **European Economic Area**

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

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision 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 EU MiFID II; or
- (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II.

#### ***Public Offer Selling Restriction Under the EU Prospectus Regulation***

If the Pricing Supplement in respect of any Notes does not include a legend entitled "Prohibition of Sales to EEA Retail Investors", in relation to each Member State of the European Economic Area, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

- (a) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;
- (b) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) *Other exempt offers*: at any time in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation,

**provided that** no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, and the expression “**EU Prospectus Regulation**” means Regulation (EU) 2017/1129.

## **United Kingdom**

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

If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to UK Retail Investors”, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision, the expression “**retail investor**” means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “**EUWA**”); or
- (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

If the Pricing Supplement in respect of any Notes does not include a legend entitled “Prohibition of Sales to UK Retail Investors”, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

- (i) at any time to any legal entity which is a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA;
- (ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (iii) at any time in any other circumstances falling within section 86 of the FSMA,

*provided that* no such offer of Notes referred to in (i) to (iii) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “**UK Prospectus Regulation**” means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

### ***Other UK regulatory restrictions***

In relation to each Tranche of Notes, each relevant Dealer has represented, warranted and undertaken to the Issuer and each other relevant Dealer (if any) that:

- (a) ***No deposit-taking***: in relation to any Notes having a maturity of less than one year:
  - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
  - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
    - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) ***Financial promotion***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **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**”) and accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, “**resident of Japan**” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

### **Hong Kong**

In relation to each Tranche of Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a “structured product” as defined in the 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(WUMPO)**”) or which do not constitute an offer to the public within the meaning of the C(WUMPO); and

- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

## **PRC**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the offer of the Notes is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of China and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

## **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular 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 2001 (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or

- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

**Taiwan**

Each Dealer has represented and warranted, and each further Dealer appointed under the Programme will be required to represent and warrant, that the Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly, in Taiwan, to investors other than “professional institutional investors” as defined under Paragraph 2, Article 19-7 of the Regulations Governing Securities Firms of Taiwan, currently including overseas or domestic banks, insurance companies, bills finance companies, securities firms, fund management companies, government investment institutions, government funds, pension funds, mutual funds, unit trusts, securities investment trust enterprises, securities investment consulting enterprises, trust enterprises, futures commission merchants, futures service enterprises, and other institutions approved by the Financial Supervisory Commission of Taiwan.

**General**

No action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required.

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.



## GENERAL INFORMATION

### 1. LISTING

Application has been made to the HKSE for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the HKSE. Separate application may be made for the listing of the Notes (except Credit-Linked Notes) on the HKSE. The issue price of Notes listed on the HKSE will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the HKSE are required to be traded with a board lot size of at least HK\$500,000 (or equivalent in other currencies).

### 2. AUTHORISATION

The update of the Programme and the issue of the Notes thereunder were authorised by the resolutions of the board of directors of the Bank passed on 27 March 2020 and 26 August 2022 and the shareholders' resolutions of the Bank passed on 5 June 2020 and 29 December 2022 and approval from the office meeting of the Bank's president which took place on 21 May 2021. Each of the Bank and the Issuer has obtained, or will obtain from time to time, all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of their respective obligations under the Notes. In connection with Notes issued by the Issuer, the Issuer will apply for all necessary registration with respect to the use of proceeds of Notes or the payment of principal and interest in accordance with applicable laws. The repayment of the principal and/or interest of the notes by the Issuer may be adversely affected in the event any required registration is not obtained. Each of the Bank and the Issuer does not however expect that any registration would be refused.

### 3. LEGAL AND ARBITRATION PROCEEDINGS

None of the Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

### 4. SIGNIFICANT/MATERIAL CHANGE

Since 30 June 2023, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

### 5. AUDITOR

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2021 and 2022, and the reviewed consolidated financial statements as at and for the six months ended 30 June 2023, which are included elsewhere in this Offering Circular, have been audited or, as the case may be, reviewed by Ernst & Young, as stated in its respective reports appearing herein.

### 6. DOCUMENTS ON DISPLAY

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Issuer at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and the specified office of the Fiscal Agent at 9th Floor Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong for so long as the Notes are capable of being issued under the Programme:

- (i) the memorandum and articles of association of the Bank;
- (ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2021 and 2022 and the reviewed consolidated financial statements of the Bank as at and for the six months ended 30 June 2023;
- (iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;
- (iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the UK, the European Economic Area nor offered in the UK or the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity);
- (v) a copy of this Offering Circular together with any Supplement to this Offering Circular;
- (vi) the Deed of Covenant;
- (vii) the Agency Agreement (which contains the forms of the Notes in global and definitive form);  
and
- (viii) the Programme Manual.

## **7. CLEARING OF THE NOTES**

The Legal Entity Identifier of the Bank is 549300U6PKQ4H1P34E17. The Legal Entity Identifier of the Issuer is 549300WVNR4RWTGIV379. The Notes may be accepted for clearance through Euroclear, Clearstream and CMU. The appropriate CMU instrument number, common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

## **8. NATIONAL DEVELOPMENT AND REFORM COMMISSION FILINGS**

Where applicable for a relevant Tranche of Notes, registration will be completed or caused to be completed by the Issuer pursuant to the NDRC Measures. After the issuance of such relevant Tranche of Notes, the Issuer undertakes to report or cause to be reported the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Measures.

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Note:

- (1) The Bank's consolidated financial statements set out here in are reproduced from the Bank's annual reports for the years ended 31 December 2021 and 2022 and the interim report for the six months ended 30 June 2023, respectively. Page references referred to in the auditor's reports named above refer to pages set out in such annual reports or interim report (as the case may be).

# Independent Auditor's Report

**To the shareholders of China Everbright Bank Company Limited**  
(Established in the People's Republic of China with limited liability)

## OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Expected credit losses for loans and advances to customers</i>	
<p>The Group uses a number of models and assumptions in the measurement of expected credit losses, for example:</p> <ul style="list-style-type: none"> <li>• Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans and advances with longer remaining periods to maturity;</li> <li>• Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions;</li> <li>• Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights;</li> <li>• Whether financial assets are credit-impaired – The determination of whether a credit impairment has occurred requires consideration of a number of factors and the measurement of its expected credit loss is dependent on estimates of expected future cash flows.</li> </ul>	<p>We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems.</p> <p>We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.</p> <p>With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:</p> <ol style="list-style-type: none"> <li>1. Expected credit loss model: <ul style="list-style-type: none"> <li>• In response to the macroeconomic changes, the COVID-19 pandemic implications and the supporting policies from government authorities, assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and whether there was a significant increase in credit risk.</li> <li>• Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions and the weight of multiple macroeconomic scenarios; and</li> <li>• Assessed the reasonableness of management's determination of credit impairment. For credit-impaired loans and advances, we analysed the amount, timing and probability of management's estimated future cash flows, especially the recoverable cash flows from collateral.</li> </ul> </li> </ol>
<p>Since expected credit losses measurement involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2021, gross loans and advances to customers amounted to RMB3,316.285 billion, representing 56.19% of total assets, and impairment allowance for loans and advances to customers amounted to RMB77.363 billion), impairment of loans and advances is considered a key audit matter.</p>	
<p>Relevant disclosures are included in Note III 1, Note V 16 and Note V 50(a) to the consolidated financial statements.</p>	

## Independent Auditor's Report

## KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Expected credit losses for loans and advances to customers (continued)</i>	<p data-bbox="775 426 1396 454">2. Design and operating effectiveness of key controls:</p> <ul data-bbox="836 491 1396 871" style="list-style-type: none"> <li data-bbox="836 491 1396 676">• Evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and</li> <li data-bbox="836 713 1396 871">• Evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration.</li> </ul> <p data-bbox="775 907 1396 1000">We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and the impairment allowance.</p>

**KEY AUDIT MATTERS** (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of financial instruments</i>	
<p>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p>	<p>We assessed and tested the design and operating effectiveness of key controls related to the valuation of financial instruments.</p>
<p>As at 31 December 2021, financial assets and financial liabilities's book value measured at fair value amounted to RMB879.838 billion and RMB13.404 billion respectively, representing 14.91% and 0.25% of total assets and total liabilities, respectively. Financial instruments which required either direct (i.e. prices) or indirect (i.e. derived from prices) inputs, hence categorised within Level 2 of the fair value hierarchy, represented 62.93% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 1.31% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter.</p>	<p>We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p>
<p>Relevant disclosures are included in Note III 2 and Note V 51(c) to the consolidated financial statements.</p>	<p>We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value.</p>

## Independent Auditor's Report

### KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Consolidation assessment of, and disclosures about, structured entities</i>	
<p>The Group holds interests in different structured entities, including wealth management products, funds, trust plans, in conducting financial investment, asset management and credit asset transfer business. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns.</p> <p>The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, this is considered a key audit matter.</p>	<p>We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity.</p> <p>We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities.</p> <p>We assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.</p>
<p>Relevant disclosures are included in Note III 6 and Note V 43 to the consolidated financial statements.</p>	

### OTHER INFORMATION INCLUDED IN THE BANK'S 2021 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Independent Auditor's Report

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

*Certified Public Accountants*  
Hong Kong

25 March 2022

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2021	2020 (Restated)
Interest income		229,334	221,475
Interest expense		(117,179)	(110,778)
<b>Net interest income</b>	1	112,155	110,697
Fee and commission income		30,131	27,009
Fee and commission expense		(2,817)	(2,600)
<b>Net fee and commission income</b>	2	27,314	24,409
Net trading gains	3	2,193	484
Dividend income		24	15
Net gains arising from investment securities	4	10,092	5,203
Net gains on derecognition of financial assets measured at amortised cost		115	591
Net foreign exchange gains		3	310
Other net operating income		1,470	1,089
<b>Operating income</b>		153,366	142,798
Operating expenses	5	(45,540)	(40,335)
Credit impairment losses	8	(54,772)	(56,733)
Other impairment losses		(23)	(199)
<b>Operating profit</b>		53,031	45,531
Losses on investment of joint ventures		(90)	(5)
<b>Profit before tax</b>		52,941	45,526
Income tax	9	(9,302)	(7,598)
<b>Net profit</b>		43,639	37,928
<b>Net profit attributable to:</b>			
Equity shareholders of the Bank		43,407	37,835
Non-controlling interests		232	93
		43,639	37,928
<b>Earnings per share</b>			
Basic earnings per share (in RMB/share)	10	0.71	0.68
Diluted earnings per share (in RMB/share)	10	0.65	0.61

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

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2021	2020 (Restated)
<b>Net profit</b>		43,639	37,928
<b>Other comprehensive income, net of tax:</b>			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits		(287)	22
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		–	2
Subtotal		(287)	24
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		2,828	(636)
– Changes in allowance for expected credit losses		112	(219)
– Reclassified to the profit or loss upon disposal		(126)	(774)
– Related income tax effect	23(b)	(685)	406
– Exchange differences on translation of financial statements		(83)	(148)
Subtotal		2,046	(1,371)
<b>Other comprehensive income, net of tax</b>		1,759	(1,347)
<b>Total comprehensive income</b>		45,398	36,581
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		45,166	36,491
Non-controlling interests		232	90
		45,398	36,581

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

# Consolidated Statement of Financial Position

As at 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2021	31 December 2020 (Restated)
<b>Assets</b>			
Cash and deposits with the central bank	11	378,263	360,287
Deposits with banks and other financial institutions	12	51,189	46,059
Precious metals		6,426	9,353
Placements with banks and other financial institutions	13	138,349	69,290
Derivative financial assets	14	13,705	25,264
Financial assets held under resale agreements	15	31,164	43,592
Loans and advances to customers	16	3,239,396	2,942,435
Finance lease receivables	17	109,053	100,788
Financial investments	18	1,836,016	1,670,415
– Financial assets at fair value through profit or loss		383,666	304,908
– Debt instruments at fair value through other comprehensive income		325,695	222,807
– Equity instruments at fair value through other comprehensive income		1,125	875
– Financial investments measured at amortised cost		1,125,530	1,141,825
Investment in joint ventures	19	256	257
Property, plant and equipment	20	25,155	23,304
Right-of-use assets	21	10,953	11,178
Goodwill	22	1,281	1,281
Deferred tax assets	23	19,895	19,587
Other assets	24	40,968	45,073
<b>Total assets</b>		<b>5,902,069</b>	<b>5,368,163</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to the central bank	26	101,180	241,110
Deposits from banks and other financial institutions	27	526,259	469,345
Placements from banks and other financial institutions	28	179,626	161,879
Financial liabilities at fair value through profit or loss	29	67	4
Derivative financial liabilities	14	13,337	25,778
Financial assets sold under repurchase agreements	30	80,600	14,182
Deposits from customers	31	3,675,743	3,480,642
Accrued staff costs	32	16,777	15,175
Taxes payable	33	6,535	8,772
Lease liabilities	34	10,736	10,807
Debt securities issued	35	763,532	440,870
Other liabilities	36	43,311	44,559
<b>Total liabilities</b>		<b>5,417,703</b>	<b>4,913,123</b>

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

## Consolidated Statement of Financial Position

As at 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2021	31 December 2020 (Restated)
<b>Liabilities and equity (Continued)</b>			
<b>Equity</b>			
Share capital	37	54,032	54,032
Other equity instruments	38	109,062	109,062
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	39,993
Capital reserve	39	58,434	58,434
Other comprehensive income	40	3,152	1,393
Surplus reserve	41	26,245	26,245
General reserve	41	75,596	67,702
Retained earnings		155,968	136,602
Total equity attributable to equity shareholders of the Bank		482,489	453,470
Non-controlling interests		1,877	1,570
<b>Total equity</b>		<b>484,366</b>	<b>455,040</b>
<b>Total liabilities and equity</b>		<b>5,902,069</b>	<b>5,368,163</b>

Approved and authorised for issue by the board of directors on 25 March 2022.

Fu Wanjun  
President,  
Executive Director

Qu Liang  
Executive Vice President,  
Executive Director

Zhao Ling  
Executive Vice President in charge of Finance

Sun Xinhong  
General Manager of  
Financial Accounting Department

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

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

2021	Note V	Attributable to equity shareholders of the Bank											Non- controlling interests	Total
		Share capital	Other equity instruments				Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
			Preference shares	Perpetual bonds	Others									
Balance at 31 December 2020		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998	
Business combinations under common control		-	-	-	-	-	-	-	-	21	21	21	42	
Balance at 1 January 2021		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,602	453,470	1,570	455,040	
Changes in equity for the year:														
Net profit		-	-	-	-	-	-	-	-	43,407	43,407	232	43,639	
Other comprehensive income	40	-	-	-	-	-	1,759	-	-	-	1,759	-	1,759	
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	95	95	
Appropriation of profit:	42													
- Appropriation to general reserve		-	-	-	-	-	-	-	7,894	(7,894)	-	-	-	
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,347)	(11,347)	(20)	(11,367)	
- Dividends to other equity instrument holders		-	-	-	-	-	-	-	-	(4,800)	(4,800)	-	(4,800)	
Balance at 31 December 2021		54,032	64,906	39,993	4,163	58,434	3,152	26,245	75,596	155,968	482,489	1,877	484,366	

2020 (Restated)	Note V	Attributable to equity shareholders of the Bank											Non- controlling interests	Total
		Share capital	Other equity instruments				Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
			Preference shares	Perpetual bonds	Others									
Balance at 31 December 2019		52,489	64,906	-	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054	
Business combinations under common control		-	-	-	-	-	-	-	-	10	10	9	19	
Balance at 1 January 2020		52,489	64,906	-	5,161	53,533	2,737	26,245	59,417	120,504	384,992	1,081	386,073	
Changes in equity for the year:														
Net profit		-	-	-	-	-	-	-	-	37,835	37,835	93	37,928	
Other comprehensive income	40	-	-	-	-	-	(1,344)	-	-	-	(1,344)	(3)	(1,347)	
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	400	400	
Capital contribution by other equity instrument holders		-	-	39,993	-	-	-	-	-	-	39,993	-	39,993	
Conversion of convertible bonds into share capital and capital reserve		1,543	-	-	(998)	4,901	-	-	-	-	5,446	-	5,446	
Appropriation of profit:	42													
- Appropriation to general reserve		-	-	-	-	-	-	-	8,285	(8,285)	-	-	-	
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,233)	(11,233)	(1)	(11,234)	
- Dividends to other equity instruments holders		-	-	-	-	-	-	-	-	(2,219)	(2,219)	-	(2,219)	
Balance at 31 December 2020		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,602	453,470	1,570	455,040	

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

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# Consolidated Cash Flow Statement

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

	2021	2020 (Restated)
<b>Cash flows from operating activities</b>		
Profit before tax	52,941	45,526
<i>Adjustments for:</i>		
Credit impairment losses	54,772	56,733
Other impairment losses	23	199
Depreciation and amortisation	5,765	5,176
Unwinding of discount	(907)	(767)
Dividend income	(24)	(15)
Unrealised foreign exchange losses	156	503
Interest income from investment securities and net gains on disposal	(61,503)	(57,032)
Net gains on derecognition of financial assets measured at amortised cost	(115)	(591)
Losses on investments of joint ventures	90	5
Net gains on disposal of trading securities	(1,506)	(733)
Revaluation gains on financial instruments at fair value through profit	(1,532)	(139)
Interest expense on debt securities issued	17,522	11,669
Interest expense on lease liabilities	462	489
Net (gains)/losses on disposal of property, plant and equipment	(94)	23
	66,050	61,046
<i>Changes in operating assets</i>		
Net decrease in deposits with the central bank, banks and other financial Institutions	19,987	1,990
Net (increase)/decrease in placements with banks and other financial institutions	(34,721)	5,781
Net increase in financial assets held for trading	(15,537)	(13,763)
Net increase in loans and advances to customers	(352,244)	(349,060)
Net decrease/(increase) in financial assets held under resale agreements	12,432	(36,770)
Net decrease/(increase) in other operating assets	1,815	(26,409)
	(368,268)	(418,231)
<i>Changes in operating liabilities</i>		
Net increase in deposits from banks and other financial institutions	56,953	25,957
Net increase/(decrease) in placements from banks and other financial institutions	17,509	(3,699)
Net decrease/(increase) in financial assets sold under repurchase agreements	66,409	(11,451)
Net (decrease)/increase in amounts due to the central bank	(138,608)	17,271
Net increase in deposits from customers	183,125	452,183
Income tax paid	(12,823)	(11,303)
Net increase in other operating liabilities	17,411	5,396
	189,976	474,354
<b>Net cash flows from operating activities</b>	<b>(112,242)</b>	<b>117,169</b>

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



	Note V	2021	2020 (Restated)
<b>Cash flows from investing activities</b>			
Proceeds from disposal and redemption of investments		690,317	702,616
Investment income received		60,635	55,630
Proceeds from disposal of property, plant and equipment and other long-term assets		171	13
Payments on acquisition of investments		(839,181)	(924,959)
Payments on acquisition of property, plant and equipment, intangible assets and other long-term assets		(5,352)	(6,862)
<b>Net cash flows from investing activities</b>		<b>(93,410)</b>	<b>(173,562)</b>
<b>Cash flows from financing activities</b>			
Capital injected into subsidiaries by non-controlling shareholders		95	400
Proceeds from issuance of other equity instrument holders		–	39,993
Proceeds from insurance of debts		638,113	514,774
Repayments of debts issued		(316,574)	(439,051)
Interest paid on debt securities issued		(16,399)	(12,981)
Dividends paid		(16,166)	(13,453)
Other net cash flows from financing activities		(3,030)	(2,934)
<b>Net cash flows from financing activities</b>		<b>286,039</b>	<b>86,748</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>(2,880)</b>	<b>(2,778)</b>
<b>Net increase in cash and cash equivalents</b>	46(a)	<b>77,507</b>	<b>27,577</b>
<b>Cash and cash equivalents as at 1 January</b>		<b>145,076</b>	<b>117,499</b>
<b>Cash and cash equivalents as at 31 December</b>	46(b)	<b>222,583</b>	<b>145,076</b>
Interest received		176,851	163,990
Interest paid (excluding interest expense on debt securities issued)		(88,916)	(90,899)

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

## I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the “Bank”) commenced its operations in Beijing, the People’s Republic of China (the “PRC”) on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the “CBIRC”), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People’s Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 19) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to countries and regions other than Mainland China.

These financial statements have been approved by the Board of Directors on 25 March 2022.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### 1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note III.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1 Basis of preparation (continued)

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the “Accounting Standards for Business Enterprises-Basic Standard” issued by the Ministry of Finance of the People’s Republic of China (the “MOF”), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the “PRC GAAP”). There is no difference in the net profit for the year or total equity as at the end of the year between the Group’s consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

#### 1.1 Standards, amendments and interpretations effective in 2021

On 1 January 2021, the Group applied the following new standards and amendments.

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Amendments	Interest Rate Benchmark Reform – Phase 2
IFRS 16 Amendments	COVID-19-Related Rent Concessions after beyond 30 June 2021 (early adopted)

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address the accounting issues that arise when financial instruments that reference Interbank Offered Rates (“IBOR”) transition to nearly RFRs. The amendments include a practical expedient for modifications, which permits contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate. The amendments also permit changes required by IBOR reform to be made to hedge designations and hedge documentation under both IFRS 9 and IAS 39 without the hedging relationship being discontinued. In addition, while IFRS 9 and IAS 39 require that a risk component (or a designated portion) is “separately identifiable” to be eligible for hedge accounting, the amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Additional disclosures are required for adoption.

Amendment to IFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

The adoption of the above standards and amendments does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### 1 Basis of preparation (continued)

#### 1.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2021

		Effective for annual periods beginning on or after
IFRS 3 Amendments	<i>Reference to the Conceptual Framework</i>	1 January 2022
IAS 16 Amendments	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
IAS 37 Amendments	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
IAS 1 Amendments	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
IAS 1 and IFRS Practice Statement 2 Amendments	<i>Accounting policies disclosures</i>	1 January 2023
IAS 8 Amendments	<i>Definition of accounting estimates</i>	1 January 2023
IFRS 17 and Amendments	<i>Insurance Contracts</i>	1 January 2023
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely
<i>Annual Improvements to IFRSs 2018-2020 (issued in May 2020)</i>	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41</i>	1 January 2022
IAS 12 Amendments	<i>Deferred tax related to assets and liabilities arising from a single transaction</i>	1 January 2023

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1 Basis of preparation (continued)

#### 1.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2021 (continued)

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

The amendments to IAS 1 *Presentation of Financial Statements* and IFRS *Practice Statement 2* provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies; and Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 8 introduces a new definition of ‘accounting estimates’. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

IFRS 17 *Insurance Contracts* and IFRS 17 amendments replaced IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture.

Annual Improvements to IFRSs 2018-2020 were issued in May 2020, including an amendment to IFRS 9 *Financial Instruments*, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the “10 per cent” test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 *Leases*, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1 Basis of preparation (continued)

#### 1.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2021 (continued)

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

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

### 2 Consolidation

#### 2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2 Consolidation (continued)

#### 2.1 Subsidiaries (continued)

If the Group acquires a subsidiary through a merger of companies under common control, the difference between the book value of the net assets acquired by the merging parties and the book value of the merger consideration paid (or the total par value of shares issued) is adjusted to capital surplus; if capital surplus is not sufficient to offset the difference, retained earnings are adjusted.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

#### 2.2 Joint Ventures

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

### 3 Cash and cash equivalents

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 4 Foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in “Other comprehensive income”. Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in “Other comprehensive income”. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as “Net trading gains” in the statement of profit or loss.

Assets and liabilities of foreign operations are translated to Renminbi at the spot exchange rates at the end of the year. Equity items, excluding “Retained Earnings”, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders’ equity with respect to a foreign operation are transferred to profit or loss in the year when the foreign operation is disposed.

### 5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

#### 5.1 Recognition and de-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument.



## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.1 Recognition and de-recognition of financial instruments (continued)

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- (1) the contractual rights to the cash flows from the financial asset expire; or
- (2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flows collected to a third party in full and on time under the “pass-through agreement” and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in a conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

#### 5.2 Classification and measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

##### *Business models*

The Group’s business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group’s business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is “other”. The Group’s assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group’s key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.2 Classification and measurement of financial assets (continued)

##### *The contractual cash flow characteristics*

The assessment of contractual cash flow characteristics is to determine whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification:

##### *Financial assets at amortised cost*

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

##### *Debt instruments at fair value through other comprehensive income*

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in "other comprehensive income", except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.2 Classification and measurement of financial assets (continued)

##### *Equity instruments at fair value through other comprehensive income*

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

##### *Financial assets at fair value through profit or loss*

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when an accounting mismatch can be eliminated or significantly reduced, financial assets can be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as a financial asset designated at fair value through profit or loss, it cannot be reclassified as other financial asset; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swaps to manage the associated interest rate risk.

#### 5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss, other financial liabilities or designated as effective hedging instruments at initial recognition. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial liabilities, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.3 Classification and measurement of financial liabilities (continued)

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

##### *Other financial liabilities*

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

#### 5.4 Impairment of financial instruments

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 50(a)).

#### 5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

In terms of the hedge accounting method, the Group's hedge is classified as:

- (1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk);
- (2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognised definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.6 Derivative financial instruments and hedge accounting (continued)

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

##### *Fair value hedge*

Gains or losses arising from hedging instruments are recognised in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognised in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

For the fair value hedges related to the debt instrument measured at amortised cost, the adjustment of the book value of the hedged item should be amortised by the effective interest rate method during the remaining period of the hedge and recognised in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognised hedge gains or losses are amortised in the same way and recognised in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortised fair value is recognised in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

##### *Cash flow hedge*

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognised in other comprehensive income, and the ineffective part shall be recognised in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognised in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognised in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.7 Convertible corporate bonds

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in “Equity” as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to share capital is recognised in capital surplus under “Capital reserve”.

#### 5.8 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined at the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

#### 5.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### 5 Financial instruments (continued)

##### 5.10 Interest Rate Benchmark Reform

As a result of the interest rate benchmark reform, some of the terms of the Group's financial instruments have been amended to replace the original referential benchmark interest rate with an alternative benchmark interest rate.

For financial assets or financial liabilities accounted for under the effective interest rate method, if the basis of determining their contractual cash flows changes only as a direct result of the reform and the basis of determination before and after the change is economically equivalent, the Group does not assess whether the change results in derecognition, nor does it adjust the carrying amount of the financial assets or financial liabilities, the Group recalculates the effective interest rate based on the future cash flows after the change. The Group recalculated the effective interest rate on the basis of the future cash flows after the change and used this as the basis for subsequent measurement.

#### 6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the year of the change.

#### 7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are not reported as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

#### 8 Property, plant and equipment

Property, plant and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's property, plant and equipment mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.



## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 8 Property, plant and equipment (continued)

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

#### 8.1 Premises, electronic equipment and others

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property, plant and equipment are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value (%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

#### 8.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

#### 8.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 9 Leases

#### 9.1 Lease classification

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

#### 9.2 Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes the periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise the corresponding option.

#### 9.3 As lessee

##### *Lease modification*

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

- (1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 9 Leases (continued)

#### 9.3 As lessee (continued)

##### *Lease modification* (continued)

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. In calculating the present value of the lease payments after modification, the revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For the impact on the adjustments of a lease liability, the Group accounts for the remeasurement by:

- (1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease or shorten the lease term, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or
- (2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

##### *The incremental borrowing rate of lessee*

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

##### *Short-term leases and leases of low-value assets*

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

#### 9.4 As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### 9 Leases (continued)

##### 9.4 As lessor (continued)

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets. In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

##### 9.5 Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises:

- (1) the amount of the initial measurement of the lease liability;
- (2) any lease payments made at or before the commencement date of the lease less any lease incentives received;
- (3) any initial direct cost incurred when the Group is a lessee; and
- (4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 9 Leases (continued)

#### 9.6 Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the amounts expected to be payable under a residual value guarantee; (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iii) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

### 10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

### 11 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 13). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### 12 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

#### 13 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: property, plant and equipment, right-of-use assets, construction in progress, intangible assets, goodwill and investments in subsidiaries and joint ventures.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognise the impairment loss in the statement of profit or loss. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 13 Provision for impairment losses on non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

### 14 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

#### 14.1 Short-term employee benefits

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

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

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### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### 14 Employee benefits (continued)

##### 14.2 Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the “Annuity Plan”). The Group and its employees are required to contribute a certain percentage of the employees’ previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

##### 14.3 Termination benefits

Termination benefits are payable as a result of either the Group’s decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits; and
- When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

##### 14.4 Early retirement benefits

According to the Group’s policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

#### 15 Other provisions and contingent liabilities

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



## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 15 Other provisions and contingent liabilities (continued)

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.

### 16 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amounts. No provision for impairment loss is made for entrusted loans.

### 17 Other equity instruments

#### Preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payable are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

#### Perpetual bonds

The perpetual bonds issued by the Group do not include the contractual obligations to pay cash or other financial assets to other parties or exchange financial assets or financial liabilities with other parties under potential adverse conditions; and perpetual bonds issued includes no terms and arrangement that the bonds must or will alternatively be settled in the Group’s own equity instruments. The perpetual bonds issued by the Group are divided into equity instruments. The handling fees and commissions incurred in issuing the perpetual bonds are divided into equity instruments, and the transaction costs are deducted from equity. The interest on perpetual bond is recognized as profit distribution at the time of declaration.

# Notes to the Consolidated Financial Statements

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## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 18 Income recognition

#### 18.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

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

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

#### 18.2 Fee and commission income

The income should be recognised when the Group's performance obligation in the contract is fulfilled, which refers the revenue is recognised when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

#### 18.3 Other income

Other income is recognised on an accrual basis.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 19 Expenses recognition

#### 19.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

#### 19.2 Other expenses

Other expenses are recognised on an accrual basis.

### 20 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## Notes to the Consolidated Financial Statements

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### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### 20 Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### 21 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

#### 22 Related parties

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

#### 23 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

#### 1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- management overlay
- modification of contractual cash flows

#### 2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values of these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure that the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

## Notes to the Consolidated Financial Statements

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### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

#### 3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

#### 4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and the discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

#### 5 Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

#### 6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

## IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax:

value-added tax is charged at 6% and 13% on taxable added value.

(b) City construction tax:

city construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge:

education surcharge is calculated as 3% of business tax.

(d) Income tax:

the income tax is calculated on taxable income. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 Net interest income

	Note	2021	2020
<b>Interest income arising from</b>			
Deposits with the central bank		4,800	5,073
Deposits with banks and other financial institutions		224	616
Placements with banks and other financial institutions		1,392	1,083
Loans and advances to customers	(a)		
– Corporate loans and advances		77,042	76,214
– Personal loans and advances		84,417	77,477
– Discounted bills		2,277	2,295
Finance lease receivables		6,358	5,524
Financial assets held under resale agreements		551	964
Investments		52,273	52,229
Subtotal		229,334	221,475
<b>Interest expenses arising from</b>			
Due to the central bank		5,870	6,414
Deposits from banks and other financial institutions		11,814	10,271
Placements from banks and other financial institutions		3,817	4,270
Deposits from customers			
– Corporate customers		57,786	58,045
– Individual customers		19,772	19,643
Financial assets sold under repurchase agreements		598	466
Debt securities issued		17,522	11,669
Subtotal		117,179	110,778
<b>Net interest income</b>		<b>112,155</b>	<b>110,697</b>

Note:

(a) The interest income arising from impaired financial assets for the year ended 31 December 2021 amounted to RMB907 million (2020: RMB767 million).

## Notes to the Consolidated Financial Statements

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 2 Net fee and commission income

	2021	2020
<b>Fee and commission income</b>		
Bank card service fees	13,084	12,245
Wealth management service fees	3,976	2,518
Agency services fees	3,725	3,288
Settlement and clearing fees	1,916	1,706
Custody and other fiduciary business fees	1,872	1,614
Acceptance and guarantee fees	1,500	1,529
Underwriting and advisory fees	1,412	1,626
Others	2,646	2,483
Subtotal	30,131	27,009
<b>Fee and commission expense</b>		
Bank card transaction fees	1,835	1,842
Settlement and clearing fees	192	150
Others	790	608
Subtotal	2,817	2,600
<b>Net fee and commission income</b>	<b>27,314</b>	<b>24,409</b>

#### 3 Net trading gains

	2021	2020
Trading financial instruments		
– Derivatives	40	(369)
– Debt securities	2,139	836
Subtotal	2,179	467
Financial instruments designated at fair value through profit or loss	–	(2)
Precious metal contracts	14	19
Total	2,193	484



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4 Net gains arising from investment securities

	2021	2020
Net gains arising from financial investments at fair value through profit or loss	10,219	5,016
Net losses arising from debt instruments at fair value through other comprehensive income	(483)	(785)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	230	198
Net revaluation gains reclassified from other comprehensive income on disposal	126	774
<b>Total</b>	<b>10,092</b>	<b>5,203</b>

### 5 Operating expenses

	Note	2021	2020 (Restated)
Staff costs			
– Salaries and bonuses		15,378	13,021
– Pension and annuity		2,156	1,611
– Housing allowances		1,088	992
– Staff welfares		677	574
– Supplementary retirement benefits		282	1,084
– Others		2,409	1,984
<b>Subtotal</b>		<b>21,990</b>	<b>19,266</b>
Premises and equipment expenses			
– Depreciation of right-of-use assets		2,722	2,687
– Depreciation of Property, plant and equipment		2,082	1,652
– Amortisation of intangible assets		664	524
– Rental and property management expenses		516	493
– Interest expense on lease liabilities		462	489
– Amortisation of other long-term assets		297	313
<b>Subtotal</b>		<b>6,743</b>	<b>6,158</b>
Tax and surcharges		1,620	1,483
Other general and administrative expenses	(a)	15,187	13,428
<b>Total</b>		<b>45,540</b>	<b>40,335</b>

Note:

(a) Auditors' remuneration for the year ended 31 December 2021 was RMB9.90 million (2020: RMB9.90 million).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows:

		2021							
		Discretionary bonuses					Contributions to social pension schemes	Other welfares	Total
Notes		Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>									
Fu Wanjun	(i)	-	186	139	-	325	26	76	427
Qu Liang	(i)	-	1,525	788	-	2,313	245	130	2,688
<b>Non-executive directors</b>									
Li Xiaopeng		-	-	-	-	-	-	-	-
Wu Lijun		-	-	-	-	-	-	-	-
Liu Chong		-	-	-	-	-	-	-	-
Yao Wei	(ii)	-	-	-	-	-	-	-	-
Yao Zhongyou	(ii)	-	755	397	-	1,152	174	64	1,390
Li Wei	(ii)	-	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>									
Li Yinquan		430	-	-	-	430	-	-	430
Wang Liguo		420	-	-	-	420	-	-	420
Shao Ruiqing		430	-	-	-	430	-	-	430
Hong Yongmiao		430	-	-	-	430	-	-	430
Han Fuling	(ii)	245	-	-	-	245	-	-	245
Xu Hongcai	(ii)	430	-	-	-	430	-	-	430

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	Notes	2021							Total RMB'000
		Fees RMB'000	Salaries RMB'000	Discretionary bonuses		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	
				Paid RMB'000	Payable RMB'000				
<b>Supervisors</b>									
Lu Hong	(ii)	-	1,555	707	-	2,262	245	130	2,637
Wu Junhao		-	-	-	-	-	-	-	-
Wu Gaolian		-	-	-	-	-	-	-	-
Wang Zhe		330	-	-	-	330	-	-	330
Qiao Zhimin		340	-	-	-	340	-	-	340
Xu Keshun		-	737	836	-	1,573	245	130	1,948
Sun Jianwei		-	738	836	-	1,574	245	130	1,949
Shang Wencheng		-	714	923	-	1,637	241	130	2,008
Li Yinzhong	(ii)	-	-	-	-	-	-	-	-
<b>Former executive directors</b>									
Yao Zhongyou	(ii)	-	-	-	-	-	-	-	-
Lu Hong	(ii)	-	1,555	707	-	2,262	245	130	2,637
Liu Jin	(ii)	-	50	37	-	87	34	21	142
<b>Former non-executive directors</b>									
Yu Chunling	(ii)	-	-	-	-	-	-	-	-
Fu Wanjun	(ii)	-	27	20	-	47	4	11	62
<b>Former supervisors</b>									
Li Xin	(ii)	-	133	61	-	194	113	11	318
Yin Lianchen	(ii)	-	-	-	-	-	-	-	-

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2020							
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Paid RMB'000			Payable RMB'000					
<b>Executive director</b>								
Lu Hong	-	1,520	740	-	2,260	46	111	2,417
Liu Jin	-	298	223	-	521	12	111	644
<b>Non-executive directors</b>								
Li Xiaopeng	-	-	-	-	-	-	-	-
Wu Lijun	-	-	-	-	-	-	-	-
Liu Chong	-	-	-	-	-	-	-	-
Yu Chunling	-	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>								
Li Yinquan	-	215	-	-	215	-	-	215
Xu Hongcai	-	430	-	-	430	-	-	430
Wang Ligu	-	420	-	-	420	-	-	420
Shao Ruiqing	-	426	-	-	426	-	-	426
Hong Yongmiao	-	430	-	-	430	-	-	430

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2020							
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Paid RMB'000			Payable RMB'000					
<b>Supervisors</b>								
Li Xin	-	1,600	660	-	2,260	46	111	2,417
Yin Lianchen	-	-	-	-	-	-	-	-
Wu Junhao	-	-	-	-	-	-	-	-
Wu Gaolian	-	-	-	-	-	-	-	-
Wang Zhe	330	-	-	-	330	-	-	330
Qiao Zhimin	340	-	-	-	340	-	-	340
Xu Keshun	-	734	1,572	-	2,306	46	111	2,463
Sun Jianwei	-	736	1,095	-	1,831	46	111	1,988
Shang Wencheng	-	704	1,280	-	1,984	44	111	2,139
<b>Former non-executive directors</b>								
Cai Yunge	-	-	-	-	-	-	-	-
Wang Xiaolin	-	-	-	-	-	-	-	-
Shi Yongyan	-	-	-	-	-	-	-	-
Dou Hongquan	-	-	-	-	-	-	-	-
He Haibin	-	-	-	-	-	-	-	-
<b>Former independent non-executive directors</b>								
Fok Oi Ling	215	-	-	-	215	-	-	215
Feng Lun	360	-	-	-	360	-	-	360

Notes:

- (i) On 30 October 2020, Mr. Qu Liang was elected as the executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2020. On 5 February 2021, the CBIRC approved his qualification of the executive director.

On 30 October 2020, Mr. Fu Wanjun was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2020. On 5 February 2021, the CBIRC approved his qualification of the non-executive director. On 1 June 2021, the CBIRC approved his qualification as an executive director and he was changed from a non-executive director to an executive director.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

Notes: (continued)

(ii) On 30 October 2020, Mr. Yao Wei was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2020. On 5 February 2021, the CBIRC approved his qualification of the non-executive director.

On 30 October 2020, Mr. Yao Zhongyou was elected as the executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2020. On 5 February 2021, the CBIRC approved his qualification of the executive director. On 18 June 2021, he was changed from the executive director to the non-executive director of the Bank due to work adjustment.

On 29 June 2021, Mr. Li Wei was elected as the non-executive director at the Bank's Annual Shareholders' General Meeting of 2020. On 30 August 2021, the CBIRC approved his qualification as the non-executive director.

On 25 March 2021, Mr. Han Fuling was elected as the independent non-executive director at the Bank's First Extraordinary Shareholders' General Meeting of 2021. On 25 May 2021, the CBIRC approved his qualification of the independent non-executive director.

In February 2021, Mr. Xu Hongcai's term of office as an independent director expired and he would continue to serve until his replacement is approved by the CBIRC. On 25 March 2021, Mr. Liu Shiping was elected as the independent non-executive director at the Bank's First Extraordinary Shareholders' General Meeting of 2021. On 18 January 2022, the CBIRC approved his qualification as an independent director of the Bank and Mr. Xu Hongcai ceased to perform his duties.

On 2 March 2021, Mr. Lu Hong resigned the executive director and a member of the Risk Management Committee of the Board of Directors of the Bank. On 25 March 2021, he was elected as the shareholder supervisor at the Bank's First Extraordinary Shareholders' General Meeting of 2021. On 26 March 2021, he was elected as the Chairman of the supervisory committee the Bank's Eleventh Meeting of the Eighth Supervisory Committee of the Bank due to work adjustment.

On 18 December 2021, Mr. Li Yinzong was elected as the supervisor at the Bank's Second Extraordinary Shareholders' General Meeting of 2021.

On 16 March 2021, Mr. Liu Jin resigned the executive director of the Bank, as well as the director of the Risk Management Committee, the director of the Committee on Inclusive Financial Development and Consumer Protection and the member of the Strategy Committee of the Board of Directors due to work adjustment.

On 10 May 2021, due to work adjustment, Ms. Yu Chunling resigned as the non-executive director, the member of the Risk Management Committee and the member of the Connected Transaction Control Committee of the Board of Directors.

On 19 January 2021, Mr. Li Xin resigned the chairman of the Board of Supervisors, the shareholder supervisor and the member of the Nomination Committee of the Supervisory Committee of the Bank due to retirement.

On 29 September 2021, Mr. Yin Lianchen resigned as the shareholder supervisor and the member of the Nomination Committee of the Supervisory Board of the Bank due to work adjustment.

(iii) The total compensation package for these directors and supervisors for the year ended 31 December 2021 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2021.

The above directors' and supervisors' emoluments for the year ended 31 December 2021 were calculated in accordance with their actual tenure.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 7 Individuals with highest emoluments

	2021 RMB'000	2020 RMB'000
Salaries and other emoluments	2,974	2,492
Discretionary bonuses	24,674	23,092
Contributions to pension schemes	250	205
Others	1,317	499
<b>Total</b>	<b>29,215</b>	<b>26,288</b>

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2021	2020
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	–	1
RMB4,500,001-5,000,000	2	2
RMB5,000,001 and above	3	2

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

### 8 Credit impairment losses

	2021	2020
Loans and advances to customers		
– measured at amortised cost	50,766	53,197
– measured at fair value through other comprehensive income	(120)	156
Debt instruments at fair value through other comprehensive income	233	(334)
Financial investments measured at amortised cost	5,229	772
Finance lease receivables	619	973
Others	(1,955)	1,969
<b>Total</b>	<b>54,772</b>	<b>56,733</b>

## Notes to the Consolidated Financial Statements

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 9 Income tax

##### (a) Income tax:

	Note V	2021	2020
Current tax		10,371	10,923
Deferred tax	23(b)	(993)	(2,876)
Adjustments for prior year	9(b)	(76)	(449)
<b>Total</b>		<b>9,302</b>	<b>7,598</b>

##### (b) Reconciliations between income tax and accounting profit are as follows:

	Note	2021	2020
Profit before tax		52,941	45,526
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		13,235	11,382
Effect of different tax rates applied by certain subsidiaries		–	(10)
Non-deductible expenses and others		2,111	1,437
Non-taxable gains – Non-taxable income	(i)	(5,968)	(4,762)
<b>Subtotal</b>		<b>9,378</b>	<b>8,047</b>
Adjustments for prior year		(76)	(449)
<b>Income tax</b>		<b>9,302</b>	<b>7,598</b>

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2021	2020
Net profit attributable to equity holders of the Bank	43,407	37,835
Less: Dividends to other equity instruments holders	4,800	2,219
Net profit attributable to ordinary shareholders of the Bank	38,607	35,616
Weighted average number of ordinary shares in issue (in million shares)	54,032	52,746
Basic earnings per share (in RMB/share)	0.71	0.68

Weighted average number of ordinary shares in issue (in million shares)

	2021	2020
Issued ordinary shares as at 1 January	54,032	52,489
Add: Weighted average number of new issued ordinary shares in current year	–	257
Weighted average number of ordinary shares in issue (in million shares)	54,032	52,746

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2021	2020
Net profit attributable to ordinary shareholders of the Bank	38,607	35,616
Add: Interest expense on convertible bonds, net of tax	776	850
Net profit used to determine diluted earnings per share	39,383	36,466
Weighted average number of ordinary shares in issue (in million shares)	54,032	52,746
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	6,436	7,313
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,468	60,059
Diluted earnings per share (in RMB/share)	0.65	0.61

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 11 Cash and deposits with the central bank

	Notes	31 December 2021	31 December 2020
Cash on hand		4,005	4,471
Deposits with the central bank			
– Statutory deposit reserves	(a)	281,760	293,540
– Surplus deposit reserves	(b)	90,168	56,132
– Fiscal deposits and others		2,195	5,998
Subtotal		378,128	360,141
Accrued interest		135	146
Total		378,263	360,287

Notes:

- (a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2021	31 December 2020
Reserve ratio for RMB deposits	8.00%	9.00%
Reserve ratio for foreign currency deposits	9.00%	5.00%

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12 Deposits with banks and other financial institutions

#### Analysed by type and location of counterparty

	31 December 2021	31 December 2020
Deposits in Mainland China		
– Banks	25,855	29,185
– Other financial institutions	418	314
Deposits outside Mainland China		
– Banks	25,348	16,980
Subtotal	51,621	46,479
Accrued interest	27	59
Total	51,648	46,538
Less: Provision for impairment losses	(459)	(479)
Net balances	51,189	46,059

### 13 Placements with banks and other financial institutions

#### Analysed by type and location of counterparty

	31 December 2021	31 December 2020
Placements in Mainland China		
– Banks	11,795	14,502
– Other financial institutions	78,469	17,702
Placements outside Mainland China		
– Banks	48,268	37,216
Subtotal	138,532	69,420
Accrued interest	221	179
Total	138,753	69,599
Less: Provision for impairment losses	(404)	(309)
Net balances	138,349	69,290

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 14 Derivatives and hedge accounting

Derivative financial instruments included forward, swap, and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure that the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting year, while they do not represent exposure at risk.

##### (a) Analysed by nature of contract

	31 December 2021		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	1,020,673	6,470	(6,723)
Currency derivatives			
– Foreign exchange forwards	38,778	602	(496)
– Foreign exchange swap and cross-currency interest rate swaps	801,008	6,031	(6,077)
– Foreign exchange options	22,829	601	(41)
Credit derivatives	80	1	–
<b>Total</b>	<b>1,883,368</b>	<b>13,705</b>	<b>(13,337)</b>

	31 December 2020		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivative			
– Interest rate swaps	1,110,897	5,821	(6,340)
Currency derivatives			
– Foreign exchange forwards	21,022	523	(610)
– Foreign exchange swap and cross-currency interest rate swaps	1,055,992	18,144	(18,499)
– Foreign exchange options	20,981	774	(246)
Credit derivatives	1,405	2	(83)
<b>Total</b>	<b>2,210,297</b>	<b>25,264</b>	<b>(25,778)</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14 Derivatives and hedge accounting (continued)

#### (b) Analysed by credit risk-weighted amount

	31 December 2021	31 December 2020
Counterparty default risk-weighted assets		
– Interest rate derivatives	1,459	2,504
– Currency derivatives	2,311	4,808
– Credit derivatives	–	21
Credit value adjustment risk-weighted assets	1,882	2,277
<b>Total</b>	<b>5,652</b>	<b>9,610</b>

The risk-weighted assets for counterparty credit risk (“CCR”) of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment (“CVA”). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

#### (c) Hedging accounting

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged item is fixed interest bonds. As at 31 December 2021, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB3,270 million (31 December 2020: RMB3,286 million), in the above hedging instrument, derivative financial assets was RMB41 million (31 December 2020: RM2 million), derivative financial liabilities was RMB11 million (31 December 2020: RMB118 thousands).

In 2020 and 2021, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

#### (d) IBOR Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the year of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate (“RFR”), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform.

The Group has fair value hedge accounting relationships that are exposed to the US dollar LIBOR. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group’s hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships may be entered into, while others may survive the market-wide benchmarks reform. The hedge items that are affected by the adoption of the temporary exceptions in hedge accounting relationships are presented in the statement of financial position as “Financial investments”.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 14 Derivatives and hedge accounting (continued)

##### (d) IBOR Reform (continued)

At 31 December 2021, USD LIBOR based financial instruments held by the Group which will mature after 30 June 2023 as a proportion of financial assets or financial liabilities were minimal. Upon assessment, the Group believes that the implementation of this Interpretation has no material impact on the Group's financial position and financial performance.

#### 15 Financial assets held under resale agreements

##### (a) Analysed by type and location of counterparty

	31 December 2021	31 December 2020
In Mainland China		
– Banks	2,300	13,262
– Other financial institutions	28,731	30,331
Outside Mainland China		
– Banks	2	–
– Other financial institutions	133	5
Subtotal	31,166	43,598
Accrued interest	2	3
Total	31,168	43,601
Less: Provision for impairment losses	(4)	(9)
Net balances	31,164	43,592

##### (b) Analysed by type of security held

	31 December 2021	31 December 2020
Bonds		
– Government bonds	7,586	20,074
– Other debt securities	23,580	23,524
Subtotal	31,166	43,598
Accrued interest	2	3
Total	31,168	43,601
Less: Provision for impairment losses	(4)	(9)
Net balances	31,164	43,592

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers

#### (a) Analysed by nature

	31 December 2021	31 December 2020
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,720,006	1,627,339
Discounted bills	901	652
Personal loans and advances		
– Personal housing mortgage loans	565,296	492,444
– Personal business loans	203,600	171,336
– Personal consumption loans	214,068	173,565
– Credit cards	447,786	445,935
Subtotal	1,430,750	1,283,280
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	70,813	29,938
Discounted bills	84,834	68,273
Subtotal	155,647	98,211
Total	3,307,304	3,009,482
Accrued interest	8,981	8,486
Gross loans and advances to customers	3,316,285	3,017,968
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,889)	(75,533)
Net loans and advances to customers	3,239,396	2,942,435
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(474)	(594)

As at the end of the year, part of the above loans and advances to customers was pledged for repurchase agreements. See Note V 25(a).

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 16 Loans and advances to customers (continued)

##### (b) Analysed by economic sector

	31 December 2021		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	331,050	10.01%	91,670
Water, environment and public utility management	316,576	9.58%	125,894
Leasing and commercial services	242,545	7.33%	70,162
Real estate	197,503	5.97%	132,710
Wholesale and retail trade	149,726	4.53%	55,563
Construction	131,822	3.99%	41,151
Transportation, storage and postal services	95,893	2.90%	35,341
Finance	76,557	2.31%	6,585
Agriculture, forestry, husbandry and fishery	63,098	1.91%	21,597
Production and supply of electricity, gas and water	55,328	1.67%	12,371
Others	130,721	3.95%	36,352
Subtotal of corporate loans and advances	1,790,819	54.15%	629,396
Personal loans and advances	1,430,750	43.26%	759,940
Discounted bills	85,735	2.59%	75,514
Total	3,307,304	100.00%	1,464,850
Accrued interest	8,981		
Gross loans and advances to customers	3,316,285		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,889)		
Net loans and advances to customers	3,239,396		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(474)		



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers (continued)

#### (b) Analysed by economic sector (continued)

	31 December 2020		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	313,427	10.41%	106,816
Water, environment and public utility management	294,595	9.79%	121,503
Real estate	224,450	7.46%	154,223
Leasing and commercial services	189,785	6.31%	66,502
Wholesale and retail trade	127,522	4.24%	49,657
Construction	107,987	3.59%	32,520
Finance	97,132	3.23%	4,765
Transportation, storage and postal services	88,535	2.94%	37,660
Agriculture, forestry, husbandry and fishery	54,100	1.80%	17,062
Production and supply of electricity, gas and water	45,532	1.51%	12,163
Others	114,212	3.79%	36,048
Subtotal of corporate loans and advances	1,657,277	55.07%	638,919
Personal loans and advances	1,283,280	42.64%	653,526
Discounted bills	68,925	2.29%	65,161
Total	3,009,482	100.00%	1,357,606
Accrued interest	8,486		
Gross loans and advances to customers	3,017,968		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(75,533)		
Net loans and advances to customers	2,942,435		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(594)		

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 16 Loans and advances to customers (continued)

##### (b) Analysed by economic sector (continued)

As at the end of the year and for the year ended 31 December 2021, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2021					
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Impairment charged during the year	Written-off during the year
Manufacturing	10,935	(3,128)	(2,196)	(4,750)	408	4,024

##### (c) Analysed by type of collateral

	31 December 2021	31 December 2020
Unsecured loans	1,076,478	941,130
Guaranteed loans	765,976	710,746
Secured loans		
– By tangible assets other than monetary assets	1,117,183	1,017,960
– By monetary assets	347,667	339,646
Total	3,307,304	3,009,482
Accrued interest	8,981	8,486
Gross loans and advances to customers	3,316,285	3,017,968
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,889)	(75,533)
Net loans and advances to customers	3,239,396	2,942,435
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(474)	(594)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers (continued)

#### (d) Analysed by geographical sector

	31 December 2021		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	750,167	22.68%	305,064
Central	578,837	17.50%	318,941
Pearl River Delta	455,150	13.76%	283,547
Western	431,443	13.05%	231,123
Bohai Rim	429,285	12.98%	236,217
Northeastern	107,845	3.26%	77,626
Overseas	106,765	3.23%	12,320
Head Office	447,812	13.54%	12
<b>Total</b>	<b>3,307,304</b>	<b>100.00%</b>	<b>1,464,850</b>

	31 December 2020		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	652,565	21.69%	266,093
Central	532,348	17.69%	296,164
Pearl River Delta	396,086	13.16%	263,189
Bohai Rim	387,332	12.87%	223,419
Western	373,595	12.41%	212,662
Northeastern	117,580	3.91%	80,952
Overseas	98,819	3.28%	9,916
Head Office	451,157	14.99%	5,211
<b>Total</b>	<b>3,009,482</b>	<b>100.00%</b>	<b>1,357,606</b>

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 16 Loans and advances to customers (continued)

##### (d) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2021			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Pearl River Delta	9,845	(5,507)	(2,344)	(4,587)
Bohai Rim	4,992	(2,985)	(1,733)	(2,919)
Yangtze River Delta	4,734	(9,303)	(2,136)	(2,900)
Central	4,148	(5,396)	(3,584)	(2,463)
Western	3,497	(4,049)	(3,554)	(1,913)
<b>Total</b>	<b>27,216</b>	<b>(27,240)</b>	<b>(13,351)</b>	<b>(14,782)</b>

	31 December 2020			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Bohai Rim	6,160	(2,592)	(2,499)	(3,355)
Yangtze River Delta	5,383	(9,100)	(2,930)	(3,140)
Central	5,225	(5,561)	(3,418)	(3,006)
Pearl River Delta	4,699	(4,955)	(3,685)	(2,843)
Western	3,365	(3,400)	(3,326)	(1,786)
<b>Total</b>	<b>24,832</b>	<b>(25,608)</b>	<b>(15,858)</b>	<b>(14,130)</b>

For the definition of regional divisions, see Note V 49(b).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers (continued)

#### (e) Overdue loans analysed by overdue years

	31 December 2021				
	Overdue within three or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,526	10,872	1,329	176	26,903
Guaranteed loans	2,912	3,263	2,111	344	8,630
Secured loans					
– By tangible assets other than monetary assets	7,985	9,295	5,841	865	23,986
– By monetary assets	4,416	909	858	2	6,185
Subtotal	29,839	24,339	10,139	1,387	65,704
Accrued interest	645	–	–	–	645
Total	30,484	24,339	10,139	1,387	66,349
As a percentage of gross loans and advances to customers	0.92%	0.73%	0.31%	0.04%	2.00%

	31 December 2020				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,474	12,760	1,200	30	28,464
Guaranteed loans	5,221	2,964	3,535	582	12,302
Secured loans					
– By tangible assets other than monetary assets	10,367	5,765	4,176	1,386	21,694
– By monetary assets	1,287	284	564	1	2,136
Subtotal	31,349	21,773	9,475	1,999	64,596
Accrued interest	276	–	–	–	276
Total	31,625	21,773	9,475	1,999	64,872
As a percentage of gross loans and advances to customers	1.05%	0.72%	0.31%	0.07%	2.15%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 16 Loans and advances to customers (continued)

##### (f) Loans and advances and provision for impairment losses

	31 December 2021				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	3,130,394	131,030	45,880	3,307,304	1.39%
Accrued interest	7,169	1,409	403	8,981	
Gross loans and advances to customers	3,137,563	132,439	46,283	3,316,285	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(31,363)	(19,935)	(25,591)	(76,889)	
Net loans and advances to customers	3,106,200	112,504	20,692	3,239,396	

	31 December 2020				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,837,009	124,772	47,701	3,009,482	1.59%
Accrued interest	6,649	1,374	463	8,486	
Gross loans and advances to customers	2,843,658	126,146	48,164	3,017,968	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(31,192)	(21,037)	(23,304)	(75,533)	
Net loans and advances to customers	2,812,466	105,109	24,860	2,942,435	

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers (continued)

#### (g) Reconciliation of provision for impairment losses

	2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(31,192)	(21,037)	(23,304)	(75,533)
Transfer to Stage 1	(3,492)	2,843	649	–
Transfer to Stage 2	912	(1,293)	381	–
Transfer to Stage 3	574	4,340	(4,914)	–
Net charge for the year	1,827	(4,787)	(47,806)	(50,766)
Write-off and disposal	–	–	54,253	54,253
Recovery of loans and advances written off	–	–	(5,757)	(5,757)
Unwinding of discount on allowance	–	–	907	907
Exchange fluctuation and others	8	(1)	–	7
As at 31 December 2021	(31,363)	(19,935)	(25,591)	(76,889)

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(24,060)	(27,574)	(24,594)	(76,228)
Transfer to Stage 1	(2,112)	2,049	63	–
Transfer to Stage 2	988	(1,072)	84	–
Transfer to Stage 3	216	10,315	(10,531)	–
Net charge for the year	(6,228)	(4,755)	(42,214)	(53,197)
Write-off and disposal	–	–	56,323	56,323
Recovery of loans and advances written off	–	–	(3,202)	(3,202)
Unwinding of discount on allowance	–	–	767	767
Exchange fluctuation and others	4	–	–	4
As at 31 December 2020	(31,192)	(21,037)	(23,304)	(75,533)

Note:

- (i) The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2021, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB474 million (31 December 2020: RMB594 million).

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 16 Loans and advances to customers (continued)

##### (h) Rescheduled loans and advances to customers

	31 December 2021	31 December 2020
Rescheduled loans and advances to customers	4,634	7,659
Of which: Rescheduled loans and advances to customers overdue more than 90 days	70	245

#### 17 Finance lease receivables

	31 December 2021	31 December 2020
Minimum finance lease receivables	127,150	118,247
Less: Unearned finance lease income	(15,556)	(15,442)
Present value of minimum lease receivable	111,594	102,805
Accrued interest	1,223	1,128
Less: Impairment losses	(3,764)	(3,145)
Net balance	109,053	100,788

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2021	31 December 2020
Less than 1 year (inclusive)	36,337	32,149
1 year to 2 years (inclusive)	29,568	25,745
2 years to 3 years (inclusive)	24,301	20,825
3 years to 4 years (inclusive)	17,585	15,752
4 years to 5 years (inclusive)	10,763	11,420
More than 5 years	8,596	12,356
Total	127,150	118,247

#### 18 Financial investments

	Notes	31 December 2021	31 December 2020
Financial assets at fair value through profit or loss	(a)	383,666	304,908
Debt instruments at fair value through other comprehensive income	(b)	325,695	222,807
Equity instruments at fair value through other comprehensive income	(c)	1,125	875
Financial investments measured at amortised cost	(d)	1,125,530	1,141,825
Total		1,836,016	1,670,415



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18 Financial investments (continued)

#### (a) Financial assets at fair value through profit or loss

	Notes	31 December 2021	31 December 2020
Debt instruments held for trading	(i)	50,891	33,040
Financial assets designated at fair value through profit or loss	(ii)	–	1
Other financial assets at fair value through profit or loss	(iii)	332,775	271,867
<b>Total</b>		<b>383,666</b>	<b>304,908</b>

#### (i) Debt instruments held for trading

	Notes	31 December 2021	31 December 2020
Issued by the following governments or institutions:			
In Mainland China			
– Government		4,146	80
– Banks and other financial institutions		33,820	9,291
– Other institutions	(1)	11,243	19,985
Outside Mainland China			
– Government		797	
– Banks and other financial institutions		351	1,770
– Other institutions		534	1,914
<b>Total</b>	(2)	<b>50,891</b>	<b>33,040</b>
Listed	(3)	2,051	4,391
Of which: listed in Hong Kong		881	2,194
Unlisted		48,840	28,649
<b>Total</b>		<b>50,891</b>	<b>33,040</b>

Notes:

- (1) At the end of the year, debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.
- (2) At the end of the year, some of the debt instruments held for trading were pledged for repurchase agreements. See Note V 25(a).
- (3) Listed investments include debt instruments traded on a stock exchange.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 18 Financial investments (continued)

##### (a) Financial assets at fair value through profit or loss (continued)

##### (ii) Financial assets designated at fair value through profit or loss

	31 December 2021	31 December 2020
Fixed interest rate personal mortgage loans	–	1

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the reporting year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

##### (iii) Other financial assets at fair value through profit or loss

	31 December 2021	31 December 2020
Fund investments	253,537	212,937
Equity instruments	4,088	2,620
Others	75,150	56,310
Total	332,775	271,867

##### (b) Debt instruments at fair value through other comprehensive income

##### (i) Analysed by type and location of counterparty:

	Notes	31 December 2021	31 December 2020
In Mainland China			
– Government		125,286	59,441
– Banks and other financial institutions	(1)	98,420	75,493
– Other institutions	(2)	58,904	51,310
Outside Mainland China			
– Government		93	349
– Banks and other financial institutions		15,835	12,535
– Other institutions		22,211	19,786
Subtotal		320,749	218,914
Accrued interest		4,946	3,893
Total	(3)(4)	325,695	222,807
Listed	(5)	56,394	50,534
Of which: listed in Hong Kong		38,665	33,872
Unlisted		264,355	168,380
Subtotal		320,749	218,914
Accrued interest		4,946	3,893
Total		325,695	222,807

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18 Financial investments (continued)

#### (b) Debt instruments at fair value through other comprehensive income (continued)

##### (i) *Analysed by type and location of counterparty:* (continued)

Notes:

- (1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.
- (2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.
- (3) As at 31 December 2021, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximated to RMB687 million (31 December 2020: RMB456 million).
- (4) At the end of the year, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note V 25(a).
- (5) Listed investments include debt instruments traded on a stock exchange.

##### (ii) *Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income*

	2021			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	
As at 1 January 2021	(420)	–	(36)	(456)
Transfer to Stage 2	7	(7)	–	–
Transfer to Stage 3	6	–	(6)	–
Net charge for the year	(5)	(97)	(131)	(233)
Exchange fluctuation and others	2	–	–	2
As at 31 December 2021	(410)	(104)	(173)	(687)
	2020			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	
As at 1 January 2020	(708)	–	(118)	(826)
Transfer to Stage 3	1	–	(1)	–
Net charge for the year	251	–	83	334
Exchange fluctuation and others	36	–	–	36
As at 31 December 2020	(420)	–	(36)	(456)

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 18 Financial investments (continued)

##### (c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2021	31 December 2020
Equity instruments at fair value through other comprehensive income	(i)	1,125	875
Listed	(ii)	23	23
Of which: listed in Hong Kong		–	–
Unlisted		1,102	852
Total		1,125	875

Notes:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2021, the fair value was RMB1,125 million (31 December 2020: RMB875 million). For the year ended 31 December 2021, the Group has received dividends of RMB20 million from the above equity instruments (2020: RMB14 million).

(ii) Listed investments include equity instruments traded on a stock exchange.

##### (d) Financial investments measured at amortised cost

	Notes	31 December 2021	31 December 2020
Debt securities and asset-backed instruments	(i)	978,630	921,967
Others	(ii)	139,573	207,486
Subtotal		1,118,203	1,129,453
Accrued interest		17,652	17,510
Total		1,135,855	1,146,963
Less: Provision for impairment losses		(10,325)	(5,138)
Net balance		1,125,530	1,141,825
Listed	(iii)	157,553	159,519
Of which: listed in Hong Kong		15,725	21,710
Unlisted		950,325	964,796
Subtotal		1,107,878	1,124,315
Accrued interest		17,652	17,510
Net balance		1,125,530	1,141,825

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18 Financial investments (continued)

#### (d) Financial investments measured at amortised cost (continued)

(i) *Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:*

	Notes	31 December 2021	31 December 2020
In Mainland China			
– Government		364,017	386,220
– Banks and other financial institutions	(1)	405,557	333,697
– Other institutions	(2)	187,762	168,370
Outside Mainland China			
– Government		5,260	4,777
– Banks and other financial institutions		6,572	23,141
– Other institutions		9,462	5,762
Subtotal		978,630	921,967
Accrued interest		16,823	15,621
Total	(3)	995,453	937,588
Less: Provision for impairment losses		(3,981)	(1,937)
Net balance		991,472	935,651
Fair value		1,003,770	944,985

Notes:

- (1) *Debt securities and asset-backed instruments issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.*
- (2) *Debt securities and asset-backed instruments issued by other institutions mainly represent debt securities and asset-backed instruments issued by state-owned enterprises and joint stock enterprises in Mainland China.*
- (3) *As at the end of the year, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note V 25(a).*

(ii) *Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.*

(iii) *Listed investments include debt instruments traded on a stock exchange.*

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 18 Financial investments (continued)

## (d) Financial investments measured at amortised cost (continued)

## (iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(1,932)	(472)	(2,734)	(5,138)
Transfer to Stage 2	104	(104)	–	–
Transfer to Stage 3	102	195	(297)	–
Net charge for the year	323	(934)	(4,618)	(5,229)
Exchange fluctuation and others	42	–	–	42
As at 31 December 2021	(1,361)	(1,315)	(7,649)	(10,325)

	2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(2,513)	(101)	(1,769)	(4,383)
Transfer to Stage 1	(30)	30	–	–
Transfer to Stage 2	179	(179)	–	–
Transfer to Stage 3	6	47	(53)	–
Net charge for the year	409	(269)	(912)	(772)
Exchange fluctuation and others	17	–	–	17
As at 31 December 2020	(1,932)	(472)	(2,734)	(5,138)

## 19 Investment in subsidiaries and joint ventures

## (a) Investments in subsidiaries

	31 December 2021	31 December 2020
Everbright Financial Leasing Co., Ltd..	4,680	4,680
CEB International Investment Co., Ltd..	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd..	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd..	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd..	105	105
Everbright Wealth Co., Ltd..	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd..	600	600
Total	12,983	12,983

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 19 Investment in subsidiaries and joint ventures (continued)

#### (a) Investments in subsidiaries (continued)

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd. (Everbright Financial Leasing)	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd. (CEB International)	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd. (Shaoshan Everbright Bank)	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd. (Huai'an Everbright Bank)	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe) (CEB Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd. (Ruijin Everbright Bank)	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd. (Everbright Wealth)	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd. (Sunshine Consumer)	Beijing	1,000	60%	60%	Banking business	Incorporated company

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 19 Investment in subsidiaries and joint ventures (continued)

##### (b) Investments in joint ventures

	2021	2020
As at 1 January 2021	257	–
Increased investment	93	262
Investment losses under the equity method	(90)	(5)
Foreign currency conversion difference	(4)	–
As at 31 December 2021	256	257

#### 20 Property, plant and equipment

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
<b>Cost</b>						
As at 1 January 2021	13,526	8,127	2,315	8,249	4,790	37,007
Additions	43	2,217	356	1,353	223	4,192
Transfers in/(out)	15	–	(15)	–	–	–
Disposals	(55)	–	–	(451)	(195)	(701)
Foreign currency conversion difference	–	(210)	–	–	–	(210)
As at 31 December 2021	13,529	10,134	2,656	9,151	4,818	40,288
<b>Accumulated depreciation</b>						
As at 1 January 2021	(4,506)	(582)	–	(5,101)	(3,351)	(13,540)
Charge for the year	(424)	(317)	–	(911)	(430)	(2,082)
Disposals	35	–	–	430	170	635
Foreign currency conversion difference	–	17	–	–	–	17
As at 31 December 2021	(4,895)	(882)	–	(5,582)	(3,611)	(14,970)
<b>Provision for impairment</b>						
As at 1 January 2021	(163)	–	–	–	–	(163)
As at 31 December 2021	(163)	–	–	–	–	(163)
<b>Net book value</b>						
As at 31 December 2021	8,471	9,252	2,656	3,569	1,207	25,155



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 20 Property, plant and equipment (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
<b>Cost</b>						
As at 1 January 2020	12,949	5,657	2,211	6,669	4,499	31,985
Additions	276	3,117	405	1,959	488	6,245
Transfers in/(out)	301	(170)	(301)	–	–	(170)
Disposals	–	–	–	(378)	(196)	(574)
Foreign currency conversion difference	–	(477)	–	(1)	(1)	(479)
As at 31 December 2020	13,526	8,127	2,315	8,249	4,790	37,007
<b>Accumulated depreciation</b>						
As at 1 January 2020	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Charge for the year	(402)	(223)	–	(579)	(448)	(1,652)
Transfer out	–	12	–	–	–	12
Disposals	–	–	–	372	169	541
Foreign currency conversion difference	–	37	–	1	1	39
As at 31 December 2020	(4,506)	(582)	–	(5,101)	(3,351)	(13,540)
<b>Provision for impairment</b>						
As at 1 January 2020	(159)	–	–	–	–	(159)
Charge for the year	(4)	–	–	–	–	(4)
As at 31 December 2020	(163)	–	–	–	–	(163)
<b>Net book value</b>						
As at 31 December 2020	8,857	7,545	2,315	3,148	1,439	23,304

*Notes:*

- (i) As at 31 December 2021, title deeds were not yet finalised for the premises with a carrying amount of RMB38 million (31 December 2020: RMB42 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.
- (ii) As at 31 December 2021, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB9,252 million (31 December 2020: RMB7,545 million). As at the end of the year, part of the finance lease receivables was pledged for borrowings from banks. See Note V 25(a).

The net book values of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	31 December 2021	31 December 2020
Held in Mainland China		
– Medium term leases (10 to 50 years)	8,002	8,547
– Short term leases (less than 10 years)	469	310
<b>Total</b>	<b>8,471</b>	<b>8,857</b>

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 21 Right-of-use Assets

	Premises	Transportation and others	Total
<b>Cost</b>			
As at 1 January 2021	15,658	64	15,722
Charge for the year	2,760	4	2,764
Deductions	(1,103)	(7)	(1,110)
Foreign currency conversion difference	(13)	–	(13)
As at 31 December 2021	17,302	61	17,363
<b>Accumulated depreciation</b>			
As at 1 January 2021	(4,521)	(23)	(4,544)
Charge for the year	(2,710)	(12)	(2,722)
Reduction for the year	843	6	849
Foreign currency conversion difference	7	–	7
As at 31 December 2021	(6,381)	(29)	(6,410)
<b>Net book value</b>			
As at 31 December 2021	10,921	32	10,953

	Premises	Transportation and others	Total
<b>Cost</b>			
As at 1 January 2020	14,084	66	14,150
Additions	2,524	12	2,536
Charge for the year	(937)	(14)	(951)
Foreign currency conversion difference	(13)	–	(13)
As at 31 December 2020	15,658	64	15,722
<b>Accumulated depreciation</b>			
As at 1 January 2020	(2,398)	(17)	(2,415)
Charge for the year	(2,672)	(15)	(2,687)
Reduction for the year	548	9	557
Foreign currency conversion difference	1	–	1
As at 31 December 2020	(4,521)	(23)	(4,544)
<b>Net book value</b>			
As at 31 December 2020	11,137	41	11,178

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 22 Goodwill

	31 December 2021	31 December 2020
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed the “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank’s cash flow forecast is 11% (2020: 12%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

### 23 Deferred tax assets and liabilities

#### (a) Analysed by nature

	31 December 2021		31 December 2020	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ difference (liabilities)
Deferred income tax assets	79,583	19,895	78,350	19,587
Deferred income tax liabilities	–	–	–	–
Total	79,583	19,895	78,350	19,587

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 23 Deferred tax assets and liabilities (continued)

##### (b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2021	17,324	137	2,126	19,587
Recognised in profit or loss	507	(389)	875	993
Recognised in other comprehensive income	16	(701)	–	(685)
As at 31 December 2021	17,847	(953)	3,001	19,895

	Provision for impairment losses (Note (i))	Fair value changes of financial instruments (Note (ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2020	14,664	(243)	1,884	16,305
Recognised in profit or loss	2,594	40	242	2,876
Recognised in other comprehensive income	66	340	–	406
As at 31 December 2020	17,324	137	2,126	19,587

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Fair value changes of financial instruments are subject to tax when realised.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 24 Other assets

	Note	31 December 2021	31 December 2020
Other receivables	(a)	25,058	30,904
Accrued interest		5,713	4,661
Intangible assets		2,684	2,161
Refundable Deposits		2,148	1,698
Property, plant and equipment purchase prepayment		1,004	703
Long-term deferred expense		950	900
Repossessed assets		327	390
Others		3,084	3,656
<b>Total</b>		<b>40,968</b>	<b>45,073</b>

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

### 25 Pledged assets

#### (a) Assets pledged as collateral

The Group's financial assets as collateral for liabilities include discounted bills, debt securities and property, plant and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2021 is RMB160.10 billion (as at 31 December 2020: RMB79.936 billion)

#### (b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in the year ended 31 December 2021. As at 31 December 2021, the Group had no collateral received from banks and other financial institutions (31 December 2020: Nil). As at 31 December 2021, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2020: Nil). These transactions are conducted under standard terms in the normal course of business.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 26 Due to the central bank

	31 December 2021	31 December 2020
Due to the central bank	100,143	238,751
Accrued interest	1,037	2,359
<b>Total</b>	<b>101,180</b>	<b>241,110</b>

#### 27 Deposits from banks and other financial institutions

##### Analysed by type and location of counterparty

	31 December 2021	31 December 2020
Deposits in Mainland China	163,919	149,996
– Banks	359,030	317,300
– Other financial institutions		
Deposits outside Mainland China		
– Banks	1,526	226
<b>Subtotal</b>	<b>524,475</b>	<b>467,522</b>
Accrued interest	1,784	1,823
<b>Total</b>	<b>526,259</b>	<b>469,345</b>

#### 28 Placements from banks and other financial institutions

##### Analysed by type and location of counterparty

	31 December 2021	31 December 2020
Placements in Mainland China		
– Banks	111,353	115,334
– Other financial institutions	12,102	1,004
Placements outside Mainland China		
– Banks	55,464	45,072
<b>Subtotal</b>	<b>178,919</b>	<b>161,410</b>
Accrued interest	707	469
<b>Total</b>	<b>179,626</b>	<b>161,879</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 29 Financial liabilities at fair value through profit or loss

	31 December 2021	31 December 2020
Short position in debt securities	67	4
Total	67	4

### 30 Financial assets sold under repurchase agreements

#### (a) Analysed by type and location of counterparty

	31 December 2021	31 December 2020
In Mainland China		
– Banks	72,963	7,047
– Other financial institutions	–	930
Outside Mainland China		
– Banks	7,439	5,895
– Other financial institutions	183	298
Subtotal	80,585	14,170
Accrued interest	15	12
Total	80,600	14,182

#### (b) Analysed by collateral

	31 December 2021	31 December 2020
Debt securities	78,170	9,958
Bank acceptances	2,415	4,212
Subtotal	80,585	14,170
Accrued interest	15	12
Total	80,600	14,182

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 31 Deposits from customers

	31 December 2021	31 December 2020
Demand deposits		
– Corporate customers	843,252	850,356
– Individual customers	251,609	274,087
Subtotal	1,094,861	1,124,443
Time deposits		
– Corporate customers	1,606,347	1,530,885
– Individual customers	602,576	526,723
Subtotal	2,208,923	2,057,608
Pledged deposits	313,623	251,964
Other deposits	2,915	3,182
Subtotal deposits from customers	3,620,322	3,437,197
Accrued interest	55,421	43,445
Total	3,675,743	3,480,642

#### 32 Accrued staff costs

	Notes	31 December 2021	31 December 2020
Salary and welfare payable		13,845	11,702
Pension and annuity payable	(a)	220	1,310
Supplementary retirement benefits payable	(b)	2,712	2,163
Total		16,777	15,175

Notes:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 32 Accrued staff costs (continued)

Notes: (continued)

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were assessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Wills Towers Watson Management Consulting (Shenzhen) Co.,Ltd...

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2021	31 December 2020
Present value of supplementary retirement benefits liability	2,712	2,163

(ii) Movements of SRB of the Group are as follows:

	2021	2020
As at 1 January 2021	2,163	1,118
Current service costs	196	1,040
Interest costs	86	44
Recalculation part of the defined benefit plan	287	(22)
Payments made	(20)	(17)
As at 31 December 2021	2,712	2,163

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 40.

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December 2021	31 December 2020
Discount rate	3.50%	4.00%
Medical cost trend rate	6.00%	6.00%
Average expected future lifetime	25.16	26.17

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 32 Accrued staff costs (continued)

Notes: (continued)

(b) Supplementary retirement benefits ("SRB") (continued)

(iv) Sensitivity analysis:

Reasonably possible changes at the end of the year to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2021	
	Increases	Decreases
Discount rate (1% movement)	(786)	866
Medical cost trend rate (1% movement)	851	(597)

	31 December 2020	
	Increases	Decreases
Discount rate (1% movement)	(575)	631
Medical cost trend rate (1% movement)	653	(461)

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (a) and (b) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits.

#### 33 Taxes payable

	31 December 2021	31 December 2020
Income tax payable	3,089	5,617
Value added tax payable	2,965	2,705
Others	481	450
Total	6,535	8,772

#### 34 Lease liabilities

	31 December 2021	31 December 2020
Within 1 year (inclusive)	2,841	2,646
1 year to 2 years (inclusive)	2,340	2,317
2 years to 3 years (inclusive)	1,851	1,906
3 years to 5 years (inclusive)	2,601	2,614
More than 5 years	2,546	2,916
Total undiscounted lease liabilities	12,179	12,399
Lease liabilities	10,736	10,807

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35 Debt securities issued

	Notes	31 December 2021	31 December 2020
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	42,174	5,795
Tier-two capital bonds issued	(c)	41,434	41,430
Convertible bonds issued	(d)	23,498	22,884
Interbank deposits issued	(e)	586,331	313,045
Certificates of deposit issued	(f)	35,309	31,762
Medium term notes	(g)	25,127	17,412
<b>Subtotal</b>		<b>760,573</b>	<b>439,028</b>
Accrued interest		2,959	1,842
<b>Total</b>		<b>763,532</b>	<b>440,870</b>

#### (a) Subordinated debts issued

	Note	31 December 2021	31 December 2020
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
<b>Total</b>		<b>6,700</b>	<b>6,700</b>

Notes:

- (i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.
- (ii) As at 31 December 2021, the fair value of the total subordinated debts issued approximated to RMB6,767 million (31 December 2020: RMB6,871 million).

#### (b) Financial bonds issued

	Notes	31 December 2021	31 December 2020
Financial fixed rate bonds maturing in November 2021	(i)	–	4,996
Financial fixed rate bonds maturing in January 2022	(ii)	800	799
Financial fixed rate bonds maturing in March 2024	(iii)	39,988	–
Financial floating rate bonds maturing in May 2024	(iv)	1,386	–
<b>Total</b>		<b>42,174</b>	<b>5,795</b>

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 35 Debt securities issued (continued)

##### (b) Financial bonds issued (continued)

Notes:

- (i) Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.
- (ii) Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.
- (iii) Fixed rate social bonds for small Small and Micro Enterprises Loans of RMB40.00 billion with a term of three years were issued by the Bank on 22 March 2021. The coupon rate is 3.45% per annum.
- (iv) Floating rate financial bonds of AUD 0.3 billion with a term of three years were issued by the Bank's Sydney branch on 18 May 2021. The initial coupon rate is 0.68% per annum.
- (v) As at 31 December 2021, the fair value of the total financial bonds issued approximated to RMB42,824 million (31 December 2020: RMB5,840 million).

##### (c) Tier-two capital bonds issued

	Notes	31 December 2021	31 December 2020
Tier-two capital fixed rate bonds maturing in March 2027	(i)	27,992	27,990
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	11,996	11,995
Tier-two capital fixed rate bonds maturing in September 2030	(iii)	1,446	1,445
<b>Total</b>		<b>41,434</b>	<b>41,430</b>

Notes:

- (i) Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.
- (ii) Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.
- (iii) Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 18 September 2025 at the nominal amount.
- (iv) As at 31 December 2021, the fair value of the total tier-two capital bonds issued approximated to RMB41,739 million (31 December 2020: RMB41,935 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35 Debt securities issued (continued)

#### (d) Convertible bonds issued

	31 December 2021	31 December 2020
Fixed rate six years convertible bonds issued in March 2017	23,498	22,884

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V 38	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2021		3,569	–	3,569
Accumulated conversion amount as at 1 January 2021		(5,447)	(998)	(6,445)
Balance as at 1 January 2021		22,884	4,163	27,047
Amortisation during the year		614	–	614
Conversion amount during the year	(iv)	–	–	–
Balance as at 31 December 2021		23,498	4,163	27,661

Notes:

- (i) Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the year ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including interest for the sixth year.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 35 Debt securities issued (continued)

##### (d) Convertible bonds issued (continued)

Notes: (continued)

- (ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*
- (iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2021, the conversion price is RMB3.55 per share.*
- (iv) *As at 31 December 2021, a total of RMB5,801million (31 December 2020: RMB5,801million) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 1,542,823,195 shares (31 December 2020: 1,542,813,979 shares).*
- (v) *For the year ended 31 December 2021, a total of RMB363 million interests on the convertible bonds has been paid by the Bank (2020: RMB300 million).*

##### (e) Interbank deposits issued

For the year ended 31 December 2021, 217 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB623,770 million (2020: RMB508,600 million). The carrying amount of interbank deposits due in 2021 was RMB346,860 million (2020: RMB392,400 million). As at 31 December 2021, the fair value of its outstanding interbank deposits issued was RMB579,510 million (31 December 2020: RMB310,619 million).

##### (f) Certificates of deposit issued

As at 31 December 2021, the certificates of deposit were issued by the Bank's Hong Kong branch, Seoul branch, Sydney branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35 Debt securities issued (continued)

#### (g) Medium term notes

	Notes	31 December 2021	31 December 2020
Medium term notes with floating rate maturing on 13 June 2021	(i)	–	2,407
Medium term notes with floating rate maturing on 13 June 2021	(ii)	–	1,958
Medium term notes with floating rate maturing on 19 September 2021	(iii)	–	1,958
Medium term notes with floating rate maturing on 24 June 2022	(iv)	3,182	3,262
Medium term notes with floating rate maturing on 11 December 2022	(v)	3,182	3,262
Medium term notes with floating rate maturing on 3 August 2023	(vi)	4,455	4,565
Medium term notes with fixed rate maturing on 11 March 2024	(vii)	3,500	–
Medium term notes with fixed rate maturing on 15 June 2024	(viii)	3,818	–
Medium term notes with fixed rate maturing on 14 September 2024	(ix)	3,181	–
Medium term notes with fixed rate maturing on 1 December 2024	(x)	1,909	–
Medium term notes with fixed rate maturing on 15 December 2024	(xi)	1,900	–
<b>Total</b>		<b>25,127</b>	<b>17,412</b>

Notes:

- (i) Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.
- (ii) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.
- (iii) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.
- (iv) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 35 Debt securities issued (continued)

##### (g) Medium term notes (continued)

Notes: (continued)

- (v) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.
- (vi) Floating rate medium term notes of USD700 million with a term of three years were issued by the Bank's Hong Kong branch on 27 July 2020. The initial coupon rate is 1.10% per annum.
- (vii) Fixed rate medium term notes of USD550 million with a term of three years were issued by the Bank's Hong Kong branch on 4 March 2021. The coupon rate is 0.93% per annum.
- (viii) Fixed rate medium term notes of USD600 million with a term of three years were issued by the Bank's Hong Kong branch on 8 June 2021. The coupon rate is 0.84% per annum.
- (ix) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Luxembourg branch on 14 September 2021. The coupon rate is 0.83% per annum.
- (x) Fixed rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 1 December 2021. The coupon rate is 1.27% per annum.
- (xi) Fixed rate medium term notes of USD300 million with a term of three years were issued by the Bank's subsidiary CEB International, on 9 December 2021. The coupon rate is 2.00% per annum.
- (xii) As at 31 December 2021, the fair value of the medium term notes approximated to RMB22,409 million (31 December 2020: RMB17,432 million)

#### 36 Other liabilities

	Notes	31 December 2021	31 December 2020
Bank loans	(a)	10,841	14,302
Finance leases payable		6,100	6,034
Payment and collection clearance accounts		4,885	3,364
Provisions	(b)	2,213	4,280
Dormant accounts		408	421
Dividend payables		22	21
Others		18,842	16,137
<b>Total</b>		<b>43,311</b>	<b>44,559</b>

- (a) As at 31 December 2021, the Bank's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loans is RMB10,841 million (31 December 2020: RMB14,302 million).
- (b) As at 31 December 2021, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB165 million (31 December 2020: RMB126 million).



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 37 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	31 December 2021	31 December 2020
Ordinary shares listed in Mainland China (A share)	41,353	41,353
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
<b>Total</b>	<b>54,032</b>	<b>54,032</b>

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

### 38 Other equity instruments

	Note V	31 December 2021	31 December 2020
Preference shares (Notes (a), (b), (c), (e))		64,906	64,906
Equity of convertible bonds	35(d)	4,163	4,163
Perpetual bonds (Notes(d), (e))		39,993	39,993
<b>Total</b>		<b>109,062</b>	<b>109,062</b>

#### (a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMBmillion)	Conversion condition
Everbright P1 2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2 2016-8-8	4.01%	100	100	10,000	Mandatory conversion triggering events
Everbright P3 2020-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
Subtotal				65,000	
Less: Issuing costs				(94)	
Book value				64,906	

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 38 Other equity instruments (continued)

##### (b) Main clauses

###### (i) *Dividend*

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

###### (ii) *Conditions to distribution of dividends*

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

###### (iii) *Dividend blocker*

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

###### (iv) *Order of distribution and liquidation method*

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than to the ordinary shareholders.

###### (v) *Mandatory conversion trigger events*

Upon the occurrence of an Additional Tier-one Capital Triggering Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

Upon the occurrence of a non-viability triggering event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 38 Other equity instruments (continued)

#### (b) Main clauses (continued)

##### (vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant year.

#### (c) Changes in preference shares outstanding

	1 January 2021		Additions for the year		31 December 2021	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

	1 January 2020		Additions for the year		31 December 2020	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

#### (d) Main clauses of perpetual bonds

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the "Bonds") which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 38 Other equity instruments (continued)

##### (d) Main clauses of perpetual bonds (continued)

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the above bonds.

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier one capital and to increase its capital adequacy ratio.

##### (e) Interests attributable to equity instruments' holders

Items	31 December 2021	31 December 2020
Total equity attributable to equity shareholders of the Bank	482,489	453,470
– Equity attributable to ordinary shareholders of the Bank	377,590	348,571
– Equity attributable to preference shareholders of the Bank	64,906	64,906
– Equity attributable to Perpetual bonds holders of the Bank	39,993	39,993
Total equity attributable to non- controlling interests	1,877	1,570
– Equity attributable to non-controlling interests of ordinary shares	1,877	1,570

#### 39 Capital reserve

	31 December 2021	31 December 2020
Share premium	58,434	58,434

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 40 Other comprehensive income

	31 December 2021	31 December 2020
<b>Items that will not be reclassified to profit or loss</b>		
Fair value changes on equity instruments at fair value through other comprehensive income	16	16
Remeasurement of a defined benefit plan	(568)	(281)
Subtotal	(552)	(265)
<b>Items that will be reclassified to profit or loss</b>		
Debt instruments at fair value through other comprehensive income	3,868	1,739
– Net change in fair value	2,929	928
– Net change in expected credit loss	939	811
Exchange differences on translation of financial statements	(164)	(81)
Subtotal	3,704	1,658
Total	3,152	1,393

Other comprehensive income attributable to equity shareholders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2020	1,998	961	14	67	(303)	2,737
Changes in amount for the previous year	(1,070)	(150)	2	(148)	22	(1,344)
As at 1 January 2021	928	811	16	(81)	(281)	1,393
Changes in amount for the year	2,001	128	–	(83)	(287)	1,759
As at 31 December 2021	2,929	939	16	(164)	(568)	3,152

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 41 Surplus reserve and general reserve

##### (a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

##### (b) General reserve

Pursuant to the Measures for Managing the Appropriation of Provisions of Financial Enterprises (Cai Jin [2012] No. 20) issued by the Ministry of Finance, the Bank is required to provide for impairment losses of its assets and set aside a general reserve through the appropriation of net profits to cover potential losses against its assets. The general reserve is part of the equity shareholders' interests and should not be less than 1.5% of the year-end balance of risk-bearing assets.

The Bank's subsidiaries appropriated their profits to the general reserve according to the applicable local regulations.

The Group appropriated RMB7,841 million of profits to the general reserve for the year ended 31 December 2021 (2020: RMB8,285 million).

The Bank appropriated RMB6,806 million of profits to the general reserve for the year ended 31 December 2021 (2020: RMB7,492 million).

#### 42 Appropriation of profits

##### (a) At the Board Meeting held on 25 Marh 2022, the Board of Derectors approved the following profit appropriations for the year ended 31 December 2021:

- The accumulated amount of withdrawal has reached 50% of the Bank registered capital; According to the relevant terms of the company law, the surplus reserve can no longer be withdrawn in this profit distribution;
- Appropriated RMB6,806 million to general reserve;
- The 2022 annual dividend of RMB1,680 million should be paid to the Third preference shareholders in cash dividend RMB4.80 per share before tax base on the copon dividend yield of 4.8%;
- Declared cash dividends of RMB10,860 million to all ordinary shareholders at 31 December 2021, representing RMB2.01 per 10 shares before tax.

##### (b) The Bank distributed the interest on the Undated Capital Bonds amounting to RMB1,840 million on 22 September 2021.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 42 Appropriation of profits (continued)

- (c) **At the Annual General Meeting of shareholders held on 29 June 2021, the shareholders approved the following profit appropriations for the year ended 31 December 2020:**
- Under the Company Law of the PRC, the bank's statutory surplus reserve has reached 50% of its registered capital, no further provision shall be made for this profit distribution;
  - Appropriated RMB7,492 million to general reserve; and
  - Declared cash dividends of RMB11,347 million to all ordinary shareholders of 54,032 million shares as 1,680 at 31 December 2020, representing RMB2.10 per 10 shares before tax.
- (d) **At the Board Meeting held on 26 March 2021, the dividend distribution of the Everbright P3 for the year ended 2020 was approved by the Board of Directors:**
- Declared cash dividends to preference shareholders of RMB1,680 million before tax, representing RMB4.80 per share before tax, accruing from 1 January 2020, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3.
- (e) **At the Board Meeting held on 28 May 2021, the dividend distribution of the Everbright P1 was approved by the Board of Directors:**
- Declared cash dividends to preference shareholders of RMB890 million before tax, representing RMB4.45 per share before tax, accruing from 25 June 2020, and are calculated using 4.45% of dividend yield ratio for the Everbright P1.
- (f) **At the Board Meeting held on 28 May 2021, the dividend distribution of the Everbright P2 was approved by the Board of Directors:**
- Declared cash dividends to preference shareholders of RMB390 million before tax, representing RMB3.90 per share before tax, accruing from 11 August 2020, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

### 43 Involvement with structured entities

- (a) **Structured entities sponsored by third party institutions in which the Group holds an interest:**

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 43 Involvement with structured entities (continued)

(a) **Structured entities sponsored by third party institutions in which the Group holds an interest:** (continued)

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2021		31 December 2020	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	252,528	252,528	211,085	211,085
– Asset management plans	56,578	56,578	30,282	30,282
Financial investments measured at amortised cost				
– Asset management plans	133,980	133,980	205,206	205,206
– Asset-backed securities	143,736	143,736	149,205	149,205
<b>Total</b>	<b>586,822</b>	<b>586,822</b>	<b>595,778</b>	<b>595,778</b>

(b) **Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:**

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2021, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

As at 31 December 2021, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB1,067,464 million (31 December 2020: RMB836,273 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2021 but matured before 31 December 2021 was RMB3,001 million (2020: RMB200 million).

In 2021, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB3,962 million (2020: RMB2,518 million).



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 43 Involvement with structured entities (continued)

#### (b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (continued)

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. As at 31 December 2021, the balance of above transactions was Nil (31 December 2020: Nil, included in “placements with banks and other financial institutions”). In 2021, the amount of interest receivables from the above financing transactions was not material for the Group in the statement of profit or loss.

In addition, please refer to Note V44 for the interests in the unconsolidated structured entities of asset securitization transactions held by the Group as at 31 December 2021. In 2021, the Group’s income from these structured entities was immaterial.

According to the ” Guiding Opinions on Regulating the Asset Management Business of Financial Institutions” issued by the People’s Bank of China and three other ministries as well as the People’s Bank of China’s announcement on extending the transition period for the Guiding Opinions on Regulating Asset Management Business of Financial Institutions, financial institutions that still have difficulties in completing the rectification of existing financial services by the end of 2021 may apply for case processing. The Group has completed stock work for wealth management rectification, except for the remaining amount that has been applied to the regulatory authorities for case processing. The Group will continue to conscientiously implement the relevant policies and regulatory requirements, continue to assess and disclose the impact and strive to fully complete the rectification work as soon as possible.

#### (c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor’s principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group’s returns.

### 44 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases, these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 44 Transferred financial assets (continued)

##### **Credit assets backed securitization**

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was Nil as at 31 December 2021 (31 December 2020:Nil).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2021, the Group has no continuing involvement in credit asset-backed securities(31 December 2020:Nil).

##### **Transfer of right to earnings**

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2021, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2021, loans with an original carrying amount of RMB1,998 million (31 December 2020: RMB1,998 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2021, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2020: RMB251 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 45 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group has computed its capital adequacy ratios and related data in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". During the reporting year, the Group complied with the capital requirements imposed by the regulatory authorities.

## Notes to the Consolidated Financial Statements

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(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 45 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with “Regulation Governing Capital of Commercial Banks (provisional)” and relevant requirements are as follows:

	31 December 2021	31 December 2020
<b>Total common equity tier-one capital</b>	378,813	349,479
Share capital	54,032	54,032
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	65,749	63,990
Surplus reserve	26,245	26,245
General reserve	75,596	67,702
Retained earnings	155,968	136,581
Qualifying portions of non-controlling interests	1,223	929
<b>Common equity tier-one capital deductions</b>	(4,021)	(3,457)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(2,684)	(2,160)
Net deferred tax assets arising from operating losses that depend on future profits	(56)	(16)
<b>Net common equity tier-one capital</b>	374,792	346,022
<b>Additional tier-one capital</b>	105,062	105,023
Additional tier-one capital instruments	104,899	104,899
Qualifying portions of non-controlling interests	163	124
<b>Tier-one capital net</b>	479,854	451,045
<b>Tier-two capital</b>	82,400	82,485
Qualifying portions of tier-two capital instruments issued and share premium	42,258	44,525
Excess loan loss provisions	38,677	36,566
Qualifying portions of non-controlling interests	1,465	1,394
<b>Net capital base</b>	562,254	533,530
<b>Total risk-weighted assets</b>	4,204,733	3,837,489
<b>Common equity tier-one capital adequacy ratio</b>	8.91%	9.02%
<b>Tier-one capital adequacy ratio</b>	11.41%	11.75%
<b>Capital adequacy ratio</b>	13.37%	13.90%

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 46 Notes to consolidated cash flow statements

#### (a) Net increase in cash and cash equivalents

	31 December 2021	31 December 2020
Cash and cash equivalents as at 31 December	222,583	145,076
Less: Cash and cash equivalents as at 1 January	145,076	117,499
Net increase in cash and cash equivalents	77,507	27,577

#### (b) Cash and cash equivalents

	31 December 2021	31 December 2020
Cash on hand	4,005	4,471
Deposits with the central bank	90,168	56,132
Deposits with banks and other financial institutions	50,029	40,483
Placements with banks and other financial institutions	78,381	43,990
Total	222,583	145,076

### 47 Related party relationships and transactions

#### (a) Related parity relationships

##### (i) *The ultimate parent company and its subsidiaries*

The ultimate parent of the Group is China Investment Corporation (“CIC”) set up in China.

Approved by the State Council of the PRC, CIC was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. (“Huijin”) is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through the China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year. The amount and balance of related parties and transactions between the group and the ultimate parent company and its subsidiaries are listed in Note V47(b).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 47 Related party relationships and transactions (continued)

##### (a) Related parity relationships (continued)

##### (ii) *Affiliated companies*

The immediate parent of the Group is China Everbright Group Ltd.. (“China Everbright Group”). The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note V 47(b).

The affiliated companies that have related party transactions with the Group are as follows:

##### **Related party**

- China Everbright Group Limited
- China Everbright Limited (Everbright Limited)
- Everbright Securities Co., Ltd.. (Everbright Securities)
- China Everbright industry (Group) Co., Ltd.
- Everbright Financial Holdings Asset Management Co., Ltd.
- Everbright Life Insurance Co., Ltd.
- Everbright Xinglong Trust Co., Ltd.
- Everbright Prudential Fund Management Co., Ltd.
- Everbright Futures Co., Ltd.
- Everbright Fortune Investment Co., Ltd.
- Everbright Capital Investment Co.,Ltd.
- Sun Light Everbright Asset Management Co., Ltd.
- China Everbright international Trust and Investment Corporation
- Everbright Jinou Asset Management Co., Ltd.
- China CYTS Group Corporation
- Cachet Pharmaceutical Co., Ltd.
- Everbright Technology Co., Ltd.
- Everbright Happiness International Leasing Co., Ltd.
- Everbright Sunshine Asset Management Co.,Ltd.
- Hangzhou Jinou Asset Management Co., Ltd.
- Guokaitai Industrial Development Co., Ltd.
- Zhongqing Chuangyi Investment Management Co., Ltd.
- Shenzhen Qianhai Everbright Investment Management Co., Ltd.
- Everbright Securities Asset Management Co., Ltd.
- Everbright Guangzi Investment Management Co., Ltd.
- Shanghai Guiyun Asset Management Co., Ltd.
- Everbright Senior Healthcare Industry Development Co., Ltd.
- Everbright Culture Investment Co., Ltd.
- Everbright Development Investment Co., Ltd.
- Beijing Everbright Huichen Pension Service Co., Ltd.
- CYTS Holding Co., Ltd.
- Beijing Damei Parent-Child Investment Group Co., Ltd.
- Shanghai Guangkong Zhongsheng Health Asset Management Co., Ltd.
- Shenzhen Qianhai Ruida Innotive Buyout Fund
- Zhongguang Holding Co., Ltd.
- CYTS Industry Deveolpment Co., Ltd.
- Zhuhai Guangkong Zhongheng Investment Management Co., Ltd..
- Everbright Prestige Capital Asset Management Co.,Limited

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (a) Related parity relationships (continued)

##### (iii) Other related parties

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, and shareholders holding more than 5% shares of the Group.

The other related parties that have related party transactions with the Group are as follows:

##### Other related parties

- Overseas Chinese Town Holding Company
- Henan Zhongyuan Chemical Co., Ltd.
- Jilin TuoCheng Construction Engineering Co., Ltd.
- China UnionPay Co., Ltd.
- Konka Group Co., Ltd.
- China Pacific Property Insurance Co., Ltd.
- China Pacific Life Insurance Co., Ltd.
- COSCO SHIPPING Development Co., Ltd..
- China Ocean Shipping (Group) Company
- Shenzhen weipin Zhiyuan Information Technology Co., Ltd.
- Shanghai Zhongbo Enterprise Management Development Co., Ltd.
- Shanghai Insurance Exchange Co., Ltd.
- Beijing Jingneng clean energy power Co., Ltd.
- Shijiazhuang Hualin Food Co., Ltd.
- Fujian Bofang Technology Co., Ltd.
- China Cinda Asset Management Co., Ltd.
- Zhongke Zhiyuan Technology Co., Ltd.
- Dacheng Fund Management Co., Ltd.
- Gansu Equity Trading Center Co., Ltd.
- Heyuan Capital Management Co., Ltd..
- Huayang Gongji Investment Management Co., Ltd..
- Lankaoguang Huinongtong No.1 Equity Investment Fund Partnership (limited Partnership)
- Qingdao Everbright Water Operating Limited
- Songhuang Ecological Tea Co., Ltd.
- Suzhou Huiyang Investment Management Co., Ltd..
- Suzhou Huiyang Capital Management Co., Ltd..
- Wuxi Guangkong Haiyin Enterprise Management Co., Ltd..
- Wuxi Guolian Venture Capital Co., Ltd..
- Xinjiang Guangshi Hanhong Equity Investment Management Co., Ltd..
- Zhangjiakou Guanghe Xiangda Property Service Co., Ltd..

The amount and balance of transactions between the Group and other related parties are shown in Notes V47(b).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 47 Related party relationships and transactions (continued)

##### (b) Related party transactions

##### (i) *The ultimate parent company and its subsidiaries*

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	2021	2020
Interest income	1,034	1,521
Interest expense	(4,112)	(3,411)

	31 December 2021	31 December 2020
Deposits with banks and other financial institutions	13,788	13,098
Placements with banks and other financial institutions	26,467	22,233
Derivative financial assets	2,338	7,047
Financial assets held under resale agreements	1,732	15,505
Loans and advances to customers	2,228	2,599
Financial investments	298,941	221,493
Financial assets at fair value through profit or loss	81,369	56,471
Debt instruments at fair value through other comprehensive income	44,614	39,852
Financial investments measured at amortised cost	172,958	125,170
Other assets	14,227	3,548
Deposits from banks and other financial institutions	56,181	98,208
Placements from banks and other financial institutions	57,899	56,025
Derivative financial liabilities	3,020	9,072
Financial assets sold under repurchase agreements	27,478	6,523
Deposits from customers	101,898	51,476
Other liabilities	11	249



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (b) Related party transactions (continued)

##### (ii) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group’s banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group’s pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

##### (iii) Affiliated companies and other related parties

The Group’s material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows:

	<b>China Everbright Group</b> (Note V 47(a))	<b>Other affiliated companies</b>	<b>Others</b>	<b>Total</b>
Transactions with related parties for year ended 31 December 2021:				
Interest income	–	1,934	636	2,570
Interest expense	(72)	(371)	(659)	(1,102)

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 47 Related party relationships and transactions (continued)

## (b) Related party transactions (continued)

(iii) *Affiliated companies and other related parties* (continued)

	China Everbright Group (Note V 47(a))	Other affiliated companies	Others	Total
Balances with related parties as at 31 December 2021:				
Placements with banks and other financial institutions	–	3,300	–	3,300
Derivative financial assets	–	–	28	28
Financial assets held under resale agreements	–	114	–	114
Loans and advances to customers	–	8,899	14,523	23,422
Financial investments	104	46,963	1,514	48,581
Financial assets at fair value through profit or loss	–	15,769	1,514	17,283
Debt instruments at fair value through other comprehensive income	104	41	–	145
Financial investments measured at amortised cost	–	31,153	–	31,153
Other assets	–	731	2,317	3,048
<b>Total</b>	<b>104</b>	<b>60,007</b>	<b>18,382</b>	<b>78,493</b>
Deposits from banks and other financial institutions	–	15,511	14,905	30,416
Placements from banks and other financial institutions	–	370	–	370
Derivative financial liabilities	–	–	28	28
Financial assets sold under repurchase agreements	–	66	–	66
Deposits from customers	3,137	7,226	29,044	39,407
Other liabilities	–	115	1,122	1,237
<b>Total</b>	<b>3,137</b>	<b>23,288</b>	<b>45,099</b>	<b>71,524</b>
Significant other sheet items with related parties as at 31 December 2021:				
Guarantee granted (Note)	180	–	–	180

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (b) Related party transactions (continued)

##### (iii) *Affiliated companies and other related parties* (continued)

	China Everbright Group (Note V 47(a))	Other affiliated companies	Others	Total
Transactions with related parties for the year ended 31 December 2020:				
Interest income	–	422	1,242	1,664
Interest expense	(127)	(339)	(444)	(910)
Balances with related parties as at 31 December 2020:				
Placements with banks and other financial institutions	–	3,200	1,000	4,200
Derivative financial assets	–	–	21	21
Financial assets held under resale agreements	–	385	1,900	2,285
Loans and advances to customers	–	5,523	15,356	20,879
Financial investment	105	40,613	2,948	43,666
Financial assets at fair value through profit or loss	–	8,527	1,982	10,509
Debt instruments at fair value through other comprehensive income	105	40	213	358
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	32,046	655	32,701
Other assets	–	5	2,633	2,638
<b>Total</b>	<b>105</b>	<b>49,726</b>	<b>23,858</b>	<b>73,689</b>
Deposits from banks and other financial institutions	–	17,173	9,769	26,942
Derivative financial liabilities	–	–	23	23
Deposits from customers	4,284	9,815	39,412	53,511
Other liabilities	–	–	–	–
<b>Total</b>	<b>4,284</b>	<b>26,988</b>	<b>49,204</b>	<b>80,476</b>
Significant other sheet items with related parties as at 31 December 2020:				
Guarantee granted (Note)	180	–	–	180

Note: As at 31 December 2021, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2020: RMB180 million) due to one of the state-owned commercial banks.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 47 Related party relationships and transactions (continued)

##### (b) Related party transactions (continued)

##### (iv) Remuneration of directors, supervisors and senior management

	2021 RMB'000	2020 RMB'000
Remuneration	28,887	30,687
Retirement benefits	3,360	1,015
– Basic social pension insurance	618	486

The total compensation packages for senior management of the Group as at 31 December 2021 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's financial statements as at 31 December 2021.

##### (v) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2021 RMB'000	31 December 2020 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	9,290	8,708
Maximum aggregate amount of relevant loans outstanding during the year	9,376	8,738

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 48 Statement of financial position of the Bank

	Note V	31 December 2021	31 December 2020
<b>Assets</b>			
Cash and deposits with the central bank		377,846	360,131
Deposits with banks and other financial institutions		49,555	40,231
Precious metals		6,426	9,353
Placements with banks and other financial institutions		149,588	74,769
Derivative financial assets		13,705	25,262
Financial assets held under resale agreements		32,507	43,587
Loans and advances to customers		3,231,445	2,939,071
Financial investments		1,822,297	1,658,026
– Financial assets at fair value through profit or loss		378,113	299,768
– Debt instruments at fair value through other comprehensive income		318,343	216,324
– Equity instruments at fair value through other comprehensive income		1,120	870
– Financial investments measured at amortised cost		1,124,721	1,141,064
Investment in subsidiaries	19	12,983	12,983
Property, plant and equipment		15,836	15,698
Right-of-use assets		10,780	11,096
Goodwill		1,281	1,281
Deferred tax assets		18,517	18,444
Other assets		38,633	43,593
<b>Total assets</b>		<b>5,781,399</b>	<b>5,253,525</b>

## Notes to the Consolidated Financial Statements

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(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 48 Statement of financial position of the Bank (continued)

	31 December 2021	31 December 2020
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Due to the central bank	101,036	241,059
Deposits from banks and other financial institutions	528,061	473,926
Placements from banks and other financial institutions	98,520	89,948
Derivative financial liabilities	13,336	25,694
Financial assets sold under repurchase agreements	79,382	10,115
Deposits from customers	3,674,204	3,478,730
Accrued staff costs	16,385	14,874
Taxes payable	5,362	7,708
Lease liabilities	10,562	10,723
Debts securities issued	759,340	433,749
Other liabilities	19,953	18,698
<b>Total liabilities</b>	<b>5,306,141</b>	<b>4,805,224</b>
<b>Equity</b>		
Share capital	54,032	54,032
Other equity instrument	109,062	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	58,434	58,434
Other comprehensive income	3,390	1,509
Surplus reserve	26,245	26,245
General reserve	72,821	66,015
Retained earnings	151,274	133,004
<b>Total equity</b>	<b>475,258</b>	<b>448,301</b>
<b>Total liabilities and equity</b>	<b>5,781,399</b>	<b>5,253,525</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

#### **Corporate banking**

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

#### **Retail banking**

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

#### **Financial market business**

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

#### **Others**

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 49 Segment reporting (continued)

## (a) Segment results, assets and liabilities

	2021				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	23,337	64,538	24,280	–	112,155
Internal net interest income/(expense)	27,132	(19,792)	(7,340)	–	–
Net interest income	50,469	44,746	16,940	–	112,155
Net fee and commission income	7,947	18,493	874	–	27,314
Net trading gains	–	–	2,193	–	2,193
Dividend income	–	–	–	24	24
Net gains/(losses) arising from investment securities	–	–	10,134	(42)	10,092
Net gains on derecognition of financial assets measured at amortised cost	–	–	115	–	115
Foreign exchange gains/(losses)	313	47	(357)	–	3
Other net operating income	964	94	54	358	1,470
Operating income	59,693	63,380	29,953	340	153,366
Operating expenses	(18,901)	(24,644)	(1,853)	(142)	(45,540)
Credit impairment losses	(21,103)	(28,136)	(5,533)	–	(54,772)
Other impairment losses	(17)	(2)	(4)	–	(23)
Losses on investments of joint ventures	–	–	–	(90)	(90)
Profit before tax	19,672	10,598	22,563	108	52,941
Other segment information					
– Depreciation and amortisation	2,671	2,865	229	–	5,765
– Capital expenditure	2,162	2,993	197	–	5,352
	31 December 2021				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,302,005	1,555,303	2,023,110	475	5,880,893
Segment liabilities	2,912,103	927,093	1,575,081	3,404	5,417,681

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 49 Segment reporting (continued)

#### (a) Segment results, assets and liabilities (continued)

	2020				Total
	Corporate banking	Retail banking	Financial market business	Others	
Operating income					
External net interest income	22,059	57,769	30,869	–	110,697
Internal net interest income/(expense)	29,615	(15,583)	(14,032)	–	–
Net interest income	51,674	42,186	16,837	–	110,697
Net fee and commission income	7,011	16,335	1,063	–	24,409
Net trading gains	–	–	484	–	484
Dividend income	–	–	1	14	15
Net (losses)/gains arising from investment securities	(56)	7	5,225	27	5,203
Net gains on derecognition of financial assets measured at amortised cost	–	–	591	–	591
Foreign exchange gains/(losses)	268	69	(27)	–	310
Other net operating income	825	85	51	128	1,089
Operating income	59,722	58,682	24,225	169	142,798
Operating expenses	(16,341)	(22,147)	(1,679)	(168)	(40,335)
Credit impairment losses	(22,497)	(33,617)	(619)	–	(56,733)
Other impairment losses	(205)	11	(5)	–	(199)
Losses on investments of joint ventures	–	–	–	(5)	(5)
Profit before tax	20,679	2,929	21,922	(4)	45,526
Other segment information					
– Depreciation and amortisation	2,382	2,590	204	–	5,176
– Capital expenditure	2,677	3,921	264	–	6,862
	31 December 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,135,504	1,409,377	1,801,711	703	5,347,295
Segment liabilities	2,754,989	859,213	1,295,807	3,093	4,913,102

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 49 Segment reporting (continued)

##### (a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2021	31 December 2020
Segment assets		5,880,893	5,347,295
Goodwill	22	1,281	1,281
Deferred tax assets	23	19,895	19,587
<b>Total assets</b>		<b>5,902,069</b>	<b>5,368,163</b>
Segment liabilities		5,417,681	4,913,102
Dividend payables	36	22	21
<b>Total liabilities</b>		<b>5,417,703</b>	<b>4,913,123</b>

##### (b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include Property, plant and equipment, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- “Pearl River Delta” refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- “Bohai Rim” refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- “Central” refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 49 Segment reporting (continued)

#### (b) Geographical information (continued)

- “Western” refers to the areas serviced by the following branches of the Bank: Xi’an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;
- “Northeastern” refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- “Overseas” refers to the areas serviced by the Bank and the following branches, CEB International, CEB Europe: Hong Kong, Seoul, Luxembourg, Sydney; and
- “Head Office” refers to the head office of the Bank.

	Operating Income								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
2021	27,675	26,509	24,193	25,794	20,719	19,756	5,999	2,721	153,366
2020	27,558	23,186	21,384	24,855	19,917	17,214	6,042	2,642	142,798

	Non-current Asset (Note(i))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
31 December 2021	3,698	3,342	11,580	12,683	2,846	2,831	1,338	557	38,875
31 December 2020	3,813	3,410	10,395	11,137	2,968	3,077	1,393	539	36,732

Note:

(i) Including property, plant and equipment, right-of-use assets, intangible assets and land use rights.

### 50 Risk Management

The Group’s primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group’s depositors and other stakeholders for the Group’s prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group’s exposure to each of the above risks and their sources, and the Group’s objectives, policies and procedures for measuring and managing these risks.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

##### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

##### *Credit business*

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Finance Department, Investment Banking Department, Inclusive Finance Department, Credit Card Centre, Retail Credit Department, Digital Finance Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Bank. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit business* (continued)

- The Bank’s main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of “Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution”.
- The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group’s credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower’s repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implemented control processes of “separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping” to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardized review and approval policies and process in accordance with the principle of “separation of review and approval” and “hierarchical approval” have been established for this process. The Group monitors borrowers’ repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

##### (a) Credit risk (continued)

##### *Credit business* (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loans.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Treasury business*

The Group implemented differentiated risk access standards of investments, and ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group has set credit risk limits for different counterparties, taking into consideration factors including industries, single borrowers and ratings. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

##### *Credit risk measurement*

###### *Measurement of ECL*

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of the each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

##### (a) Credit risk (continued)

##### *Credit risk measurement* (continued)

##### *Measurement of ECL* (continued)

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Management overlay
- Modification of contract cash flows

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit risk measurement* (continued)

##### *Measurement of ECL* (continued)

##### Criteria for judging significant increases in credit risk (continued)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

##### Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

##### Qualitative criteria

- Significant adverse change in debtors' operation or financial status
- Be classified into Special Mention category within five-tier loan classification

##### Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes to the impact of COVID-19 on these borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition. For borrowers who applied for temporary deferral of principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group did not consider these support measures as triggers of a significant increase in credit risk.

##### Criteria for judging significant increases in credit risk

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

##### (a) Credit risk (continued)

##### *Credit risk measurement* (continued)

##### *Measurement of ECL* (continued)

##### Criteria for judging significant increases in credit risk (continued)

- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

##### Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

##### Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI, investment in property, plant and equipment.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit risk measurement* (continued)

##### *Measurement of ECL* (continued)

##### Forward-looking information (continued)

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In 2021, the key assumptions the Group has taken include the GDP growth rate, the CPI growth rate, the investment in property, plant and equipment growth rate. The GDP growth rate: the predicted value under the base economic scenario during the year of 2022 is 5.35%, the optimistic predicted value is 6.3%, the pessimistic predicted value is 4.5%.

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

##### Management overlay

The business failure or default has not appeared given the deferral of loan payments offered to borrowers, and therefore, the potential risks arising from the COVID-19 epidemic may not yet be fully captured by the ECL model. The ECL allowance would reflect the ECL through management overlays by adjusting parameters on a disrupted portfolio basis.

##### Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1 and impairment allowance is measured at an amount equal to the 12-months ECL instead of the lifetime ECL.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 50 Risk Management (continued)

## (a) Credit risk (continued)

## (i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note V 53(a).

	31 December 2021				
	Stage 1	Stage 2	Stage 3	N/A	Total
<b>Assets</b>					
Cash and deposits with the central bank	378,263	–	–	–	378,263
Deposits with banks and other financial institutions	51,189	–	–	–	51,189
Placements with banks and other financial institutions	138,215	–	134	–	138,349
Financial assets held under resale agreements	31,164	–	–	–	31,164
Loans and advances to customers	3,106,200	112,504	20,692	–	3,239,396
Finance lease receivables	106,003	2,858	192	–	109,053
Financial investments	1,434,156	5,440	11,629	68,184	1,519,409
Others (Note)	27,347	–	–	13,705	41,052
<b>Total</b>	<b>5,272,537</b>	<b>120,802</b>	<b>32,647</b>	<b>81,889</b>	<b>5,507,875</b>
	31 December 2020				
	Stage 1	Stage 2	Stage 3	N/A	Total
<b>Assets</b>					
Cash and deposits with the central bank	360,287	–	–	–	360,287
Deposits with banks and other financial institutions	46,059	–	–	–	46,059
Placements with banks and other financial institutions	69,140	–	150	–	69,290
Financial assets held under resale agreements	43,592	–	–	–	43,592
Loans and advances to customers	2,812,466	105,109	24,860	–	2,942,435
Finance lease receivables	96,564	3,970	254	–	100,788
Financial investments	1,352,310	5,075	7,247	52,565	1,417,197
Others (Note)	33,504	–	–	25,264	58,768
<b>Total</b>	<b>4,813,922</b>	<b>114,154</b>	<b>32,511</b>	<b>77,829</b>	<b>5,038,416</b>

Note: Others comprise derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### (ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2021	31 December 2020
<i>Impaired</i>		
Carrying amount	300	666
Provision for impairment losses	(166)	(516)
Subtotal	134	150
<i>Neither overdue nor impaired</i>		
– grade A to AAA	209,720	151,764
– grade B to BBB	1,118	1,123
– unrated (Note)	9,730	5,904
Subtotal	220,568	158,791
Total	220,702	158,941

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2021	31 December 2020
<i>Impaired</i>		
Carrying amount	18,814	9,984
Provision for impairment losses	(7,649)	(2,734)
Subtotal	11,165	7,250
<i>Neither overdue nor impaired</i>		
<i>Bloomberg Composite</i>		
– grade AA- to AA+	3,599	32,504
– grade A- to A+	20,275	31,773
– grade lower than A-	12,790	23,035
Subtotal	36,664	87,312
<i>Other agency ratings</i>		
– grade AAA	964,608	955,020
– grade AA- to AA+	310,143	105,717
– grade A- to A+	29,168	4,075
– grade lower than A-	17,619	3,065
– unrated	150,042	254,758
Subtotal	1,471,580	1,322,635
Total	A-418 1,519,409	1,417,197

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

##### (b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk (continued)

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc. The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

#### *Interest rate risk*

The Group is primarily exposed to interest rate risk arising from gap risk, basis risk and trading interest rate risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value. The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

#### *Gap risk*

Gap risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of the repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

#### *Basis risk*

Basis risk, is caused by interest rates on different pricing basis on the on-and off- balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

#### *Trading interest rate risk*

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

## Notes to the Consolidated Financial Statements

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

##### (b) Market risk (continued)

##### *Interest rate risk* (continued)

(i) *The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year:*

	31 December 2021						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>							
Cash and deposits with the central bank	1.47%	378,263	21,046	357,217	-	-	-
Deposits with banks and other financial institutions	0.51%	51,189	27	49,762	1,400	-	-
Placements with banks and other financial institutions	1.72%	138,349	355	92,158	34,543	11,293	-
Financial assets held under resale agreements	2.19%	31,164	2	31,162	-	-	-
Loans and advances to customers	5.11%	3,239,396	30,194	2,437,291	683,200	86,353	2,358
Finance lease receivables	5.81%	109,053	1,415	25,703	55,661	20,253	6,021
Financial investments	3.72%	1,836,016	367,692	125,673	199,395	698,872	444,384
Others	-	118,639	115,839	-	-	-	2,800
<b>Total assets</b>	<b>4.42%</b>	<b>5,902,069</b>	<b>536,570</b>	<b>3,118,966</b>	<b>974,199</b>	<b>816,771</b>	<b>455,563</b>

	31 December 2021						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Liabilities</b>							
Due to the central bank	2.99%	101,180	1,037	7,606	92,537	-	-
Deposits from banks and other financial institutions	2.45%	526,259	1,788	425,612	97,417	1,442	-
Placements from banks and other financial institutions	2.02%	179,626	713	90,908	88,005	-	-
Financial assets sold under repurchase agreements	1.78%	80,600	15	76,318	2,336	1,931	-
Deposits from customers	2.22%	3,675,743	62,116	2,002,866	732,266	878,404	91
Debt securities issued	2.92%	763,532	2,959	202,883	503,394	54,296	-
Others	-	90,763	79,566	10,884	223	87	3
<b>Total liabilities</b>	<b>2.35%</b>	<b>5,417,703</b>	<b>148,194</b>	<b>2,817,077</b>	<b>1,516,178</b>	<b>936,160</b>	<b>94</b>
<b>Asset-liability gap</b>	<b>2.07%</b>	<b>484,366</b>	<b>388,376</b>	<b>301,889</b>	<b>(541,979)</b>	<b>(119,389)</b>	<b>455,469</b>



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk (continued)

##### *Interest rate risk* (continued)

- (i) *The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year:(continued)*

	31 December 2020						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>							
Cash and deposits with the central bank	1.44%	360,287	16,919	343,368	-	-	-
Deposits with banks and other financial institutions	1.03%	46,059	59	45,301	699	-	-
Placements with banks and other financial institutions	1.81%	69,290	179	55,669	11,305	2,137	-
Financial assets held under resale agreements	1.90%	43,592	3	43,589	-	-	-
Loans and advances to customers	5.37%	2,942,435	29,462	2,277,700	564,325	67,246	3,702
Finance lease receivables	5.89%	100,788	1,381	21,375	51,532	19,700	6,800
Financial investments	4.00%	1,670,415	278,855	103,537	209,932	681,052	397,039
Others	-	135,297	132,039	-	-	-	3,258
<b>Total assets</b>	<b>4.59%</b>	<b>5,368,163</b>	<b>458,897</b>	<b>2,890,539</b>	<b>837,793</b>	<b>770,135</b>	<b>410,799</b>

	31 December 2020						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Liabilities</b>							
Due to the central bank	3.23%	241,110	2,359	20,303	218,448	-	-
Deposits from banks and other financial institutions	2.27%	469,345	1,824	296,698	170,823	-	-
Placements from banks and other financial institutions	2.29%	161,879	475	91,453	69,951	-	-
Financial assets sold under repurchase agreements	1.90%	14,182	12	10,216	3,505	449	-
Deposits from customers	2.30%	3,480,642	50,225	2,008,938	561,854	859,601	24
Debt securities issued	3.04%	440,870	1,842	125,872	265,672	799	46,685
Others	-	105,095	90,165	10,214	3,625	1,091	-
<b>Total liabilities</b>	<b>2.39%</b>	<b>4,913,123</b>	<b>146,902</b>	<b>2,563,694</b>	<b>1,293,878</b>	<b>861,940</b>	<b>46,709</b>
<b>Asset-liability gap</b>	<b>2.20%</b>	<b>455,040</b>	<b>311,995</b>	<b>326,845</b>	<b>(456,085)</b>	<b>(91,805)</b>	<b>364,090</b>

\* *The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.*

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

##### (b) Market risk (continued)

##### *Interest rate risk* (continued)

##### (ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2021, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB2,177 million (31 December 2020: increase by RMB96 million), and equity to decrease by RMB9,296 million (31 December 2020: decrease by RMB5,603 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB2,333 million (31 December 2020: increase by RMB125 million), and equity to increase by RMB9,855 million (31 December 2020: increase by RMB6,189 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rate movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the portfolio of asset and liability;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

##### *Foreign currency risk*

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk (continued)

##### *Foreign currency risk* (continued)

The Group's currency exposures as at the end of the year are as follows:

	31 December 2021			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with the central bank	361,425	14,942	1,896	378,263
Deposits with banks and other financial institutions	17,284	26,377	7,528	51,189
Placements with banks and other financial institutions	84,508	46,782	7,059	138,349
Financial assets held under resale agreements	31,029	–	135	31,164
Loans and advances to customers	3,083,882	93,185	62,329	3,239,396
Financial lease receivables	108,230	823	–	109,053
Financial investments	1,744,976	66,766	24,274	1,836,016
Others	103,446	13,758	1,435	118,639
<b>Total assets</b>	<b>5,534,780</b>	<b>262,633</b>	<b>104,656</b>	<b>5,902,069</b>
<b>Liabilities</b>				
Due to the central bank	101,180	–	–	101,180
Deposits from banks and other financial institutions	524,463	265	1,531	526,259
Placements from banks and other financial institutions	84,283	64,636	30,707	179,626
Financial assets sold under repurchase agreements	72,972	1,828	5,800	80,600
Deposits from customers	3,445,129	199,292	31,322	3,675,743
Debt securities issued	701,662	56,446	5,424	763,532
Others	79,603	9,375	1,785	90,763
<b>Total liabilities</b>	<b>5,009,292</b>	<b>331,842</b>	<b>76,569</b>	<b>5,417,703</b>
<b>Net position</b>	<b>525,488</b>	<b>(69,209)</b>	<b>28,087</b>	<b>484,366</b>
Off-balance sheet credit commitments	1,304,615	49,136	15,853	1,369,604
Derivative financial instruments (Note)	(56,670)	69,135	(24,128)	(11,663)

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 50 Risk Management (continued)

## (b) Market risk (continued)

*Foreign currency risk* (continued)

	31 December 2020			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with the central bank	350,913	7,130	2,244	360,287
Deposits with banks and other financial institutions	24,342	15,547	6,170	46,059
Placements with banks and other financial institutions	24,169	37,239	7,882	69,290
Financial assets held under resale agreements	43,587	1	4	43,592
Loans and advances to customers	2,783,150	101,459	57,826	2,942,435
Finance lease receivables	99,987	801	–	100,788
Financial investments	1,571,828	76,004	22,583	1,670,415
Others	128,429	5,527	1,341	135,297
<b>Total assets</b>	<b>5,026,405</b>	<b>243,708</b>	<b>98,050</b>	<b>5,368,163</b>
<b>Liabilities</b>				
Due to the central bank	241,110	–	–	241,110
Deposits from banks and other financial institutions	467,908	1,162	275	469,345
Placements from banks and other financial institutions	73,335	69,320	19,224	161,879
Financial assets sold under repurchase agreements	7,977	2,603	3,602	14,182
Deposits from customers	3,299,868	144,010	36,764	3,480,642
Debt securities issued	391,668	43,604	5,598	440,870
Others	99,361	2,009	3,725	105,095
<b>Total liabilities</b>	<b>4,581,227</b>	<b>262,708</b>	<b>69,188</b>	<b>4,913,123</b>
<b>Net position</b>	<b>445,178</b>	<b>(19,000)</b>	<b>28,862</b>	<b>455,040</b>
Off-balance sheet credit commitments	1,420,403	42,432	13,711	1,476,546
Derivative financial instruments (Note)	7,129	19,193	(25,909)	413

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk (continued)

##### *Foreign currency risk* (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the end of the year, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2021	31 December 2020
Exchange rates against RMB for the HK dollar	0.8176	0.8428
Exchange rates against RMB for the US dollar	6.3748	6.5337

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2021, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB5 million (31 December 2020: increase by RMB4 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB5 million (31 December 2020: decrease by RMB4 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;
- At the end of the reporting year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;
- Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

##### (b) Market risk (continued)

###### *Price risk*

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

##### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2021							Total
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>								
Cash and deposits with the central bank	283,955	94,308	-	-	-	-	-	378,263
Deposits with banks and other financial institutions	-	47,360	566	1,863	1,400	-	-	51,189
Placements with banks and other financial institutions	134	-	57,707	34,529	34,635	11,344	-	138,349
Financial asset held under resale agreements	-	-	31,164	-	-	-	-	31,164
Loans and advances to customers	40,247	424,929	138,685	204,972	848,399	758,453	823,711	3,239,396
Finance lease receivables	35	163	3,838	5,530	21,367	70,938	7,182	109,053
Financial investments	25,339	257,058	36,931	60,363	219,216	756,178	480,931	1,836,016
Others	68,841	33,293	1,980	1,797	2,715	7,197	2,816	118,639
<b>Total assets</b>	<b>418,551</b>	<b>857,111</b>	<b>270,871</b>	<b>309,054</b>	<b>1,127,732</b>	<b>1,604,110</b>	<b>1,314,640</b>	<b>5,902,069</b>

	31 December 2021							Total
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Liabilities</b>								
Due to the central bank	-	-	2	7,802	93,376	-	-	101,180
Deposits from banks and other financial institutions	-	195,213	81,904	149,184	98,516	1,442	-	526,259
Placements from banks and other financial institutions	-	6	48,460	42,837	88,323	-	-	179,626
Financial assets sold under repurchase agreements	-	-	73,810	2,520	2,338	1,932	-	80,600
Deposits from customers	-	1,428,708	242,027	369,592	713,016	891,849	30,551	3,675,743
Debt securities issued	-	-	37,863	129,319	511,269	85,081	-	763,532
Others	-	49,395	3,413	2,537	5,896	23,195	6,327	90,763
<b>Total liabilities</b>	<b>-</b>	<b>1,673,322</b>	<b>487,479</b>	<b>703,791</b>	<b>1,512,734</b>	<b>1,003,499</b>	<b>36,878</b>	<b>5,417,703</b>
<b>Net position</b>	<b>418,551</b>	<b>(816,211)</b>	<b>(216,608)</b>	<b>(394,737)</b>	<b>(385,002)</b>	<b>600,611</b>	<b>1,277,762</b>	<b>484,366</b>
Notional amount of derivative financial instruments	-	-	383,509	239,565	438,142	820,304	1,848	1,883,368

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 50 Risk Management (continued)

##### (c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year: (continued)

	31 December 2020							Total
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>								
Cash and deposits with the central bank	299,538	60,749	-	-	-	-	-	360,287
Deposits with banks and other financial institutions	-	40,161	1,100	4,098	700	-	-	46,059
Placements with banks and other financial institutions	150	-	45,942	9,673	11,351	2,174	-	69,290
Financial asset held under resale agreements	-	-	43,592	-	-	-	-	43,592
Loans and advances to customers	42,303	422,190	137,773	174,521	672,559	749,441	743,648	2,942,435
Finance lease receivables	197	67	3,382	4,918	18,663	62,723	10,838	100,788
Financial investments	21,283	214,456	45,807	49,441	210,493	717,712	411,223	1,670,415
Others	69,169	37,606	2,748	4,458	10,652	6,080	4,584	135,297
<b>Total assets</b>	<b>432,640</b>	<b>775,229</b>	<b>280,344</b>	<b>247,109</b>	<b>924,418</b>	<b>1,538,130</b>	<b>1,170,293</b>	<b>5,368,163</b>
<b>Liabilities</b>								
Due to the central bank	-	-	13,195	7,712	220,203	-	-	241,110
Deposits from banks and other financial institutions	-	154,114	70,330	72,828	172,073	-	-	469,345
Placements from banks and other financial institutions	-	6	44,194	47,445	70,234	-	-	161,879
Financial assets sold under repurchase agreements	-	-	7,132	3,093	3,508	449	-	14,182
Deposits from customers	-	1,303,922	289,829	447,446	568,955	870,466	24	3,480,642
Debt securities issued	-	-	5,450	81,580	270,937	34,772	48,131	440,870
Others	-	47,528	4,091	5,738	20,345	19,287	8,106	105,095
<b>Total liabilities</b>	<b>-</b>	<b>1,505,570</b>	<b>434,221</b>	<b>665,842</b>	<b>1,326,255</b>	<b>924,974</b>	<b>56,261</b>	<b>4,913,123</b>
<b>Net position</b>	<b>432,640</b>	<b>(730,341)</b>	<b>(153,877)</b>	<b>(418,733)</b>	<b>(401,837)</b>	<b>613,156</b>	<b>1,114,032</b>	<b>455,040</b>
Notional amount of derivative financial instruments	-	-	326,206	252,135	820,303	767,683	43,970	2,210,297



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the year:

	31 December 2021							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	101,180	103,136	-	2	7,832	95,302	-	-
Deposits from banks and other financial institutions	526,259	529,293	195,668	82,009	150,733	99,439	1,444	-
Placements from banks and other financial institutions	179,626	181,293	6	48,505	43,129	89,653	-	-
Financial assets sold under repurchase agreements	80,600	82,195	-	75,391	2,523	2,344	1,937	-
Deposits from customers	3,675,743	3,747,415	1,428,709	245,370	373,963	731,797	937,005	30,571
Debt securities issued	763,532	790,079	-	38,466	136,112	518,738	96,763	-
Other financial liabilities	51,901	54,609	23,912	1,644	669	3,417	17,346	7,621
<b>Total non-derivative financial liabilities</b>	<b>5,378,841</b>	<b>5,488,020</b>	<b>1,648,295</b>	<b>491,387</b>	<b>714,961</b>	<b>1,540,690</b>	<b>1,054,495</b>	<b>38,192</b>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		433	-	47	(7)	62	329	2
Derivative financial instruments settled on gross basis								
- Cash inflow		835,750	-	355,824	192,172	274,567	13,187	-
- Cash outflow		(691,673)	-	(253,563)	(164,043)	(260,875)	(13,192)	-
<b>Total derivative financial liabilities</b>		<b>144,077</b>	<b>-</b>	<b>102,261</b>	<b>28,129</b>	<b>13,692</b>	<b>(5)</b>	<b>-</b>

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 50 Risk Management (continued)

## (c) Liquidity risk (continued)

	31 December 2020							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	241,110	245,941	-	13,216	7,743	224,982	-	-
Deposits from banks and other financial institutions	469,345	473,815	154,386	70,407	73,938	175,084	-	-
Placements from banks and other financial institutions	161,879	164,280	6	44,239	47,871	72,164	-	-
Financial assets sold under repurchase agreements	14,182	14,205	-	7,132	3,099	3,523	451	-
Deposits from customers	3,480,642	3,527,084	1,303,923	294,044	454,407	578,814	895,866	30
Debt securities issued	440,870	469,431	-	6,838	85,830	272,371	51,483	52,909
Other financial liabilities	51,090	54,007	19,300	569	1,776	10,235	14,172	7,955
<b>Total non-derivative financial liabilities</b>	<b>4,859,118</b>	<b>4,948,763</b>	<b>1,477,615</b>	<b>436,445</b>	<b>674,664</b>	<b>1,337,173</b>	<b>961,972</b>	<b>60,894</b>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		(513)	-	2	(3)	(123)	(323)	(66)
Derivative financial instruments settled on gross basis								
- Cash inflow		1,076,507	-	301,281	213,938	514,515	5,694	41,079
- Cash outflow		(1,076,200)	-	(300,960)	(213,583)	(514,822)	(5,759)	(41,076)
<b>Total derivative financial liabilities</b>		<b>307</b>	<b>-</b>	<b>321</b>	<b>355</b>	<b>(307)</b>	<b>(65)</b>	<b>3</b>

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2021			Total
	Within one year	Between one year and five years	More than five years	
Loan and credit card commitments	357,503	957	2,925	361,385
Guarantees, acceptances and other credit commitments	962,529	44,584	1,106	1,008,219
<b>Total</b>	<b>1,320,032</b>	<b>45,541</b>	<b>4,031</b>	<b>1,369,604</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year: (continued)

	31 December 2020			Total
	Within one year	Between one year and five years	More than five years	
Loan and credit card commitments	348,503	1,159	2,334	351,996
Guarantees, acceptances and other credit commitments	1,074,877	48,265	1,408	1,124,550
<b>Total</b>	<b>1,423,380</b>	<b>49,424</b>	<b>3,742</b>	<b>1,476,546</b>

#### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

## Notes to the Consolidated Financial Statements

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 51 Fair value

##### (a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

##### (i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

##### (ii) *Receivables and other non-derivative financial assets*

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the year.

##### (iii) *Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

##### (iv) *Derivative financial instruments*

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Thomson Reuters' quoted price.

##### (b) Fair value measurement

##### (i) *Financial assets*

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 51 Fair value (continued)

#### (b) Fair value measurement (continued)

##### (i) *Financial assets* (continued)

Loans and advances to customers measured at amortised cost, finance lease receivables and financial investments measured at amortised cost, except for bond investments and asset-backed securities, are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, and equity instruments at fair value through other comprehensive income presented at fair value.

##### (ii) *Financial liabilities*

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

Financial liabilities at fair value through profit or loss and derivative financial liabilities presented at fair value.

The tables below summarise the carrying amounts and fair values of “debt securities and asset-backed instruments measured at amortised cost”, and “debt securities issued” not presented at fair value at the end of year:

	Carrying value		Fair value	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	991,472	935,651	1,003,770	944,985
<b>Financial liabilities</b>				
Debt securities issued	763,532	440,870	751,799	440,017

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 51 Fair value (continued)

##### (b) Fair value measurement (continued)

##### (ii) *Financial liabilities* (continued)

Debt securities and asset-backed instruments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd..

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

##### (c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg, Thomsom Reuters and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated unlisted equity and derivative contracts with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 51 Fair value (continued)

#### (c) Fair value hierarchy (continued)

##### *Assets and liabilities measured at fair value*

	31 December 2021			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
<i>Derivative financial assets</i>				
– Currency derivatives	–	7,234	–	7,234
– Interest rate derivatives	–	6,470	–	6,470
– Credit derivatives	–	–	1	1
<i>Loan and advances to customers</i>	–	155,647	–	155,647
<i>Financial assets at fair value through profit or loss</i>				
– Debt instruments held for trading	2,051	48,840	–	50,891
– Other financial assets at fair value through profit or loss	255,682	66,775	10,318	332,775
<i>Debt instruments at fair value through other comprehensive income</i>	56,912	268,716	67	325,695
<i>Equity instruments at fair value through other comprehensive income</i>	23	–	1,102	1,125
<b>Total</b>	<b>314,668</b>	<b>553,682</b>	<b>11,488</b>	<b>879,838</b>
<b>Liabilities</b>				
<i>Financial liabilities at fair value through profit or loss</i>	67	–	–	67
<i>Derivative financial liabilities</i>				
– Currency derivatives	–	6,614	–	6,614
– Interest rate derivatives	–	6,723	–	6,723
<b>Total</b>	<b>67</b>	<b>13,337</b>	<b>–</b>	<b>13,404</b>

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 51 Fair value (continued)

## (c) Fair value hierarchy (continued)

*Assets and liabilities measured at fair value* (continued)

	31 December 2020			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<i>Derivative financial assets</i>				
– Currency derivatives	–	19,441	–	19,441
– Interest rate derivatives	–	5,819	2	5,821
– Credit derivatives	–	2	–	2
<i>Loans and advances to customers</i>	–	98,211	–	98,211
<i>Financial assets at fair value through profit or loss</i>				
– Debt instruments held for trading	4,391	28,649	–	33,040
– Financial assets designated at fair value through profit or loss	–	–	1	1
– Other financial assets at fair value through profit or loss	213,781	47,723	10,363	271,867
<i>Debt instruments at fair value through other comprehensive income</i>	51,111	171,696	–	222,807
<i>Equity instruments at fair value through other comprehensive income</i>	23	–	852	875
<b>Total</b>	<b>269,306</b>	<b>371,541</b>	<b>11,218</b>	<b>652,065</b>
<b>Liabilities</b>				
<i>Financial liabilities at fair value through profit or loss</i>	4	–	–	4
<i>Derivative financial liabilities</i>				
– Currency derivatives	–	19,355	–	19,355
– Interest rate derivatives	–	6,338	2	6,340
– Credit derivatives	–	83	–	83
<b>Total</b>	<b>4</b>	<b>25,776</b>	<b>2</b>	<b>25,782</b>



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 51 Fair value (continued)

#### (c) Fair value hierarchy (continued)

##### *Assets and liabilities measured at fair value* (continued)

The movements during the year ended 31 December 2021 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Debt instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2021	2	10,364	852	–	11,218	(2)	(2)
Transferred to level 3	–	250	–	67	317	–	–
Transferred from level 3	–	(634)	–	–	(634)	–	–
Total gain or loss:							
– Recognised in the profit or loss	–	(489)	–	–	(489)	–	–
Purchases	1	941	250	–	1,192	–	–
Settlements	(2)	(114)	–	–	(116)	2	2
31 December 2021	1	10,318	1,102	67	11,488	–	–
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	–	(489)	–	–	(489)	–	–

The movements during the year ended 31 December 2020 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2020	2	4,034	602	4,638	(3)	(3)
Total gains or losses:						
– In profit or loss	1	65	–	66	(1)	(1)
Purchases	–	6,396	250	6,646	–	–
Settlements	(1)	(131)	–	(132)	2	2
31 December 2020	2	10,364	852	11,218	(2)	(2)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	1	65	–	66	(1)	(1)

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 51 Fair value (continued)

##### (c) Fair value hierarchy (continued)

###### *Financial assets and liabilities not measured at fair value*

The tables below summarise the three levels' fair values of "debt securities and asset-backed instruments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	31 December 2021			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	184,283	819,487	–	1,003,770
<b>Financial liabilities</b>				
Debt securities issued	23,262	728,537	–	751,799
	31 December 2020			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	161,862	783,123	–	944,985
<b>Financial liabilities</b>				
Debt securities issued	25,558	414,459	–	440,017

##### (d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity and derivative contracts. These financial instruments are valued using cash flow discount model and market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2021, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 52 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December 2021	31 December 2020
Entrusted loans	105,138	125,827
Entrusted funds	105,138	125,827

### 53 Commitments and contingent liabilities

#### (a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2021	31 December 2020
Loan commitments		
– Original contractual maturity within one year	15,635	16,758
– Original contractual maturity more than one year (inclusive)	7,564	7,939
Credit card commitments	338,186	327,299
Subtotal	361,385	351,996
Acceptances	669,088	769,458
Letters of guarantee	121,565	130,425
Letters of credit	217,381	224,482
Guarantees	185	185
Total	1,369,604	1,476,546

The Group may be exposed to credit risk in all the credit businesses above. Group management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 53 Commitments and contingent liabilities (continued)

##### (b) Credit risk-weighted amount of credit commitments

	31 December 2021	31 December 2020
Credit risk-weighted amount of credit commitments	409,233	382,659

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

##### (c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2021	31 December 2020
Contracted but not paid – Purchase of property and equipment	2,139	1,962
Approved but not contracted for – Purchase of property and equipment	4,530	4,445
Total	6,669	6,407

##### (d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2021.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2021	31 December 2020
Redemption commitments	5,393	5,918

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 53 Commitments and contingent liabilities (continued)

#### (e) Outstanding litigations and disputes

As at 31 December 2021, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB674 million (31 December 2020: RMB1,262 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note V 36). The Group considers that the provisions made are reasonable and adequate.

### 54 Subsequent Events

The Group has no significant subsequent event.

### 55 Comparative figures

On 29 June 2021, the 28th meeting of the Eighth Session of the Board of Directors of the Bank considered and approved a motion for CEB International Investment Co., Ltd., a wholly-owned subsidiary of the Bank, to invest in Everbright Cloud Payment Technology Co., Ltd.. On 18 September 2021, Everbright Cloud Payment Technology Limited completed the business change registration after the restructuring. CEB International Investment Co., Ltd. holds 51% of the shares of the company, which has been included in the Group's consolidated financial statements. This event constitutes a business combination under common control, the impact of the combination does not have any significant impact on the consolidated financial statements of Everbright Bank. The Group has made retrospective adjustments to the relevant items in the comparative financial statements.

# Independent Auditor's Report

**To the shareholders of China Everbright Bank Company Limited**  
*(Established in the People's Republic of China with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Expected credit losses for loans and advances to customers</i>	
<p>The Group uses a number of models and assumptions in the measurement of expected credit losses, for example:</p> <ul style="list-style-type: none"> <li>• Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans and advances with longer remaining periods to maturity;</li> <li>• Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions;</li> <li>• Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights;</li> <li>• Whether financial assets are credit-impaired – The determination of whether a credit impairment has occurred requires consideration of a number of factors and the measurement of its expected credit loss is dependent on estimates of expected future cash flows.</li> </ul>	<p>We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems.</p> <p>We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.</p> <p>With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:</p> <ol style="list-style-type: none"> <li>1. Expected credit loss model: <ul style="list-style-type: none"> <li>• In response to the macroeconomic changes, we assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and whether there was a significant increase in credit risk.</li> </ul> </li> </ol>
<p>Since expected credit losses measurement involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2022, gross loans and advances to customers amounted to RMB3,582.531 billion, representing 56.86% of total assets, and impairment allowance for loans and advances to customers amounted to RMB83.956 billion), impairment of loans and advances is considered a key audit matter.</p>	<ul style="list-style-type: none"> <li>• We assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions and the weight of multiple macroeconomic scenarios; and</li> <li>• We assessed the reasonableness of management's determination of credit impairment. For credit-impaired loans and advances, we analysed the amount, timing and probability of management's estimated future cash flows, especially the recoverable cash flows from collateral.</li> </ul>
<p>Relevant disclosures are included in Note III 1, Note V 16 and Note V 50(a) to the consolidated financial statements.</p>	

## Independent Auditor's Report

## KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Expected credit losses for loans and advances to customers (continued)</i>	<p data-bbox="775 426 1396 454">2. Design and operating effectiveness of key controls:</p> <ul data-bbox="836 491 1396 871" style="list-style-type: none"> <li data-bbox="836 491 1396 681">• We evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and</li> <li data-bbox="836 717 1396 871">• We evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration.</li> </ul> <p data-bbox="775 907 1396 1000">We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and the impairment allowance.</p>



## KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of financial instruments</i>	
<p>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p>	<p>We assessed and tested the design and operating effectiveness of key controls related to the valuation of financial instruments.</p>
<p>As at 31 December 2022, the book value of financial assets and financial liabilities measured at fair value amounted to RMB1,084.322 billion and RMB14.288 billion respectively, representing 17.21% and 0.25% of total assets and total liabilities, respectively. Financial instruments which required either direct (i.e. prices) or indirect (i.e. derived from prices) inputs, hence categorised within Level 2 of the fair value hierarchy, represented 73.82% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 0.84% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter.</p>	<p>We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p>
<p>Relevant disclosures are included in Note III 2 and Note V 51(c) to the consolidated financial statements.</p>	<p>We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value.</p>

## Independent Auditor's Report

## KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Consolidation assessment of, and disclosures about structured entities</i>	
<p>In the process of conducting business of financial investment, asset management and credit asset transfer, the Group issued financial products and held the rights and interests of different structured entities, including wealth management products, funds and trust plans. The Group determines whether these structured entities are to be consolidated based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns.</p>	<p>We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity.</p>
<p>The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control rights involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, this is considered a key audit matter.</p>	<p>We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities.</p>
<p>Relevant disclosures are included in Note III 6 and Note V 43 to the consolidated financial statements.</p>	<p>We assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.</p>

## OTHER INFORMATION INCLUDED IN THE BANK'S 2022 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Independent Auditor's Report

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

*Certified Public Accountants*  
Hong Kong  
24 March 2023

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2022	2021
Interest income		241,309	229,334
Interest expense		(127,654)	(117,179)
<b>Net interest income</b>	1	113,655	112,155
Fee and commission income		30,077	30,131
Fee and commission expense		(3,333)	(2,817)
<b>Net fee and commission income</b>	2	26,744	27,314
Net trading gains	3	2,470	2,193
Dividend income		49	24
Net gains arising from investment securities	4	6,416	10,092
Net gains on derecognition of financial assets measured at amortised cost		858	115
Net foreign exchange gains		484	3
Other net operating income		1,189	1,470
<b>Operating income</b>		151,865	153,366
Operating expenses	5	(45,227)	(45,540)
Credit impairment losses	8	(50,600)	(54,772)
Other impairment losses		(9)	(23)
<b>Operating profit</b>		56,029	53,031
Losses on investment of joint ventures		(63)	(90)
<b>Profit before tax</b>		55,966	52,941
Income tax	9	(10,926)	(9,302)
<b>Net profit</b>		45,040	43,639
<b>Net profit attributable to:</b>			
Equity shareholders of the Bank		44,807	43,407
Non-controlling interests		233	232
		45,040	43,639
<b>Earnings per share</b>			
Basic earnings per share (in RMB/share)	10	0.74	0.71
Diluted earnings per share (in RMB/share)	10	0.67	0.65

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

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2022	2021
<b>Net profit</b>		45,040	43,639
<b>Other comprehensive income, net of tax:</b>			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits		(135)	(287)
Subtotal		(135)	(287)
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		(5,046)	2,828
– Changes in allowance for expected credit losses		834	112
– Reclassified to the profit or loss upon disposal		(774)	(126)
– Related income tax effect	23(b)	1,201	(685)
– Exchange differences on translation of financial statements		180	(83)
Subtotal		(3,605)	2,046
<b>Other comprehensive income, net of tax</b>		(3,740)	1,759
<b>Total comprehensive income</b>		41,300	45,398
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		41,065	45,166
Non-controlling interests		235	232
		41,300	45,398

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

# Consolidated Statement of Financial Position

As at 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2022	31 December 2021
<b>Assets</b>			
Cash and deposits with the central bank	11	356,426	378,263
Deposits with banks and other financial institutions	12	32,073	51,189
Precious metals		7,187	6,426
Placements with banks and other financial institutions	13	129,979	138,349
Derivative financial assets	14	15,730	13,705
Financial assets held under resale agreements	15	28	31,164
Loans and advances to customers	16	3,499,351	3,239,396
Finance lease receivables	17	108,012	109,053
Financial investments	18	2,046,612	1,836,016
– Financial assets at fair value through profit or loss		403,617	383,666
– Debt instruments at fair value through other comprehensive income		449,596	325,695
– Equity instruments at fair value through other comprehensive income		1,126	1,125
– Financial investments measured at amortised cost		1,192,273	1,125,530
Investment in joint ventures	19	165	256
Property and equipment	20	26,174	25,155
Right-of-use assets	21	10,281	10,953
Goodwill	22	1,281	1,281
Deferred tax assets	23	32,703	19,895
Other assets	24	34,508	40,968
<b>Total assets</b>		<b>6,300,510</b>	<b>5,902,069</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to the central bank	26	63,386	101,180
Deposits from banks and other financial institutions	27	540,668	526,259
Placements from banks and other financial institutions	28	188,601	179,626
Financial liabilities at fair value through profit or loss	29	27	67
Derivative financial liabilities	14	14,261	13,337
Financial assets sold under repurchase agreements	30	92,980	80,600
Deposits from customers	31	3,917,168	3,675,743
Accrued staff costs	32	19,006	16,777
Taxes payable	33	11,141	6,535
Lease liabilities	34	10,151	10,736
Debt securities issued	35	875,971	763,532
Other liabilities	36	57,137	43,311
<b>Total liabilities</b>		<b>5,790,497</b>	<b>5,417,703</b>

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

## Consolidated Statement of Financial Position

As at 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2022	31 December 2021
<b>Equity</b>			
Share capital	37	54,032	54,032
Other equity instruments	38	109,062	109,062
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	39,993
Capital reserve	39	58,434	58,434
Other comprehensive income	40	(590)	3,152
Surplus reserve	41	26,245	26,245
General reserve	41	81,401	75,596
Retained earnings		179,299	155,968
Total equity attributable to equity shareholders of the Bank		507,883	482,489
Non-controlling interests		2,130	1,877
<b>Total equity</b>		<b>510,013</b>	<b>484,366</b>
<b>Total liabilities and equity</b>		<b>6,300,510</b>	<b>5,902,069</b>

Approved and authorised for issue by the board of directors on 24 March 2023.

**Wang Jiang**  
*Chairman,  
Non-executive Director*

**Wang Zhiheng**  
*President,  
Executive Director*

**Sun Xinhong**  
*General Manager of  
Financial Accounting Department*

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



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

2022	Note V	Attributable to equity shareholders of the Bank											Non- controlling interests	Total
		Share capital	Other equity instruments				Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
			Preference shares	Perpetual bonds	Others									
Balance at 1 January 2022		54,032	64,906	39,993	4,163	58,434	3,152	26,245	75,596	155,968	482,489	1,877	484,366	
Changes in equity for the year:														
Net profit		-	-	-	-	-	-	-	-	44,807	44,807	233	45,040	
Other comprehensive income	40	-	-	-	-	-	(3,742)	-	-	-	(3,742)	2	(3,740)	
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	38	38	
Appropriation of profit:	42													
- Appropriation to general reserve		-	-	-	-	-	-	-	5,805	(5,805)	-	-	-	
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(10,860)	(10,860)	(20)	(10,880)	
- Dividends to other equity instrument holders		-	-	-	-	-	-	-	-	(4,811)	(4,811)	-	(4,811)	
Balance at 31 December 2022		54,032	64,906	39,993	4,163	58,434	(590)	26,245	81,401	179,299	507,883	2,130	510,013	
2021	Note V	Attributable to equity shareholders of the Bank											Non- controlling interests	Total
		Share capital	Other equity instruments				Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
			Preference shares	Perpetual bonds	Others									
Balance at 31 December 2020		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,581	453,449	1,549	454,998	
Business combinations under common control		-	-	-	-	-	-	-	-	21	21	21	42	
Balance at 1 January 2021		54,032	64,906	39,993	4,163	58,434	1,393	26,245	67,702	136,602	453,470	1,570	455,040	
Changes in equity for the year:														
Net profit		-	-	-	-	-	-	-	-	43,407	43,407	232	43,639	
Other comprehensive income	40	-	-	-	-	-	1,759	-	-	-	1,759	-	1,759	
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	95	95	
Appropriation of profit:	42													
- Appropriation to general reserve		-	-	-	-	-	-	-	7,894	(7,894)	-	-	-	
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,347)	(11,347)	(20)	(11,367)	
- Dividends to other equity instrument holders		-	-	-	-	-	-	-	-	(4,800)	(4,800)	-	(4,800)	
Balance at 31 December 2021		54,032	64,906	39,993	4,163	58,434	3,152	26,245	75,596	155,968	482,489	1,877	484,366	

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

# Consolidated Cash Flow Statement

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

	2022	2021
<b>Cash flows from operating activities</b>		
Profit before tax	55,966	52,941
<i>Adjustments for:</i>		
Credit impairment losses	50,600	54,772
Other impairment losses	9	23
Depreciation and amortisation	6,358	5,765
Unwinding of discount	(758)	(907)
Dividend income	(49)	(24)
Unrealised foreign exchange (gains)/losses	(644)	156
Interest income from investment securities and net gains on disposal	(61,804)	(61,503)
Net gains on derecognition of financial assets measured at amortised cost	(858)	(115)
Losses on investments of joint ventures	63	90
Net gains on disposal of trading securities	(1,979)	(1,506)
Revaluation losses/(gains) on financial instruments at fair value through profit	1,656	(1,532)
Interest expense on debt securities issued	23,120	17,522
Interest expense on lease liabilities	428	462
Net losses/(gains) on disposal of property and equipment	32	(94)
	72,140	66,050
<i>Changes in operating assets</i>		
Net (increase)/decrease in deposits with the central bank, banks and other financial Institutions	(980)	19,987
Net increase in placements with banks and other financial institutions	(35,276)	(34,721)
Net increase in financial assets held for trading	(56,455)	(15,537)
Net increase in loans and advances to customers	(313,242)	(352,244)
Net decrease in financial assets held under resale agreements	31,138	12,432
Net decrease in other operating assets	20,108	1,815
	(354,707)	(368,268)
<i>Changes in operating liabilities</i>		
Net increase in deposits from banks and other financial institutions	15,266	56,953
Net increase in placements from banks and other financial institutions	8,796	17,509
Net increase in financial assets sold under repurchase agreements	12,275	66,409
Net decrease in amounts due to the central bank	(37,001)	(138,608)
Net increase in deposits from customers	227,572	183,125
Income tax paid	(18,110)	(12,823)
Net increase in other operating liabilities	17,371	17,411
	226,169	189,976
<b>Net cash used in operating activities</b>	<b>(56,398)</b>	<b>(112,242)</b>

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

	Note V	2022	2021
<b>Cash flows from investing activities</b>			
Proceeds from disposal and redemption of investments		733,672	690,317
Investment income received		60,941	60,635
Proceeds from disposal of property and equipment and other long-term assets		16	171
Payments on acquisition of investments		(893,056)	(839,181)
Payments on acquisition of property and equipment, intangible assets and other long-term assets		(4,667)	(5,352)
<b>Net cash used in investing activities</b>		<b>(103,094)</b>	<b>(93,410)</b>
<b>Cash flows from financing activities</b>			
Capital injected into subsidiaries by non-controlling shareholders		38	95
Proceeds from insurance of debts		930,514	638,113
Repayments of debts issued		(818,471)	(316,574)
Interest paid on debt securities issued		(22,724)	(16,399)
Dividends paid		(15,690)	(16,166)
Other net cash flows from financing activities		(3,101)	(3,030)
<b>Net cash from financing activities</b>		<b>70,566</b>	<b>286,039</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>3,007</b>	<b>(2,880)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	46(a)	<b>(85,919)</b>	<b>77,507</b>
<b>Cash and cash equivalents as at 1 January</b>		<b>222,583</b>	<b>145,076</b>
<b>Cash and cash equivalents as at 31 December</b>	46(b)	<b>136,664</b>	<b>222,583</b>
Interest received		186,631	176,851
Interest paid (excluding interest expense on debt securities issued)		(92,068)	(88,916)

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the “Bank”) commenced its operations in Beijing, the People’s Republic of China (the “PRC”) on 18 August 1992. The A-Shares and H-Shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and the Stock Exchange of Hong Kong Limited in December 2013, respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the “CBIRC”), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People’s Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 19) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to countries and regions other than Mainland China.

These financial statements have been approved by the Board of Directors on 24 March 2023.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### 1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (IASB). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note III.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1 Basis of preparation (continued)

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the “Accounting Standards for Business Enterprises-Basic Standard” issued by the Ministry of Finance of the People’s Republic of China (the “MOF”), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the “PRC GAAP”). There is no difference in the net profit for the year or total equity as at the end of the year between the Group’s consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

#### 1.1 Standards, amendments and interpretations effective in 2022

On 1 January 2022, the Group applied the following new standards and amendments for the first time in 2022.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Costs of Fulfilling a Contract</i>
Annual Improvements to IFRSs 2018-2020	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41</i>

IFRS 3 Amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

IAS 16 Amendments prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

IAS 37 Amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1 Basis of preparation (continued)

#### 1.1 Standards, amendments and interpretations effective in 2022 (continued)

Annual Improvements to IFRSs 2018-2020 were issued in May 2020, including an amendment to IFRS 9 Financial Instruments, which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability by conducting the “10 per cent” test for derecognition of financial liabilities. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. The improvements also include an amendment to lease incentives, which removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16 Leases, so as to remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.

The adoption of the above amendments does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

#### 1.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2022

		Effective for annual periods beginning on or after
IFRS 17 and Amendments	<i>Insurance Contracts</i>	1 January 2023
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting policies</i>	1 January 2023
Amendments to IAS 12	<i>Deferred tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2024
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>	1 January 2024
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely

As a consequence of the amendments to IFRS 17 issued in June 2020, the effective date of IFRS 17 was deferred to 1 January 2023, and IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023.

The amendments to IAS 8 introduce a new definition of ‘accounting estimates’. The amendments are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 1 Basis of preparation (continued)

#### 1.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2022 (continued)

The amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. This amendments replace the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and add guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

IAS 1 Amendments specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability itself is an equity instrument, would the terms of a liability not impact its classification.

The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The adoption of the above amendments will have no material impact on the financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2 Consolidation

#### 2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

If the Group acquires a subsidiary through a merger of companies under common control, the difference between the book value of the net assets acquired by the merging parties and the book value of the merger consideration paid (or the total par value of shares issued) is adjusted to capital surplus; if capital surplus is not sufficient to offset the difference, retained earnings are adjusted.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.



## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2 Consolidation (continued)

#### 2.2 Joint Ventures

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

### 3 Cash and cash equivalents

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

### 4 Foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in "Other comprehensive income". Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in "Other comprehensive income". Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the statement of profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 4 Foreign currency translation (continued)

Assets and liabilities of foreign operations are translated to Renminbi at the spot exchange rates at the end of the year. Equity items, excluding “Retained Earnings”, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders’ equity with respect to a foreign operation are transferred to profit or loss in the year when the foreign operation is disposed.

### 5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

#### 5.1 Recognition and de-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- (1) the contractual rights to the cash flows from the financial asset expire; or
- (2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flows collected to a third party in full and on time under the “pass-through agreement” and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in a conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.2 Classification and measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

##### *Business models*

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

##### *The contractual cash flow characteristics*

The assessment of contractual cash flow characteristics is to determine whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification:

##### *Financial assets at amortised cost*

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.2 Classification and measurement of financial assets (continued)

##### *Debt instruments at fair value through other comprehensive income*

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in “other comprehensive income”, except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

##### *Equity instruments at fair value through other comprehensive income*

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

##### *Financial assets at fair value through profit or loss*

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when an accounting mismatch can be eliminated or significantly reduced, financial assets can be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as a financial asset designated at fair value through profit or loss, it cannot be reclassified as other financial asset; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swaps to manage the associated interest rate risk.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.3 Classification and measurement of financial liabilities

In addition to the issuance of financial guarantee contracts and financial liabilities arising from non-compliance with the conditions for termination of recognition of the transfer of financial assets or continued involvement in the transferred financial assets, the Group classifies financial liabilities as at fair value through profit or loss and financial liabilities measured at amortised cost. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For financial liabilities measured at amortised cost, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

##### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

##### *Financial liabilities measured at amortised cost*

Financial liabilities measured at amortised cost are measured using the effective interest method.

#### 5.4 Impairment of financial instruments

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 50(a)).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

#### 5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

In terms of the hedge accounting method, the Group's hedge is classified as:

- (1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk);
- (2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognised definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.6 Derivative financial instruments and hedge accounting (continued)

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

##### *Fair value hedge*

Gains or losses arising from hedging instruments are recognised in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognised in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

For the fair value hedges related to the debt instrument measured at amortised cost, the adjustment of the book value of the hedged item should be amortised by the effective interest rate method during the remaining period of the hedge and recognised in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognised hedge gains or losses are amortised in the same way and recognised in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortised fair value is recognised in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

##### *Cash flow hedge*

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognised in other comprehensive income, and the ineffective part shall be recognised in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognised in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognised in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 5 Financial instruments (continued)

#### 5.7 Convertible corporate bonds

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in “Equity” as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to share capital is recognised in share premium under “Capital reserve”.

#### 5.8 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined at the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

#### 5.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.



## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the year of the change.

### 7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are not reported as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

### 8 Property and equipment

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's property and equipment mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

# Notes to the Consolidated Financial Statements

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## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 8 Property and equipment (continued)

#### 8.1 Premises, electronic equipment and others

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 (years)	Estimated rate of residual value (%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

#### 8.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

#### 8.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

### 9 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### 9.1 As lessee

In addition to short-term leases and leases of low-value assets, the Group recognizes the right-of-use assets and lease liabilities for the lease, and the accounting is shown in Note V 21 and Note V 34.

##### *The incremental borrowing rate of lessee*

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 9 Leases (continued)

#### 9.1 As lessee (continued)

##### *Short-term leases and leases of low-value assets*

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

#### 9.2 As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets. In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

#### 9.3 Right-of-use assets

At the commencement date of the lease, the Group recognises a right-of-use asset, which is measured according to the cost. The cost of the right-of-use asset comprises: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made at or before the commencement date of the lease less any lease incentives received; (3) any initial direct cost incurred when the Group is a lessee; and (4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. If the Group remeasures the lease liability due to changes in the lease payment amount, the carrying amount of the right-of-use assets shall be adjusted accordingly.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 9 Leases (continued)

#### 9.4 Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets. Lease payments include fixed payments and substantial fixed payments after deduction of lease incentives, variable lease payments depending on indexes or ratios, payments expected to be made based on security balances, and also include the exercise price of the purchase option or payments to exercise the option to terminate the lease, provided that the Group is reasonably certain that the option will be exercised or that the lease period reflects that the Group will exercise the option to terminate the lease.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group increases the carrying amount of the lease liability when recognizing interest and decreases the carrying amount of the lease liability when paying the lease payment. The Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) the actual fixed payment has been changed; (ii) there is a change in the amounts expected to be payable under a residual value guarantee; (iii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iv) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

### 10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 11 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 13). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

### 12 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

### 13 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: property and equipment, right-of-use assets, construction in progress, intangible assets, goodwill and investments in joint ventures.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

# Notes to the Consolidated Financial Statements

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## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 13 Provision for impairment losses on non-financial assets (continued)

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognise the impairment loss in the statement of profit or loss. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

### 14 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

#### 14.1 Short-term employee benefits

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

All eligible employees overseas participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 14 Employee benefits (continued)

#### 14.2 Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the “Annuity Plan”). The Group and its employees are required to contribute a certain percentage of the employees’ previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

#### 14.3 Termination benefits

Termination benefits are payable as a result of either the Group’s decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits; and
- When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

#### 14.4 Early retirement benefits

According to the Group’s policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

### 15 Other provisions and contingent liabilities

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

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

# Notes to the Consolidated Financial Statements

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## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 16 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amounts. No provision for impairment loss is made for entrusted loans.

### 17 Other equity instruments

#### Preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payable are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

#### Perpetual bonds

The perpetual bonds issued by the Group do not include the contractual obligations to pay cash or other financial assets to other parties or exchange financial assets or financial liabilities with other parties under potential adverse conditions; and perpetual bonds issued includes no terms and arrangement that the bonds must or will alternatively be settled in the Group’s own equity instruments. The perpetual bonds issued by the Group are divided into equity instruments. The handling fees and commissions incurred in issuing the perpetual bonds are divided into equity instruments, and the transaction costs are deducted from equity. The interest on perpetual bond is recognized as profit distribution at the time of declaration.

### 18 Revenue recognition

#### 18.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

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



## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 18 Revenue recognition (continued)

#### 18.1 Interest income (continued)

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

#### 18.2 Fee and commission income

The income should be recognised when the Group's performance obligation in the contract is fulfilled, which refers the revenue is recognised when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

#### 18.3 Other income

Other income is recognised on an accrual basis.

### 19 Expenses recognition

#### 19.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

#### 19.2 Other expenses

Other expenses are recognised on an accrual basis.

### 20 Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 20 Deferred tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 21 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

### 22 Related parties

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

### 23 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

#### 1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- modification of contractual cash flows

#### 2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values of these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure that the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

## Notes to the Consolidated Financial Statements

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### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

#### 3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

#### 4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and the discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

#### 5 Depreciation and amortisation

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

#### 6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

## IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

- (a) Value-added tax: value-added tax is charged at 6% and 13% on taxable added value.
- (b) City construction tax: city construction tax is calculated as 1%-7% of turnover tax paid.
- (c) Education surcharge: education surcharge is calculated as 3% of turnover tax paid.
- (d) Income tax: the income tax is calculated on taxable income. Taxation on the Bank and subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 Net interest income

	Note	2022	2021
<b>Interest income arising from</b>			
Deposits with the central bank		4,619	4,800
Deposits with banks and other financial institutions		75	224
Placements with banks and other financial institutions		3,433	1,392
Loans and advances to customers	(a)		
– Corporate loans and advances		81,033	77,042
– Personal loans and advances		89,442	84,417
– Discounted bills		2,350	2,277
Finance lease receivables		6,084	6,358
Financial assets held under resale agreements		915	551
Investments		53,358	52,273
<b>Subtotal</b>		<b>241,309</b>	<b>229,334</b>
<b>Interest expenses arising from</b>			
Due to the central bank		2,218	5,870
Deposits from banks and other financial institutions		10,106	11,814
Placements from banks and other financial institutions		4,422	3,817
Deposits from customers			
– Corporate customers		64,098	57,786
– Individual customers		22,294	19,772
Financial assets sold under repurchase agreements		1,396	598
Debt securities issued		23,120	17,522
<b>Subtotal</b>		<b>127,654</b>	<b>117,179</b>
<b>Net interest income</b>		<b>113,655</b>	<b>112,155</b>

Note:

- (a) The interest income arising from impaired financial assets for the year ended 31 December 2022 amounted to RMB758 million (2021: RMB907 million).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 2 Net fee and commission income

	2022	2021
<b>Fee and commission income</b>		
Bank card service fees	13,067	13,084
Wealth management service fees	4,677	3,976
Agency services fees	3,149	3,725
Settlement and clearing fees	2,303	2,681
Custody and other fiduciary business fees	2,058	1,872
Acceptance and guarantee fees	1,486	1,500
Underwriting and advisory fees	1,335	1,412
Others	2,002	1,881
Subtotal	30,077	30,131
<b>Fee and commission expense</b>		
Bank card transaction fees	1,735	1,835
Settlement and clearing fees	183	192
Others	1,415	790
Subtotal	3,333	2,817
<b>Net fee and commission income</b>	<b>26,744</b>	<b>27,314</b>

#### 3 Net trading gains

	2022	2021
Trading financial instruments		
– Derivatives	191	40
– Debt securities	2,155	2,139
Subtotal	2,346	2,179
Precious metal contracts	124	14
Total	2,470	2,193

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 4 Net gains arising from investment securities

	2022	2021
Net gains arising from financial investments at fair value through profit or loss	5,642	10,219
Net gains/(losses) arising from debt instruments at fair value through other comprehensive income	17	(483)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	1,531	230
Net revaluation (losses)/gains reclassified from other comprehensive income on disposal	(774)	126
<b>Total</b>	<b>6,416</b>	<b>10,092</b>

### 5 Operating expenses

	Note	2022	2021
Staff costs			
– Salaries and bonuses		15,249	15,378
– Pension and annuity		2,382	2,156
– Housing allowances		1,166	1,088
– Staff welfares		714	677
– Supplementary retirement benefits		334	282
– Others		2,392	2,409
<b>Subtotal</b>		<b>22,237</b>	<b>21,990</b>
Premises and equipment expenses			
– Depreciation of right-of-use assets		2,760	2,722
– Depreciation of property and equipment		2,412	2,082
– Amortisation of intangible assets		850	664
– Rental and property management expenses		541	516
– Interest expense on lease liabilities		428	462
– Amortisation of other long-term assets		336	297
<b>Subtotal</b>		<b>7,327</b>	<b>6,743</b>
Tax and surcharges		1,766	1,620
Other general and administrative expenses	(a)	13,897	15,187
<b>Total</b>		<b>45,227</b>	<b>45,540</b>

Note:

(a) Other general and administrative expenses included auditor's remuneration of RMB9.90 million for the year ended 31 December 2022 (2021: RMB9.90 million).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows:

	Notes	2022							Total RMB'000
		Fees RMB'000	Salaries RMB'000	Discretionary bonuses		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	
				Paid RMB'000	Payable RMB'000				
<b>Executive directors</b>									
Qu Liang		-	1,537	551	-	2,088	141	139	2,368
Wang Zhiheng	(i)	-	-	-	-	-	-	-	-
<b>Non-executive directors</b>									
Wang Jiang	(ii)	-	-	-	-	-	-	-	-
Wu Lijun		-	-	-	-	-	-	-	-
Yao Zhongyou		-	-	-	-	-	-	-	-
Yao Wei		-	-	-	-	-	-	-	-
Liu Chong		-	-	-	-	-	-	-	-
Li Wei		-	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>									
Wang Liguo		420	-	-	-	420	-	-	420
Shao Ruiqing		430	-	-	-	430	-	-	430
Hong Yongmiao		430	-	-	-	430	-	-	430
Li Yinquan		430	-	-	-	430	-	-	430
Han Fuling		420	-	-	-	420	-	-	420
Liu Shipping	(ii)	394	-	-	-	394	-	-	394



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	Notes	2022							Total RMB'000
		Fees RMB'000	Salaries RMB'000	Discretionary bonuses		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	
				Paid RMB'000	Payable RMB'000				
<b>Supervisors</b>									
Lu Hong		-	1,569	583	-	2,152	141	139	2,432
Wu Junhao		-	-	-	-	-	-	-	-
Li Yinzhong		-	-	-	-	-	-	-	-
Wang Zhe		330	-	-	-	330	-	-	330
Qiao Zhimin		340	-	-	-	340	-	-	340
Chen Qing	(ii)	-	-	-	-	-	-	-	-
Shang Wencheng		-	717	1,090	-	1,807	138	139	2,084
Yang Wenhua	(ii)	-	242	420	-	662	47	49	758
Lu Jian	(ii)	-	233	322	-	555	34	49	638
<b>Former executive directors</b>									
Fu Wanjun	(ii)	-	292	219	-	511	41	127	679
<b>Former non-executive directors</b>									
Li Xiaopeng	(ii)	-	-	-	-	-	-	-	-
<b>Former independent non-executive directors</b>									
Xu Hongcai	(ii)	36	-	-	-	36	-	-	36
<b>Former supervisors</b>									
Wu Gaolian	(ii)	-	-	-	-	-	-	-	-
Xu Keshun	(ii)	-	463	735	-	1,198	99	103	1,400
Sun Jianwei	(ii)	-	559	803	-	1,362	103	102	1,567

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2021							
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Paid RMB'000			Payable RMB'000					
<b>Executive directors</b>								
Fu Wanjun	-	186	139	-	325	26	76	427
Qu Liang	-	1,525	788	-	2,313	245	130	2,688
<b>Non-executive directors</b>								
Li Xiaopeng	-	-	-	-	-	-	-	-
Wu Lijun	-	-	-	-	-	-	-	-
Liu Chong	-	-	-	-	-	-	-	-
Yao Wei	-	-	-	-	-	-	-	-
Yao Zhongyou	-	755	397	-	1,152	174	64	1,390
Li Wei	-	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>								
Li Yinquan	430	-	-	-	430	-	-	430
Wang Ligu	420	-	-	-	420	-	-	420
Shao Ruiqing	430	-	-	-	430	-	-	430
Hong Yongmiao	430	-	-	-	430	-	-	430
Han Fuling	245	-	-	-	245	-	-	245
Xu Hongcai	430	-	-	-	430	-	-	430

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

	2021							
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses		Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
			Paid RMB'000	Payable RMB'000				
<b>Supervisors</b>								
Lu Hong	-	1,555	707	-	2,262	245	130	2,637
Wu Junhao	-	-	-	-	-	-	-	-
Wu Gaolian	-	-	-	-	-	-	-	-
Wang Zhe	330	-	-	-	330	-	-	330
Qiao Zhimin	340	-	-	-	340	-	-	340
Xu Keshun	-	737	836	-	1,573	245	130	1,948
Sun Jianwei	-	738	836	-	1,574	245	130	1,949
Shang Wencheng	-	714	923	-	1,637	241	130	2,008
Li Yinzhong	-	-	-	-	-	-	-	-
<b>Former executive directors</b>								
Yao Zhongyou	-	-	-	-	-	-	-	-
Lu Hong	-	1,555	707	-	2,262	245	130	2,637
Liu Jin	-	50	37	-	87	34	21	142
<b>Former non-executive directors</b>								
Yu Chunling	-	-	-	-	-	-	-	-
Fu Wanjun	-	27	20	-	47	4	11	62
<b>Former supervisors</b>								
Li Xin	-	133	61	-	194	113	11	318
Yin Lianchen	-	-	-	-	-	-	-	-

Notes:

(i) On 13 March 2023, the CBIRC approved Mr. Wang Zhibeng's qualification as the executive director and the president of the Bank.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows: (continued)

Notes: (continued)

- (ii) On 19 May 2022, in the Bank's Annual General Meeting 2021, Mr. Wang Jiang was elected as a non-executive director of the eighth Board of Directors of the Bank. And on 20 May 2022, Mr. Wang Jiang was elected as the Chairman of the eighth Board of Directors at the 39th meeting of the eighth Board of Directors of the Bank. On 2 August 2022, the CBIRC approved Mr. Wang Jiang's qualifications as a director and the chairman of the board of directors of the Bank.

Mr. Xu Hongcai's term as an independent director will expire in February 2021, and he will continue to serve as an independent director until the qualifications of his replacement are approved by the CBIRC. The Bank announced on 25 March 2021 that the first Extraordinary General Meeting of the Company had approved the election of Mr. Liu Shiping as an independent non-executive director of the Bank. On 18 January 2022, the CBIRC approved Mr. Liu Shiping as an independent director of the Bank, and Mr. Xu Hongcai no longer took up his post.

On 26 August 2022, in the 21st meeting of the Eighth Board of Supervisors of the Bank, Ms. Chen Qing was approved as the candidate for the external supervisor of the ninth Board of Supervisors of the Bank. Mr. Wu Gaolian's term of office will expire on the date of the election of Ms. Chen Qing as the external Supervisor of the Bank by the general meeting of shareholders. On 28 September 2022, the Bank's first 2022 extraordinary General meeting of shareholders elected Ms. Chen Qing as the external supervisor of the Bank, and Mr. Wu Gaolien stepped down after his term expired.

On 19 September 2022, in the staff congress of the Bank, Mr. Yang Wenhua and Mr. Lu Jian were elected as staff supervisors of the ninth Board of Supervisors of the Bank. Mr. Xu Keshun and Mr. Sun Jianwei would step down as of 19 September 2022.

On 2 December 2022, due to adjustment of jobs, Mr. Fu Wanjun resigned as an Executive Director of the Bank, Chairman and member of the Risk Management Committee of the Board of Directors, Chairman and member of the Committee on Inclusive Finance Development and Consumer Rights Protection, and a member of the Strategy Committee and president of the Bank.

On 24 March 2022, Mr. Li Xiaopeng resigned as the Chairman of the Board of Directors, a non-executive director, a Chairman and member of the Strategic Committee of the Board of Directors, and a member of the nominating Committee of the Bank due to job adjustment.

- (iii) The total compensation package for these directors and supervisors for the year ended 31 December 2022 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2022.

The above directors' and supervisors' emoluments for the year ended 31 December 2022 were calculated in accordance with their actual tenure.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 7 Individuals with highest emoluments

	2022	2021
Salaries and other emoluments	2,749	2,974
Discretionary bonuses	23,275	24,674
Contributions to pension schemes	273	250
Others	932	1,317
<b>Total</b>	<b>27,230</b>	<b>29,215</b>

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2022	2021
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	–	–
RMB4,500,001-5,000,000	–	2
RMB5,000,001 and above	5	3

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

### 8 Credit impairment losses

	2022	2021
Loans and advances to customers		
– measured at amortised cost	47,366	50,766
– measured at fair value through other comprehensive income	302	(120)
Debt instruments at fair value through other comprehensive income	500	233
Financial investments measured at amortised cost	2,062	5,229
Finance lease receivables	815	619
Others	(445)	(1,955)
<b>Total</b>	<b>50,600</b>	<b>54,772</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9 Income tax

#### (a) Income tax:

	Note V	2022	2021
Current tax		22,286	10,371
Deferred tax	23(b)	(11,607)	(993)
Adjustments for prior year	9(b)	247	(76)
<b>Total</b>		<b>10,926</b>	<b>9,302</b>

#### (b) Reconciliations between income tax and accounting profit are as follows:

	Note	2022	2021
Profit before tax		55,966	52,941
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		13,992	13,235
Effect of different tax rates applied by certain subsidiaries		(2)	–
Non-deductible expenses and others		2,725	2,111
Non-taxable gains – Non-taxable income	(i)	(6,036)	(5,968)
<b>Subtotal</b>		<b>10,679</b>	<b>9,378</b>
Adjustments for prior year		247	(76)
<b>Income tax</b>		<b>10,926</b>	<b>9,302</b>

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Net profit attributable to equity holders of the Bank	44,807	43,407
Less: Dividends to other equity instruments holders	4,811	4,800
Net profit attributable to ordinary shareholders of the Bank	39,996	38,607
Weighted average number of ordinary shares in issue (in million shares)	54,032	54,032
Basic earnings per share (in RMB/share)	0.74	0.71

Weighted average number of ordinary shares in issue (in million shares)

	2022	2021
Issued ordinary shares as at 1 January	54,032	54,032
Weighted average number of ordinary shares in issue (in million shares)	54,032	54,032

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2022	2021
Net profit attributable to ordinary shareholders of the Bank	39,996	38,607
Add: Interest expense on convertible bonds, net of tax	794	776
Net profit used to determine diluted earnings per share	40,790	39,383
Weighted average number of ordinary shares in issue (in million shares)	54,032	54,032
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	6,817	6,436
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,849	60,468
Diluted earnings per share (in RMB/share)	0.67	0.65

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11 Cash and deposits with the central bank

	Notes	31 December 2022	31 December 2021
Cash on hand		4,022	4,005
Deposits with the central bank			
– Statutory deposit reserves	(a)	281,357	281,760
– Surplus deposit reserves	(b)	67,141	90,168
– Foreign exchange risk reserves	(c)	243	–
– Fiscal deposits		3,522	2,195
Subtotal		356,285	378,128
Accrued interest		141	135
Total		356,426	378,263

Notes:

- (a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2022	31 December 2021
Reserve ratio for RMB deposits	7.50%	8.00%
Reserve ratio for foreign currency deposits	6.00%	9.00%

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The foreign-exchange risk reserve is the foreign-exchange risk reserve paid by the Group to the PBOC in accordance with the relevant provisions. As at 31 December 2022, the proportion of foreign-exchange risk reserve shall be 20% (31 December 2021: 0%).



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12 Deposits with banks and other financial institutions

#### Analysed by type and location of counterparty

	31 December 2022	31 December 2021
Deposits in Mainland China		
– Banks	17,532	25,855
– Other financial institutions	1,022	418
Deposits overseas		
– Banks	13,935	25,348
Subtotal	32,489	51,621
Accrued interest	19	27
Total	32,508	51,648
Less: Provision for impairment losses	(435)	(459)
Net balances	32,073	51,189

### 13 Placements with banks and other financial institutions

#### Analysed by type and location of counterparty

	31 December 2022	31 December 2021
Placements in Mainland China		
– Banks	6,068	11,795
– Other financial institutions	85,049	78,469
Placements overseas		
– Banks	38,727	48,268
Subtotal	129,844	138,532
Accrued interest	379	221
Total	130,223	138,753
Less: Provision for impairment losses	(244)	(404)
Net balances	129,979	138,349

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 14 Derivatives and hedge accounting

Derivative financial instruments included forward, swap, and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure that the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting year, while they do not represent exposure at risk.

##### (a) Analysed by nature of contract

	31 December 2022		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	1,037,901	4,768	(4,518)
– Treasury bond futures	308	1	–
Currency derivatives			
– Foreign exchange forwards	22,844	540	(348)
– Foreign exchange swap and cross-currency interest rate swaps	659,026	10,130	(9,379)
– Foreign exchange options	9,519	291	(16)
Credit derivatives	160	–	–
<b>Total</b>	<b>1,729,758</b>	<b>15,730</b>	<b>(14,261)</b>

	31 December 2021		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	1,020,673	6,470	(6,723)
Currency derivatives			
– Foreign exchange forwards	38,778	602	(496)
– Foreign exchange swap and cross-currency interest rate swaps	801,008	6,031	(6,077)
– Foreign exchange options	22,829	601	(41)
Credit derivatives	80	1	–
<b>Total</b>	<b>1,883,368</b>	<b>13,705</b>	<b>(13,337)</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14 Derivatives and hedge accounting (continued)

#### (b) Analysed by credit risk-weighted amount

	31 December 2022	31 December 2021
Counterparty default risk-weighted assets		
– Interest rate derivatives	1,390	1,459
– Currency derivatives	2,652	2,311
Credit value adjustment risk-weighted assets	4,443	1,882
<b>Total</b>	<b>8,485</b>	<b>5,652</b>

The risk-weighted assets for counterparty credit risk (“CCR”) of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment (“CVA”). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

#### (c) Hedging accounting

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged item is fixed interest bonds. As at 31 December 2022, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB6,239 million (31 December 2021: RMB3,270 million), in the above hedging instrument, derivative financial assets was RMB416 million (31 December 2021: RMB41 million), derivative financial liabilities was RMB14 million (31 December 2021: RMB11 million).

In 2021 and 2022, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

## Notes to the Consolidated Financial Statements

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 15 Financial assets held under resale agreements

## (a) Analysed by type and location of counterparty

	31 December 2022	31 December 2021
In Mainland China		
– Banks	–	2,300
– Other financial institutions	–	28,731
Overseas		
– Banks	28	2
– Other financial institutions	–	133
Subtotal	28	31,166
Accrued interest	–	2
Total	28	31,168
Less: Provision for impairment losses	–	(4)
Net balances	28	31,164

## (b) Analysed by type of collateral held

	31 December 2022	31 December 2021
Bonds		
– Government bonds	–	7,586
– Other debt securities	28	23,580
Subtotal	28	31,166
Accrued interest	–	2
Total	28	31,168
Less: Provision for impairment losses	–	(4)
Net balances	28	31,164

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers

#### (a) Analysed by nature

	31 December 2022	31 December 2021
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,838,407	1,720,006
Discounted bills	497	901
Personal loans and advances		
– Personal housing mortgage loans	589,758	565,296
– Personal business loans	257,190	203,600
– Personal consumption loans	208,442	214,068
– Credit cards	463,729	447,786
Subtotal	1,519,119	1,430,750
Loans and advances to customers at fair value through other comprehensive income		
Forfaiting – domestic letter of credit	93,043	70,813
Discounted bills	121,210	84,834
Subtotal	214,253	155,647
Total	3,572,276	3,307,304
Accrued interest	10,255	8,981
Gross loans and advances to customers	3,582,531	3,316,285
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(83,180)	(76,889)
Net loans and advances to customers	3,499,351	3,239,396
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(776)	(474)

As at the end of the year, part of the above loans and advances to customers was pledged for repurchase agreements. See Note V 25(a).

## Notes to the Consolidated Financial Statements

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(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 16 Loans and advances to customers (continued)

##### (b) Analysed by industry

	31 December 2022		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	379,002	10.59%	78,769
Water, environment and public utility management	320,176	8.96%	120,441
Leasing and commercial services	268,954	7.53%	65,021
Real estate	178,649	5.00%	117,234
Wholesale and retail trade	160,716	4.50%	41,166
Construction	151,748	4.25%	47,185
Transportation, storage and postal services	110,579	3.10%	38,971
Finance	85,008	2.38%	8,739
Production and supply of electricity, gas and water	72,531	2.03%	14,816
Agriculture, forestry, husbandry and fishery	65,622	1.84%	19,029
Others	138,465	3.88%	32,387
Subtotal of corporate loans and advances	1,931,450	54.06%	583,758
Personal loans and advances	1,519,119	42.53%	832,781
Discounted bills	121,707	3.41%	118,279
Total	3,572,276	100.00%	1,534,818
Accrued interest	10,255		
Gross loans and advances to customers	3,582,531		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(83,180)		
Net loans and advances to customers	3,499,351		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(776)		

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers (continued)

#### (b) Analysed by industry (continued)

	31 December 2021		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	331,050	10.01%	91,670
Water, environment and public utility management	316,576	9.58%	125,894
Leasing and commercial services	242,545	7.33%	70,162
Real estate	197,503	5.97%	132,710
Wholesale and retail trade	149,726	4.53%	55,563
Construction	131,822	3.99%	41,151
Transportation, storage and postal services	95,893	2.90%	35,341
Finance	76,557	2.31%	6,585
Agriculture, forestry, husbandry and fishery	63,098	1.91%	21,597
Production and supply of electricity, gas and water	55,328	1.67%	12,371
Others	130,721	3.95%	36,352
Subtotal of corporate loans and advances	1,790,819	54.15%	629,396
Personal loans and advances	1,430,750	43.26%	759,940
Discounted bills	85,735	2.59%	75,514
Total	3,307,304	100.00%	1,464,850
Accrued interest	8,981		
Gross loans and advances to customers	3,316,285		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,889)		
Net loans and advances to customers	3,239,396		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(474)		

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 16 Loans and advances to customers (continued)

##### (b) Analysed by industry (continued)

As at the end of the year and for the year ended 31 December 2022, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2022					
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Impairment charged during the year	Written-off during the year
Manufacturing	8,578	(3,397)	(1,386)	(4,630)	5,505	5,072

##### (c) Analysed by type of collateral

	31 December 2022	31 December 2021
Unsecured loans	1,192,422	1,076,478
Guaranteed loans	845,036	765,976
Secured loans		
– By tangible assets other than monetary assets	1,188,728	1,117,183
– By monetary assets	346,090	347,667
Total	3,572,276	3,307,304
Accrued interest	10,255	8,981
Gross loans and advances to customers	3,582,531	3,316,285
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(83,180)	(76,889)
Net loans and advances to customers	3,499,351	3,239,396
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(776)	(474)



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers (continued)

#### (d) Analysed by geographical distribution

	31 December 2022		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	841,441	23.56%	332,851
Central	610,286	17.08%	319,605
Pearl River Delta	511,900	14.33%	303,254
Bohai Rim	465,674	13.04%	251,536
Western	446,599	12.50%	222,310
Overseas	116,267	3.25%	21,940
Northeastern	106,440	2.98%	74,881
Head Office	473,669	13.26%	8,441
<b>Total</b>	<b>3,572,276</b>	<b>100.00%</b>	<b>1,534,818</b>

	31 December 2021		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	750,167	22.68%	305,064
Central	578,837	17.50%	318,941
Pearl River Delta	455,150	13.76%	283,547
Western	431,443	13.05%	231,123
Bohai Rim	429,285	12.98%	236,217
Northeastern	107,845	3.26%	77,626
Overseas	106,765	3.23%	12,320
Head Office	447,812	13.54%	12
<b>Total</b>	<b>3,307,304</b>	<b>100.00%</b>	<b>1,464,850</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 16 Loans and advances to customers (continued)

##### (d) Analysed by geographical distribution (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2022			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Pearl River Delta	9,326	(6,261)	(3,008)	(5,213)
Central	6,099	(5,900)	(3,496)	(3,444)
Yangtze River Delta	4,724	(10,567)	(2,246)	(3,570)
Bohai Rim	4,428	(3,252)	(1,830)	(3,270)
Western	4,186	(4,734)	(3,499)	(2,398)
Total	28,763	(30,714)	(14,079)	(17,895)

	31 December 2021			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Pearl River Delta	9,845	(5,507)	(2,344)	(4,587)
Bohai Rim	4,992	(2,985)	(1,733)	(2,919)
Yangtze River Delta	4,734	(9,303)	(2,136)	(2,900)
Central	4,148	(5,396)	(3,584)	(2,463)
Western	3,497	(4,049)	(3,554)	(1,913)
Total	27,216	(27,240)	(13,351)	(14,782)

For the definition of regional divisions, see Note V 49(b).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers (continued)

#### (e) Overdue loans analysed by overdue period

	31 December 2022				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	18,061	10,778	1,456	295	30,590
Guaranteed loans	2,881	5,094	1,975	357	10,307
Secured loans					
– By tangible assets other than monetary assets	11,121	7,382	7,540	1,289	27,332
– By monetary assets	119	969	548	38	1,674
Subtotal	32,182	24,223	11,519	1,979	69,903
Accrued interest	108	–	–	–	108
Total	32,290	24,223	11,519	1,979	70,011
As a percentage of gross loans and advances to customers	0.90%	0.68%	0.32%	0.06%	1.96%

	31 December 2021				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	14,526	10,872	1,329	176	26,903
Guaranteed loans	2,912	3,263	2,111	344	8,630
Secured loans					
– By tangible assets other than monetary assets	7,985	9,295	5,841	865	23,986
– By monetary assets	4,416	909	858	2	6,185
Subtotal	29,839	24,339	10,139	1,387	65,704
Accrued interest	645	–	–	–	645
Total	30,484	24,339	10,139	1,387	66,349
As a percentage of gross loans and advances to customers	0.92%	0.73%	0.31%	0.04%	2.00%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

## Notes to the Consolidated Financial Statements

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 16 Loans and advances to customers (continued)

## (f) Loans and advances and provision for impairment losses

	31 December 2022				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	3,418,026	106,860	47,390	3,572,276	1.33%
Accrued interest	8,441	1,530	284	10,255	
Gross loans and advances to customers	3,426,467	108,390	47,674	3,582,531	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(36,726)	(17,680)	(28,774)	(83,180)	
Net loans and advances to customers	3,389,741	90,710	18,900	3,499,351	

	31 December 2021				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	3,130,394	131,030	45,880	3,307,304	1.39%
Accrued interest	7,169	1,409	403	8,981	
Gross loans and advances to customers	3,137,563	132,439	46,283	3,316,285	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(31,363)	(19,935)	(25,591)	(76,889)	
Net loans and advances to customers	3,106,200	112,504	20,692	3,239,396	

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 16 Loans and advances to customers (continued)

## (g) Reconciliation of provision for impairment losses

	2022			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	
As at 1 January 2022	(31,363)	(19,935)	(25,591)	(76,889)
Transfer to Stage 1	(2,847)	2,511	336	–
Transfer to Stage 2	1,180	(1,377)	197	–
Transfer to Stage 3	427	3,348	(3,775)	–
Net charge for the year	(4,117)	(2,227)	(41,022)	(47,366)
Write-off and disposal	–	–	47,828	47,828
Recovery of loans and advances written off	–	–	(7,505)	(7,505)
Unwinding of discount on allowance	–	–	758	758
Exchange fluctuation and others	(6)	–	–	(6)
As at 31 December 2022	(36,726)	(17,680)	(28,774)	(83,180)

	2021			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	
As at 1 January 2021	(31,192)	(21,037)	(23,304)	(75,533)
Transfer to Stage 1	(3,492)	2,843	649	–
Transfer to Stage 2	912	(1,293)	381	–
Transfer to Stage 3	574	4,340	(4,914)	–
Net charge for the year	1,827	(4,787)	(47,806)	(50,766)
Write-off and disposal	–	–	54,253	54,253
Recovery of loans and advances written off	–	–	(5,757)	(5,757)
Unwinding of discount on allowance	–	–	907	907
Exchange fluctuation and others	8	(1)	–	7
As at 31 December 2021	(31,363)	(19,935)	(25,591)	(76,889)

Note:

- (i) The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2022, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB776 million (31 December 2021: RMB474 million).

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16 Loans and advances to customers (continued)

#### (h) Rescheduled loans and advances to customers

	31 December 2022	31 December 2021
Rescheduled loans and advances to customers	4,404	4,634
Of which: Rescheduled loans and advances to customers overdue more than 90 days	19	70

### 17 Finance lease receivables

	31 December 2022	31 December 2021
Finance lease receivables	126,223	127,150
Less: Unearned finance lease income	(14,945)	(15,556)
Present value of finance lease receivables	111,278	111,594
Accrued interest	1,122	1,223
Less: Impairment losses	(4,388)	(3,764)
Net balance	108,012	109,053

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2022	31 December 2021
Less than 1 year (inclusive)	39,200	36,337
1 year to 2 years (inclusive)	31,903	29,568
2 years to 3 years (inclusive)	24,686	24,301
3 years to 4 years (inclusive)	14,703	17,585
4 years to 5 years (inclusive)	7,428	10,763
More than 5 years	8,303	8,596
Total	126,223	127,150

### 18 Financial investments

	Notes	31 December 2022	31 December 2021
Financial assets at fair value through profit or loss	(a)	403,617	383,666
Debt instruments at fair value through other comprehensive income	(b)	449,596	325,695
Equity instruments at fair value through other comprehensive income	(c)	1,126	1,125
Financial investments measured at amortised cost	(d)	1,192,273	1,125,530
Total		2,046,612	1,836,016

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18 Financial investments (continued)

#### (a) Financial assets at fair value through profit or loss

	Notes	31 December 2022	31 December 2021
Debt instruments held for trading	(i)	109,640	50,891
Other financial assets at fair value through profit or loss	(ii)	293,977	332,775
<b>Total</b>		<b>403,617</b>	<b>383,666</b>

#### (i) Debt instruments held for trading

	Notes	31 December 2022	31 December 2021
Issued by the following governments or institutions:			
In Mainland China			
– Government		9,407	4,146
– Banks and other financial institutions		79,658	33,820
– Other institutions	(1)	19,479	11,243
Overseas			
– Government		256	797
– Banks and other financial institutions		372	351
– Other institutions		468	534
<b>Total</b>	(2)	<b>109,640</b>	<b>50,891</b>
Listed	(3)	1,542	2,051
Of which: listed in Hong Kong		670	881
Unlisted		108,098	48,840
<b>Total</b>		<b>109,640</b>	<b>50,891</b>

Notes:

- (1) At the end of the year, debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.
- (2) At the end of the year, some of the debt instruments held for trading were pledged for repurchase agreements. See Note V 25(a).
- (3) Listed investments include debt instruments traded on a stock exchange.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 18 Financial investments (continued)

## (a) Financial assets at fair value through profit or loss (continued)

## (ii) Other financial assets at fair value through profit or loss

	31 December 2022	31 December 2021
Fund investments	214,031	253,537
Equity instruments	5,059	4,088
Others	74,887	75,150
Total	293,977	332,775

## (b) Debt instruments at fair value through other comprehensive income

## (i) Analysed by type and location of counterparty:

	Notes	31 December 2022	31 December 2021
In Mainland China			
– Government		196,287	125,286
– Banks and other financial institutions	(1)	143,053	98,420
– Other institutions	(2)	65,207	58,904
Overseas			
– Government		4,437	93
– Banks and other financial institutions		17,852	15,835
– Other institutions		16,078	22,211
Subtotal		442,914	320,749
Accrued interest		6,682	4,946
Total	(3)(4)	449,596	325,695
Listed	(5)	55,718	56,394
Of which: listed in Hong Kong		33,248	38,665
Unlisted		387,196	264,355
Subtotal		442,914	320,749
Accrued interest		6,682	4,946
Total		449,596	325,695

Notes:

- (1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.
- (2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.
- (3) As at 31 December 2022, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximated to RMB1,218 million (31 December 2021: RMB687 million).
- (4) At the end of the year, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note V 25(a).
- (5) Listed investments include debt instruments traded on a stock exchange.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18 Financial investments (continued)

#### (b) Debt instruments at fair value through other comprehensive income (continued)

##### (ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	2022			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2022	(410)	(104)	(173)	(687)
Transfer to Stage 2	10	(30)	20	–
Transfer to Stage 3	31	104	(135)	–
Net charge for the year	(95)	(103)	(302)	(500)
Exchange fluctuation and others	(6)	(25)	–	(31)
As at 31 December 2022	(470)	(158)	(590)	(1,218)

	2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(420)	–	(36)	(456)
Transfer to Stage 2	7	(7)	–	–
Transfer to Stage 3	6	–	(6)	–
Net charge for the year	(5)	(97)	(131)	(233)
Exchange fluctuation and others	2	–	–	2
As at 31 December 2021	(410)	(104)	(173)	(687)

#### (c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2022	31 December 2021
Listed	(i)	24	23
Unlisted		1,102	1,102
Total	(ii)	1,126	1,125

Notes:

(i) Listed investments include equity instruments traded on a stock exchange.

(ii) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. For the year ended 31 December 2022, the Group has received dividends of RMB60 million from the above equity instruments (2021: RMB20 million).

## Notes to the Consolidated Financial Statements

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 18 Financial investments (continued)

## (d) Financial investments measured at amortised cost

	Notes	31 December 2022	31 December 2021
Debt securities and asset-backed instruments	(i)	1,105,621	978,630
Others	(ii)	79,789	139,573
Subtotal		1,185,410	1,118,203
Accrued interest		17,745	17,652
Total		1,203,155	1,135,855
Less: Provision for impairment losses		(10,882)	(10,325)
Net balance		1,192,273	1,125,530
Listed	(iii)	217,335	157,553
Of which: listed in Hong Kong		29,541	15,725
Unlisted		957,193	950,325
Subtotal		1,174,528	1,107,878
Accrued interest		17,745	17,652
Net balance		1,192,273	1,125,530

## (i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	31 December 2022	31 December 2021
In Mainland China			
– Government		405,772	364,017
– Banks and other financial institutions		385,852	405,557
– Other institutions	(1)	242,040	187,762
Overseas			
– Government		29,524	5,260
– Banks and other financial institutions		31,091	6,572
– Other institutions		11,342	9,462
Subtotal		1,105,621	978,630
Accrued interest		17,330	16,823
Total	(2)	1,122,951	995,453
Less: Provision for impairment losses		(4,217)	(3,981)
Net balance		1,118,734	991,472
Fair value		1,135,161	1,003,770

Notes:

(1) Other institutions mainly represent state-owned enterprises and joint stock enterprises in Mainland China.

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(2) As at the end of the year, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note V 25(a).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18 Financial Investments (continued)

#### (d) Financial investments measured at amortised cost (continued)

(ii) *Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.*

(iii) *Listed investments include debt instruments traded on a stock exchange.*

(iv) *Reconciliation of provision for impairment losses on financial investments measured at amortised cost:*

	2022			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2022	(1,361)	(1,315)	(7,649)	(10,325)
Transfer to Stage 2	36	(36)	–	–
Transfer to Stage 3	162	1,314	(1,476)	–
Net charge for the year	(88)	(19)	(1,955)	(2,062)
Write-off and disposal	–	–	1,579	1,579
Exchange fluctuation and others	(74)	–	–	(74)
As at 31 December 2022	(1,325)	(56)	(9,501)	(10,882)
	2021			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2021	(1,932)	(472)	(2,734)	(5,138)
Transfer to Stage 2	104	(104)	–	–
Transfer to Stage 3	102	195	(297)	–
Net charge for the year	323	(934)	(4,618)	(5,229)
Exchange fluctuation and others	42	–	–	42
As at 31 December 2021	(1,361)	(1,315)	(7,649)	(10,325)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 19 Investment in subsidiaries and joint ventures

#### (a) Investments in subsidiaries

	31 December 2022	31 December 2021
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd.	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co., Ltd.	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd.	600	600
<b>Total</b>	<b>12,983</b>	<b>12,983</b>

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd. (Everbright Financial Leasing)	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd. (CEB International)	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd. (Shaoshan Everbright Bank)	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd. (Huai'an Everbright Bank)	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe) (CEB Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd. (Ruijin Everbright Bank)	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd. (Everbright Wealth)	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd. (Sunshine Consumer)	Beijing	1,000	60%	60%	Banking business	Incorporated company

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 19 Investment in subsidiaries and joint ventures (continued)

#### (b) Investments in joint ventures

	2022	2021
As at 1 January	256	257
Increased investment	(47)	93
Investment losses under the equity method	(63)	(90)
Foreign currency conversion difference	19	(4)
As at 31 December	165	256

### 20 Property and equipment

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
<b>Cost</b>						
As at 1 January 2022	13,529	10,134	2,656	9,151	4,818	40,288
Additions	59	1	930	1,373	351	2,714
Transfers in/(out)	690	–	(754)	–	–	(64)
Disposals	–	–	–	(556)	(198)	(754)
Foreign currency conversion difference	–	922	–	–	–	922
As at 31 December 2022	14,278	11,057	2,832	9,968	4,971	43,106
<b>Accumulated depreciation</b>						
As at 1 January 2022	(4,895)	(882)	–	(5,582)	(3,611)	(14,970)
Charge for the year	(442)	(394)	–	(1,212)	(364)	(2,412)
Disposals	–	–	–	525	182	707
Foreign currency conversion difference	–	(94)	–	–	–	(94)
As at 31 December 2022	(5,337)	(1,370)	–	(6,269)	(3,793)	(16,769)
<b>Provision for impairment</b>						
As at 1 January 2022	(163)	–	–	–	–	(163)
As at 31 December 2022	(163)	–	–	–	–	(163)
<b>Net book value</b>						
As at 31 December 2022	8,778	9,687	2,832	3,699	1,178	26,174

## Notes to the Consolidated Financial Statements

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 20 Property and equipment (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
<b>Cost</b>						
As at 1 January 2021	13,526	8,127	2,315	8,249	4,790	37,007
Additions	43	2,217	356	1,353	223	4,192
Transfers in/(out)	15	–	(15)	–	–	–
Disposals	(55)	–	–	(451)	(195)	(701)
Foreign currency conversion difference	–	(210)	–	–	–	(210)
As at 31 December 2021	13,529	10,134	2,656	9,151	4,818	40,288
<b>Accumulated depreciation</b>						
As at 1 January 2021	(4,506)	(582)	–	(5,101)	(3,351)	(13,540)
Charge for the year	(424)	(317)	–	(911)	(430)	(2,082)
Disposals	35	–	–	430	170	635
Foreign currency conversion difference	–	17	–	–	–	17
As at 31 December 2021	(4,895)	(882)	–	(5,582)	(3,611)	(14,970)
<b>Provision for impairment</b>						
As at 1 January 2021	(163)	–	–	–	–	(163)
As at 31 December 2021	(163)	–	–	–	–	(163)
<b>Net book value</b>						
As at 31 December 2021	8,471	9,252	2,656	3,569	1,207	25,155

*Notes:*

- (i) As at 31 December 2022, title deeds were not yet finalised for the premises with a carrying amount of RMB35 million (31 December 2021: RMB38 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.
- (ii) As at 31 December 2022, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB9,687 million (31 December 2021: RMB9,252 million). As at the end of the year, part of the finance lease receivables was pledged for borrowings from banks. See Note V 25(a).

The net book values of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	31 December 2022	31 December 2021
Held in Mainland China		
– Medium term leases (10 to 50 years)	8,173	8,002
– Short term leases (less than 10 years)	605	469
Total	8,778	8,471

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 21 Right-of-use Assets

	Premises	Transportation and others	Total
<b>Cost</b>			
As at 1 January 2022	17,302	61	17,363
Charge for the year	2,250	8	2,258
Deductions	(1,406)	(16)	(1,422)
Foreign currency conversion difference	47	–	47
As at 31 December 2022	18,193	53	18,246
<b>Accumulated depreciation</b>			
As at 1 January 2022	(6,381)	(29)	(6,410)
Charge for the year	(2,749)	(11)	(2,760)
Reduction for the year	1,205	14	1,219
Foreign currency conversion difference	(14)	–	(14)
As at 31 December 2022	(7,939)	(26)	(7,965)
<b>Net book value</b>			
As at 31 December 2022	10,254	27	10,281
	Premises	Transportation and others	Total
<b>Cost</b>			
As at 1 January 2021	15,658	64	15,722
Additions	2,760	4	2,764
Charge for the year	(1,103)	(7)	(1,110)
Foreign currency conversion difference	(13)	–	(13)
As at 31 December 2021	17,302	61	17,363
<b>Accumulated depreciation</b>			
As at 1 January 2021	(4,521)	(23)	(4,544)
Charge for the year	(2,710)	(12)	(2,722)
Reduction for the year	843	6	849
Foreign currency conversion difference	7	–	7
As at 31 December 2021	(6,381)	(29)	(6,410)
<b>Net book value</b>			
As at 31 December 2021	10,921	32	10,953

## Notes to the Consolidated Financial Statements

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 22 Goodwill

	31 December 2022	31 December 2021
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed the “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank’s cash flow forecast is 11% (2021: 11%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

#### 23 Deferred tax assets and liabilities

##### (a) Analysed by nature

	31 December 2022		31 December 2021	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ difference (liabilities)
Deferred income tax assets	130,811	32,703	79,583	19,895
Deferred income tax liabilities	–	–	–	–
Total	130,811	32,703	79,583	19,895



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 23 Deferred tax assets and liabilities (continued)

#### (b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2022	17,847	(953)	3,001	19,895
Recognised in profit or loss	10,827	379	401	11,607
Recognised in other comprehensive income	(229)	1,430	–	1,201
As at 31 December 2022	28,445	856	3,402	32,703

	Provision for impairment losses (Note (i))	Fair value changes of financial instruments (Note (ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2021	17,324	137	2,126	19,587
Recognised in profit or loss	507	(389)	875	993
Recognised in other comprehensive income	16	(701)	–	(685)
As at 31 December 2021	17,847	(953)	3,001	19,895

*Notes:*

- (i) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*
- (ii) *Fair value changes of financial instruments are subject to tax when realised.*

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 24 Other assets

	Note	31 December 2022	31 December 2021
Other receivables	(a)	17,229	25,058
Accrued interest		6,539	5,713
Intangible assets		3,475	2,684
Refundable Deposits		1,542	2,148
Property and equipment purchase prepayment		1,334	1,004
Long-term deferred expense		927	950
Repossessed assets		238	327
Land use right		77	83
Others	(b)	3,147	3,001
<b>Total</b>		<b>34,508</b>	<b>40,968</b>

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

(b) Others are mainly agency financial assets.

#### 25 Pledged assets

##### (a) Assets pledged as collateral

The Group's financial assets as collateral for liabilities include discounted bills, debt securities and property and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2022 is RMB183.853 billion (as at 31 December 2021: RMB160.10 billion).

##### (b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in the year ended 31 December 2022. As at 31 December 2022, the Group had no collateral received from banks and other financial institutions (31 December 2021: nil). As at 31 December 2022, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2021: nil). These transactions are conducted under standard terms in the normal course of business.

#### 26 Due to the central bank

	31 December 2022	31 December 2021
Due to the central bank	63,142	100,143
Accrued interest	244	1,037
<b>Total</b>	<b>63,386</b>	<b>101,180</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 27 Deposits from banks and other financial institutions

#### Analysed by type and location of counterparty

	31 December 2022	31 December 2021
Deposits in Mainland China		
– Banks	160,959	163,919
– Other financial institutions	376,763	359,030
Deposits overseas		
– Banks	2,019	1,526
Subtotal	539,741	524,475
Accrued interest	927	1,784
Total	540,668	526,259

### 28 Placements from banks and other financial institutions

#### Analysed by type and location of counterparty

	31 December 2022	31 December 2021
Placements in Mainland China		
– Banks	115,365	111,353
– Other financial institutions	6,605	12,102
Placements overseas		
– Banks	65,745	55,464
Subtotal	187,715	178,919
Accrued interest	886	707
Total	188,601	179,626

### 29 Financial liabilities at fair value through profit or loss

	31 December 2022	31 December 2021
Short position in debt securities	27	67
Total	27	67

# Notes to the Consolidated Financial Statements

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(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 30 Financial assets sold under repurchase agreements

#### (a) Analysed by type and location of counterparty

	31 December 2022	31 December 2021
In Mainland China		
– Banks	74,624	72,963
– Other financial institutions	74	–
Overseas		
– Banks	17,947	7,439
– Other financial institutions	215	183
Subtotal	92,860	80,585
Accrued interest	120	15
Total	92,980	80,600

#### (b) Analysed by collateral

	31 December 2022	31 December 2021
Debt securities	89,892	78,170
Bank acceptances	2,968	2,415
Subtotal	92,860	80,585
Accrued interest	120	15
Total	92,980	80,600

### 31 Deposits from customers

	31 December 2022	31 December 2021
Demand deposits		
– Corporate customers	822,387	843,252
– Individual customers	254,239	251,609
Subtotal	1,076,626	1,094,861
Time deposits		
– Corporate customers	1,552,167	1,606,347
– Individual customers	807,037	602,576
Subtotal	2,359,204	2,208,923
Pledged deposits	409,978	313,623
Other deposits	2,086	2,915
Subtotal deposits from customers	3,847,894	3,620,322
Accrued interest	69,274	55,421
Total	3,917,168	3,675,743

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 32 Accrued staff costs

	Notes	31 December 2022	31 December 2021
Salary and welfare payable		15,528	13,845
Pension and annuity payable	(a)	319	220
Supplementary retirement benefits payable	(b)	3,159	2,712
<b>Total</b>		<b>19,006</b>	<b>16,777</b>

Notes:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were assessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary, Wills Towers Watson Management Consulting (Shenzhen) Co., Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2022	31 December 2021
Present value of supplementary retirement benefits liability	3,159	2,712

(ii) Movements of SRB of the Group are as follows:

	2022	2021
As at 1 January	2,712	2,163
Current service costs	239	196
Interest costs	95	86
Recalculation part of the defined benefit plan	135	287
Payments made	(22)	(20)
As at 31 December	3,159	2,712

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 40.

# Notes to the Consolidated Financial Statements

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 32 Accrued staff costs (continued)

Notes: (continued)

(b) Supplementary retirement benefits ("SRB") (continued)

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December 2022	31 December 2021
Discount rate	3.25%	3.50%
Medical cost growth rate	6.00%	6.00%
Average expected future lifetime	25.18	25.16

(iv) Sensitivity analysis:

Reasonably possible changes at the end of the year to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December 2022	
	Increases	Decreases
Discount rate (1% movement)	(927)	1,021
Medical cost growth rate (1% movement)	1,003	(704)

	31 December 2021	
	Increases	Decreases
Discount rate (1% movement)	(786)	866
Medical cost growth rate (1% movement)	851	(597)

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (a) and (b) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 33 Taxes payable

	31 December 2022	31 December 2021
Income tax payable	7,542	3,089
Value added tax payable	3,068	2,965
Others	531	481
<b>Total</b>	<b>11,141</b>	<b>6,535</b>

### 34 Lease liabilities

	31 December 2022	31 December 2021
Within 1 year (inclusive)	2,723	2,841
1 year to 2 years (inclusive)	2,171	2,340
2 years to 3 years (inclusive)	1,724	1,851
3 years to 5 years (inclusive)	2,539	2,601
More than 5 years	2,282	2,546
<b>Total undiscounted lease liabilities</b>	<b>11,439</b>	<b>12,179</b>
<b>Lease liabilities</b>	<b>10,151</b>	<b>10,736</b>

### 35 Debt securities issued

	Notes	31 December 2022	31 December 2021
Subordinated debts issued	(a)	–	6,700
Financial bonds issued	(b)	130,346	42,174
Tier-two capital bonds issued	(c)	46,596	41,434
Convertible bonds issued	(d)	24,082	23,498
Interbank deposits issued	(e)	604,319	586,331
Certificates of deposit issued	(f)	46,798	35,309
Medium term notes	(g)	20,476	25,127
<b>Subtotal</b>		<b>872,617</b>	<b>760,573</b>
Accrued interest		3,354	2,959
<b>Total</b>		<b>875,971</b>	<b>763,532</b>

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 35 Debt securities issued (continued)

## (a) Subordinated debts issued

	Note	31 December 2022	31 December 2021
Subordinated fixed rate debts maturing in June 2027	(i)	–	6,700
Total		–	6,700

Notes:

(i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has redeemed the debts on 8 June 2022 at the nominal amount.

(ii) As at 31 December 2022, the fair value of the total subordinated debts issued was nil (31 December 2021: RMB6,767 million).

## (b) Financial bonds issued

	Note	31 December 2022	31 December 2021
Financial fixed rate bonds maturing in January 2022	(i)	–	800
Financial fixed rate bonds maturing in March 2024	(ii)	39,993	39,988
Financial floating rate bonds maturing in May 2024	(iii)	1,415	1,386
Financial floating rate bonds maturing in August 2024	(iv)	944	–
Financial fixed rate bonds maturing in February 2025	(v)	39,998	–
Financial fixed rate bonds maturing in October 2025	(vi)	47,996	–
Total		130,346	42,174

Notes:

(i) Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.

(ii) Fixed rate social bonds for small Small and Micro Enterprises Loans of RMB40.00 billion with a term of three years were issued by the Bank on 22 March 2021. The coupon rate is 3.45% per annum.

(iii) Floating rate financial bonds of AUD 0.3 billion with a term of three years were issued by the Bank's Sydney branch on 18 May 2021. The initial coupon rate is 0.68% per annum.

(iv) Floating rate financial bonds of AUD 0.2 billion with a term of 1.75 years were issued by the Bank's Sydney branch on 11 November 2022. The initial coupon rate is 3MBBSW+103BP per annum.

(v) Fixed rate social bonds for small Small and Micro Enterprises Loans of RMB40.00 billion with a term of three years were issued by the Bank on 17 February 2022. The coupon rate is 2.73% per annum.

(vi) Fixed rate financial bonds of RMB48.00 billion with a term of three years were issued by the Bank on 18 October 2022. The initial coupon rate is 2.47% per annum.

(vii) As at 31 December 2022, the fair value of the total financial bonds issued was RMB130,169 million (31 December 2021: RMB42,824 million).

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35 Debt securities issued (continued)

#### (c) Tier-two capital bonds issued

	Notes	31 December 2022	31 December 2021
Tier-two capital fixed rate bonds maturing in March 2027	(i)	–	27,992
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	–	11,996
Tier-two capital fixed rate bonds maturing in September 2030	(iii)	1,596	1,446
Tier-two capital fixed rate bonds maturing in August 2032	(iv)	40,000	–
Tier-two capital fixed rate bonds maturing in August 2037	(v)	5,000	–
<b>Total</b>		<b>46,596</b>	<b>41,434</b>

*Notes:*

- (i) Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. At the end of the fifth year, the issuer's redemption option was attached and the Group redeemed the bond at the nominal amount on 6 March 2022.
- (ii) Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. At the end of the fifth year, the issuer's redemption option was attached and the Group redeemed the bond at the nominal amount on 29 August 2022.
- (iii) Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 18 September 2025 at the nominal amount.
- (iv) Fixed rate tier-two capital bonds of RMB40.00 billion with a term of ten years were issued on 25 August 2022. The coupon rate is 3.10% per annum. The Group has an option to redeem the debts on 29 August 2027 at the nominal amount.
- (v) Fixed rate tier-two capital bonds of RMB5.00 billion with a term of fifteen years were issued on 25 August 2022. The coupon rate is 3.35% per annum. The Group has an option to redeem the debts on 29 August 2032 at the nominal amount.
- (vi) As at 31 December 2022, the fair value of the total tier-two capital bonds issued approximated to RMB45,113 million (31 December 2021: RMB41,739 million).

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For the year ended 31 December 2022

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 35 Debt securities issued (continued)

## (d) Convertible bonds issued

	31 December 2022	31 December 2021
Fixed rate six years convertible bonds issued in March 2017	24,082	23,498

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V 38	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2022		4,183	–	4,183
Accumulated conversion amount as at 1 January 2022		(5,447)	(998)	(6,445)
Balance as at 1 January 2022		23,498	4,163	27,661
Amortisation during the year		584	–	584
Conversion amount during the year	(iv)	–	–	–
Balance as at 31 December 2022		24,082	4,163	28,245

Notes:

- (i) Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the year ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including interest for the sixth year.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35 Debt securities issued (continued)

#### (d) Convertible bonds issued (continued)

Notes: (continued)

- (ii) During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.
- (iii) Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2022, the conversion price is RMB3.35 per share (31 December 2021: RMB3.55 per share).
- (iv) As at 31 December 2022, a total of RMB5,801million (31 December 2021: RMB5,801million) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 1,542,885,091 shares (31 December 2021: 1,542,823,195 shares).
- (v) For the year ended 31 December 2022, a total of RMB436 million interests on the convertible bonds has been paid by the Bank (2021: RMB363 million).

#### (e) Interbank deposits issued

For the year ended 31 December 2022, 223 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB796,570 million (2021: RMB623,770 million). The carrying amount of interbank deposits due in 2022 was RMB781,630 million (2021: RMB346,860 million). As at 31 December 2022, the fair value of its outstanding interbank deposits issued was RMB596,629 million (31 December 2021: RMB579,510 million).

#### (f) Certificates of deposit issued

As at 31 December 2022, the certificates of deposit were issued by the Bank's Hong Kong branch, Seoul branch, Sydney branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 35 Debt securities issued (continued)

## (g) Medium term notes

	Notes	31 December 2022	31 December 2021
Medium term notes with floating rate maturing on 24 June 2022	(i)	—	3,182
Medium term notes with floating rate maturing on 11 December 2022	(ii)	—	3,182
Medium term notes with floating rate maturing on 3 August 2023	(iii)	4,863	4,455
Medium term notes with fixed rate maturing on 11 March 2024	(iv)	3,819	3,500
Medium term notes with fixed rate maturing on 15 June 2024	(v)	4,165	3,818
Medium term notes with fixed rate maturing on 14 September 2024	(vi)	3,471	3,181
Medium term notes with fixed rate maturing on 1 December 2024	(vii)	2,081	1,909
Medium term notes with fixed rate maturing on 15 December 2024	(viii)	2,077	1,900
<b>Total</b>		<b>20,476</b>	<b>25,127</b>

Notes:

- (i) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.
- (ii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.
- (iii) Floating rate medium term notes of USD700 million with a term of three years were issued by the Bank's Hong Kong branch on 27 July 2020. The initial coupon rate is 1.10% per annum.
- (iv) Fixed rate medium term notes of USD550 million with a term of three years were issued by the Bank's Hong Kong branch on 4 March 2021. The coupon rate is 0.93% per annum.
- (v) Fixed rate medium term notes of USD600 million with a term of three years were issued by the Bank's Hong Kong branch on 8 June 2021. The coupon rate is 0.84% per annum.
- (vi) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Luxembourg branch on 14 September 2021. The coupon rate is 0.83% per annum.
- (vii) Fixed rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 1 December 2021. The coupon rate is 1.27% per annum.
- (viii) Fixed rate medium term notes of USD300 million with a term of three years were issued by the Bank's subsidiary CEB International. on 9 December 2021. The coupon rate is 2.00% per annum.
- (ix) As at 31 December 2022, the fair value of the medium term notes was RMB19,574 million (31 December 2021: RMB22,409 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 36 Other liabilities

	Notes	31 December 2022	31 December 2021
Bank loans	(a)	20,718	10,841
Payment and collection clearance accounts		13,436	4,885
Finance leases payable		6,680	6,100
Provisions	(b)	1,883	2,213
Dormant accounts		865	408
Dividend payables		23	22
Others		13,532	18,842
<b>Total</b>		<b>57,137</b>	<b>43,311</b>

(a) As at 31 December 2022, the Bank's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly.

(b) As at 31 December 2022, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB157 million (31 December 2021: RMB165 million).

### 37 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	31 December 2022	31 December 2021
Ordinary shares listed in Mainland China (A share)	41,353	41,353
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
<b>Total</b>	<b>54,032</b>	<b>54,032</b>

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 38 Other equity instruments

	Note V	31 December 2022	31 December 2021
Preference shares (Notes (a), (b), (c), (e))		64,906	64,906
Equity of convertible bonds	35(d)	4,163	4,163
Perpetual bonds (Notes(d), (e))		39,993	39,993
<b>Total</b>		<b>109,062</b>	<b>109,062</b>

#### (a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMBmillion)	Conversion condition
Everbright P1 2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2 2016-8-8	4.01%	100	100	10,000	Mandatory conversion triggering events
Everbright P3 2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
Subtotal				65,000	
Less: Issuing costs				(94)	
Book value				64,906	

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 38 Other equity instruments (continued)

#### (b) Main clauses

##### (i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

##### (ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

##### (iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

##### (iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than to the ordinary shareholders.

##### (v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Triggering Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

Upon the occurrence of a non-viability triggering event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 38 Other equity instruments (continued)

#### (b) Main clauses (continued)

##### (vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant year.

#### (c) Changes in preference shares outstanding

	1 January 2022		Additions for the year		31 December 2022	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

	1 January 2021		Additions for the year		31 December 2021	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

#### (d) Main clauses of perpetual bonds

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the "Bonds") which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 38 Other equity instrument (continued)

#### (d) Main clauses of perpetual bonds (continued)

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank *pari passu* with the claims under any other additional tier 1 capital instruments of the Bank that rank *pari passu* with the above bonds.

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier one capital and to increase its capital adequacy ratio.

#### (e) Interests attributable to equity instruments' holders

Items	31 December 2022	31 December 2021
Total equity attributable to equity shareholders of the Bank	507,883	482,489
– Equity attributable to ordinary shareholders of the Bank	402,984	377,590
– Equity attributable to preference shareholders of the Bank	64,906	64,906
– Equity attributable to Perpetual bonds holders of the Bank	39,993	39,993
Total equity attributable to non- controlling interests	2,130	1,877
– Equity attributable to non-controlling interests of ordinary shares	2,130	1,877

# Notes to the Consolidated Financial Statements

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 39 Capital reserve

	31 December 2022	31 December 2021
Share premium	58,434	58,434

### 40 Other comprehensive income

	31 December 2022	31 December 2021
<b>Items that will not be reclassified to profit or loss</b>		
Fair value changes on equity instruments at fair value through other comprehensive income	16	16
Remeasurement of a defined benefit plan	(703)	(568)
Subtotal	(687)	(552)
<b>Items that will be reclassified to profit or loss</b>		
Debt instruments at fair value through other comprehensive income	81	3,868
– Net change in fair value	(1,463)	2,929
– Net change in expected credit loss	1,544	939
Exchange differences on translation of financial statements	16	(164)
Subtotal	97	3,704
Total	(590)	3,152

Other comprehensive income attributable to equity shareholders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2021	928	811	16	(81)	(281)	1,393
Changes in amount for the previous year	2,001	128	–	(83)	(287)	1,759
As at 1 January 2022	2,929	939	16	(164)	(568)	3,152
Changes in amount for the year	(4,392)	605	–	180	(135)	(3,742)
As at 31 December 2022	(1,463)	1,544	16	16	(703)	(590)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 41 Surplus reserve and general reserve

#### (a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

#### (b) General reserve

Pursuant to the Measures for Managing the Appropriation of Provisions of Financial Enterprises (Cai Jin [2012] No. 20) issued by the Ministry of Finance, the Bank is required to provide for impairment losses of its assets and set aside a general reserve through the appropriation of net profits to cover potential losses against its assets. The general reserve is part of the equity shareholders' interests and should not be less than 1.5% of the year-end balance of risk-bearing assets.

The Bank's subsidiaries appropriated their profits to the general reserve according to the applicable local regulations.

The Group appropriated RMB5,805 million of profits to the general reserve for the year ended 31 December 2022 (2021: RMB7,894 million).

The Bank appropriated RMB4,608 million of profits to the general reserve for the year ended 31 December 2022 (2021: RMB6,806 million).

### 42 Appropriation of profits

#### (a) At the Board Meeting held on 24 March 2023, the Board of Directors approved the following profit appropriations for the year ended 31 December 2022:

- The accumulated amount of withdrawal has reached 50% of the Bank registered capital; According to the relevant terms of the company law, the surplus reserve can no longer be withdrawn in this profit distribution;
- Appropriated RMB4,608 million to general reserve;
- The 2023 annual dividend of RMB1,680 million should be paid to the Third preference shareholders in cash dividend RMB4.80 per share before tax base on the coupon dividend yield of 4.8%;
- Declared cash dividends of RMB11,185 million to all ordinary shareholders at 31 December 2022, representing RMB2.07 per 10 shares before tax.

#### (b) The Bank distributed the interest on the Undated Capital Bonds amounting to RMB1,840 million on 22 September 2022.

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 42 Appropriation of profits (continued)

**(c) At the Annual General Meeting of shareholders held on 19 May 2022, the shareholders approved the following profit appropriations for the year ended 31 December 2021:**

- Under the Company Law of the PRC, the bank's statutory surplus reserve has reached 50% of its registered capital, no further provision shall be made for this profit distribution;
- Appropriated RMB6,806 million to general reserve; and
- Declared cash dividends of RMB10,860 million to all ordinary shareholders at 31 December 2021, representing RMB2.10 per 10 shares before tax.

**(d) At the Board Meeting held on 25 March 2022, the dividend distribution of the Everbright P3 for the year ended 2021 was approved by the Board of Directors:**

- Declared cash dividends to preference shareholders of RMB1,680 million before tax, representing RMB4.80 per share before tax, accruing from 1 January 2021, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3.

**(e) At the Board Meeting held on 27 May 2022, the dividend distribution of the Everbright P1 was approved by the Board of Directors:**

- Declared cash dividends to preference shareholders of RMB890 million before tax, representing RMB4.45 per share before tax, accruing from 25 June 2021, and are calculated using 4.45% of dividend yield ratio for the Everbright P1.

**(f) At the Board Meeting held on 27 May 2022, the dividend distribution of the Everbright P2 was approved by the Board of Directors:**

- Declared cash dividends to preference shareholders of RMB401 million before tax, representing RMB4.01 per share before tax, accruing from 11 August 2021, and are calculated using 4.01% of dividend yield ratio for the Everbright P2.

#### 43 Involvement with structured entities

**(a) Structured entities sponsored by third party institutions in which the Group holds an interest:**

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 43 Involvement with structured entities (continued)

#### (a) Structured entities sponsored by third party institutions in which the Group holds an interest: (continued)

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2022		31 December 2021	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	214,031	214,031	252,528	252,528
– Asset management plans	52,909	52,909	56,578	56,578
Financial investments measured at amortised cost				
– Asset management plans	73,539	73,539	133,980	133,980
– Asset-backed securities	145,276	145,276	143,736	143,736
<b>Total</b>	<b>485,755</b>	<b>485,755</b>	<b>586,822</b>	<b>586,822</b>

#### (b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2022, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

As at 31 December 2022, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB1,185,241 million (31 December 2021: RMB1,067,464 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2021 but matured before 31 December 2022 was RMB3,421 million (2021: RMB3,001 million).

In 2022, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB4,677 million (2021: RMB3,976 million).

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 43 Involvement with structured entities (continued)

##### (b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (continued)

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. As at 31 December 2022, the balance of above transactions was nil (31 December 2021: nil). In 2022, the amount of interest receivables from the above financing transactions was not material for the Group in the statement of profit or loss.

In addition, please refer to Note V44 for the interests in the unconsolidated structured entities of asset securitization transactions held by the Group as at 31 December 2022. In 2022, the Group's income from these structured entities was immaterial.

##### (c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

#### 44 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases, these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

##### Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 44 Transferred financial assets (continued)

#### Credit assets backed securitization (continued)

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was nil as at 31 December 2022 (31 December 2021: nil).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2022, the Group has no continuing involvement in credit asset-backed securities (31 December 2021: nil).

#### Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2022, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2022, loans with an original carrying amount of RMB1,998 million (31 December 2021: RMB1,998 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2022, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2021: RMB251 million).

# Notes to the Consolidated Financial Statements

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 45 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated overseas are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group has computed its capital adequacy ratios and related data in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". During the reporting year, the Group complied with the capital requirements imposed by the regulatory authorities.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 45 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with “Regulation Governing Capital of Commercial Banks (provisional)” and relevant requirements are as follows:

	31 December 2022	31 December 2021
<b>Total common equity tier-one capital</b>	404,205	378,813
Share capital	54,032	54,032
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	62,007	65,749
Surplus reserve	26,245	26,245
General reserve	81,401	75,596
Retained earnings	179,293	155,968
Qualifying portions of non-controlling interests	1,227	1,223
<b>Common equity tier-one capital deductions</b>	(4,809)	(4,021)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(3,475)	(2,684)
Net deferred tax assets arising from operating losses that depend on future profits	(53)	(56)
<b>Net common equity tier-one capital</b>	399,396	374,792
<b>Additional tier-one capital</b>	105,063	105,062
Additional tier-one capital instruments	104,899	104,899
Qualifying portions of non-controlling interests	164	163
<b>Tier-one capital net</b>	504,459	479,854
<b>Tier-two capital</b>	88,759	82,400
Qualifying portions of tier-two capital instruments issued and share premium	45,000	42,258
Excess loan loss provisions	42,287	38,677
Qualifying portions of non-controlling interests	1,472	1,465
<b>Net capital base</b>	593,218	562,254
<b>Total risk-weighted assets</b>	4,579,772	4,204,733
<b>Common equity tier-one capital adequacy ratio</b>	8.72%	8.91%
<b>Tier-one capital adequacy ratio</b>	11.01%	11.41%
<b>Capital adequacy ratio</b>	12.95%	13.37%

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 46 Notes to consolidated cash flow statements

## (a) Net increase in cash and cash equivalents

	31 December 2022	31 December 2021
Cash and cash equivalents as at 31 December	136,664	222,583
Less: Cash and cash equivalents as at 1 January	222,583	145,076
Net (decrease)/increase in cash and cash equivalents	(85,919)	77,507

## (b) Cash and cash equivalents

	31 December 2022	31 December 2021
Cash on hand	4,022	4,005
Deposits with the central bank	67,141	90,168
Deposits with banks and other financial institutions	31,084	50,029
Placements with banks and other financial institutions	34,417	78,381
Total	136,664	222,583

## 47 Related party relationships and transactions

## (a) Related parity relationships

(i) *The ultimate parent company and its subsidiaries*

The ultimate parent of the Group is China Investment Corporation (“CIC”) set up in China.

Approved by the State Council of the PRC, CIC was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. (“Huijin”) is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through the China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year. The amount and balance of related parties and transactions between the group and the ultimate parent company and its subsidiaries are listed in Note V47(b).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (a) Related parity relationships (continued)

##### (ii) *Affiliated companies*

The immediate parent of the Group is China Everbright Group Ltd. (“China Everbright Group”). The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note V 47(b).

The affiliated companies that have related party transactions with the Group are as follows:

##### **Related party**

- China Everbright Group Limited
- China Everbright Limited (Everbright Limited)
- Everbright Securities Co., Ltd. (Everbright Securities)
- China Everbright industry (Group) Co., Ltd.
- Everbright Financial Holdings Asset Management Co., Ltd.
- Everbright Life Insurance Co., Ltd.
- Everbright Xinglong Trust Co., Ltd.
- Everbright Prudential Fund Management Co., Ltd.
- Everbright Futures Co., Ltd.
- Everbright Fortune Investment Co., Ltd.
- Everbright Capital Investment Co., Ltd.
- Sun Light Everbright Asset Management Co., Ltd.
- China Everbright international Trust and Investment Corporation
- Everbright Jinou Asset Management Co., Ltd.
- China CYTS Group Corporation
- Cachet Pharmaceutical Co., Ltd.
- Everbright Technology Co., Ltd.
- Everbright Happiness International Leasing Co., Ltd.
- Everbright Sunshine Asset Management Co., Ltd.
- Hangzhou Jinou Asset Management Co., Ltd.
- Guokaitai Industrial Development Co., Ltd.
- Zhongqing Chuangyi Investment Management Co., Ltd.
- Shenzhen Qianhai Everbright Investment Management Co., Ltd.
- Everbright Securities Asset Management Co., Ltd.
- Everbright Guangzi Investment Management Co., Ltd.
- Shanghai Guiyun Asset Management Co., Ltd.
- Everbright Senior Healthcare Industry Development Co., Ltd.
- Everbright Culture Investment Co., Ltd.
- Everbright Development Investment Co., Ltd.
- Beijing Everbright Huichen Pension Service Co., Ltd.
- CYTS Holding Co., Ltd.
- Beijing Damei Parent-Child Investment Group Co., Ltd.
- Shanghai Guangkong Zhongsheng Health Asset Management Co., Ltd.
- Shenzhen Qianhai Ruida Innovative Buyout Fund

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (a) Related parity relationships (continued)

##### (ii) *Affiliated companies* (continued)

##### **Related party (continued)**

- Zhongguang Holding Co., Ltd.
- CYTS Industry Development Co., Ltd.
- Zhuhai Guangkong Zhongheng Investment Management Co., Ltd.
- Everbright Prestige Capital Asset Management Co., Ltd.
- Da Cheng Fund Management Co., Ltd.
- Shanghai Guangkong Jiaxin Equity Investment Management Co., Ltd.
- Beijing Financial Assets Co., Ltd.
- Tianjin Guangkong Chengfa Investment Management Partnership (Limited Partnership)
- Photocontrol Finance (Shaanxi) Advanced Manufacturing Investment Partnership (Limited Partnership)
- CDB Jinzhan Economic and Trade Co., Ltd.
- Huadian Financial Leasing Co., Ltd.
- China Everbright Real Estate Co., Ltd.
- Qingdao Light Control Low Carbon Xinneng Equity Investment Co., Ltd.
- Chengdu Rongjign MEDICINE &TRADE Co., Ltd.
- China Everbright Environment Group Limited.
- Shanghai Jiashi Minglun Medical Equipment Co., Ltd.
- Gansu Equity Trading Center Co., Ltd.
- Heyuan Capital Management Co., Ltd.
- Qingdao Everbright Water Operating Limited
- Songhuang Ecological Tea Co., Ltd.
- Suzhou Huiyang Investment Management Co., Ltd.
- Suzhou Huiyang Capital Management Co., Ltd.
- Wuxi Guangkong Haiyin Enterprise Management Co., Ltd.
- Wuxi Guolian Venture Capital Co., Ltd.
- Zhangjiakou Guanghe Xiangda Property Service Co., Ltd.

##### (iii) *Other related parties*

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, shareholders holding more than 5% shares of the Group and the key management personnel in direct control party.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (a) Related parity relationships (continued)

##### (iii) Other related parties (continued)

The other related parties that have related party transactions with the Group are as follows:

##### Other related parties

- Overseas Chinese Town Holding Company
- Henan Zhongyuan Chemical Co., Ltd.
- Jilin TuoCheng Construction Engineering Co., Ltd.
- China UnionPay Co., Ltd.
- Konka Group Co., Ltd.
- China Pacific Property Insurance Co., Ltd.
- China Pacific Life Insurance Co., Ltd.
- COSCO SHIPPING Development Co., Ltd.
- China Ocean Shipping (Group) Company
- Shenzhen weipin Zhiyuan Information Technology Co., Ltd.
- Shanghai Zhongbo Enterprise Management Development Co., Ltd.
- Shanghai Insurance Exchange Co., Ltd.
- Beijing Jingneng clean energy power Co., Ltd.
- Shijiazhuang Hualin Food Co., Ltd.
- Fujian Bofang Technology Co., Ltd.
- China Cinda Asset Management Co., Ltd.
- Zhongke Zhiyuan Technology Co., Ltd.
- Huayang Gongji Investment Management Co., Ltd.
- Lankaoguang Huinongtong No.1 Equity Investment Fund Partnership (limited Partnership)
- Xinjiang Guangshi Hanhong Equity Investment Management Co., Ltd.
- COSCO Shipping Group Finance Co., Ltd.
- COSCO Shipping Container Transportation Co., Ltd.
- Zhongfei Leasing Finance Leasing Co., Ltd.
- Shenzhen Overseas Chinese Town Co., Ltd.
- Orient Securities Co., Ltd.
- Wuhan Qingshan Ancient Town Real Estate Co., Ltd.
- Shenneng Group Finance Co., Ltd.
- Shenzhen Zhaohua Exhibition Industry Co., Ltd.
- Xiangyang OCT Culture and Tourism Development Co., Ltd.
- Telian Technology Group Co., Ltd.
- CIMC Finance Leasing Co., Ltd.
- Beijing Gubei Water Town Tourism Co., Ltd.
- Hunan OCT Cultural Tourism Investment Co., Ltd.

The amount and balance of transactions between the Group and other related parties are shown in Notes V47(b).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 47 Related party relationships and transactions (continued)

##### (b) Related party transactions

##### (i) *The ultimate parent company and its subsidiaries*

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	2022	2021
Interest income	730	1,034
Interest expense	5,902	4,112

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	31 December 2022	31 December 2021
Deposits with banks and other financial institutions	8,143	13,788
Precious metal	6	–
Placements with banks and other financial institutions	23,419	26,467
Derivative financial assets	3,128	2,338
Financial assets held under resale agreements	28	1,732
Loans and advances to customers	100	2,228
Financial investments	340,056	298,941
Financial assets at fair value through profit or loss	122,064	81,369
Debt instruments at fair value through other comprehensive income	51,592	44,614
Financial investments measured at amortised cost	166,400	172,958
Other assets	11,396	14,227
<b>Total</b>	<b>386,276</b>	<b>359,721</b>
Deposits from banks and other financial institutions	121,788	56,181
Placements from banks and other financial institutions	64,165	57,899
Derivative financial liabilities	3,215	3,020
Financial assets sold under repurchase agreements	17,281	27,478
Deposits from customers	108,483	101,898
Other liabilities	1,101	11
<b>Total</b>	<b>316,033</b>	<b>246,487</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (b) Related party transactions (continued)

##### (ii) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group’s banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group’s pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

##### (iii) Affiliated companies and other related parties

The Group’s material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows:

	China Everbright Group	Other affiliated companies	Others	Total
Transactions with related parties for year ended 31 December 2022:				
Interest income	–	4,289	407	4,696
Interest expense	105	708	1,136	1,949

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 47 Related party relationships and transactions (continued)

## (b) Related party transactions (continued)

(iii) *Affiliated companies and other related parties* (continued)

	China Everbright Group	Other affiliated companies	Others	Total
Balances with related parties as at 31 December 2022:				
Placements with banks and other financial institutions	–	3,100	2,000	5,100
Derivative financial assets	–	–	13	13
Loans and advances to customers	–	3,822	9,528	13,350
Financial investments	272	43,876	706	44,854
Financial assets at fair value through profit or loss	272	21,356	–	21,628
Debt instruments at fair value through other comprehensive income	–	41	77	118
Financial investments measured at amortised cost	–	22,479	629	23,108
Other assets	–	534	3,537	4,071
Total	272	51,332	15,784	67,388
Deposits from banks and other financial institutions	–	20,958	16,648	37,606
Derivative financial liabilities	–	–	20	20
Deposits from customers	5,164	10,387	22,138	37,689
Other liabilities	–	118	168	286
Total	5,164	31,463	38,974	75,601
Significant other sheet items with related parties as at 31 December 2022:				
Guarantee granted (Note)	180	–	–	180



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (b) Related party transactions (continued)

##### (iii) *Affiliated companies and other related parties* (continued)

	China Everbright Group	Other affiliated companies	Others	Total
Transactions with related parties for the year ended 31 December 2021:				
Interest income	–	1,934	636	2,570
Interest expense	72	371	659	1,102
Balances with related parties as at 31 December 2021:				
Placements with banks and other financial institutions	–	3,300	–	3,300
Derivative financial assets	–	–	28	28
Financial assets held under resale agreements	–	114	–	114
Loans and advances to customers	–	8,899	14,514	23,413
Financial investment	104	46,963	1,514	48,581
Financial assets at fair value through profit or loss	–	15,769	1,514	17,283
Debt instruments at fair value through other comprehensive income	104	41	–	145
Financial investments at amortised cost	–	31,153	–	31,153
Other assets	–	731	2,317	3,048
<b>Total</b>	<b>104</b>	<b>60,007</b>	<b>18,373</b>	<b>78,484</b>
Deposits from banks and other financial institutions	–	15,511	14,905	30,416
Placements from banks and other financial institutions	–	370	–	370
Derivative financial liabilities	–	–	28	28
Financial assets sold under repurchase agreements	–	66	–	66
Deposits from customers	3,137	7,226	29,044	39,407
Other liabilities	–	115	1,122	1,237
<b>Total</b>	<b>3,137</b>	<b>23,288</b>	<b>45,099</b>	<b>71,524</b>
Significant other sheet items with related parties as at 31 December 2021:				
Guarantee granted (Note)	180	–	–	180

Note: As at 31 December 2022, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2021: RMB180 million) due to one of the state-owned commercial banks.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 47 Related party relationships and transactions (continued)

#### (b) Related party transactions (continued)

##### (iv) Remuneration of directors, supervisors and senior management

	2022 RMB'000	2021 RMB'000
Remuneration	24,427	28,887
Retirement benefits	1,903	3,360
– Basic social pension insurance	587	618

The total compensation packages for senior management of the Group as at 31 December 2022 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's financial statements as at 31 December 2022.

##### (v) Loans to related natural persons

The aggregate amount of relevant loans outstanding as at 31 December 2021 to related natural persons amounted to RMB9 million (As at 31 December 2021: RMB10 million).

Of which the aggregate amount of relevant loans outstanding to directors, supervisors and senior management, are as follows:

The aggregate amount of relevant loans outstanding to directors, supervisors, senior management or their associates of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	8,199	9,041
Maximum aggregate amount of relevant loans outstanding during the year	8,308	9,100

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 48 Statement of financial position of the Bank

	Note V	31 December 2022	31 December 2021
<b>Assets</b>			
Cash and deposits with the central bank		356,253	377,846
Deposits with banks and other financial institutions		28,279	49,555
Precious metals		7,187	6,426
Placements with banks and other financial institutions		137,450	149,588
Derivative financial assets		15,726	13,705
Financial assets held under resale agreements		–	32,507
Loans and advances to customers		3,489,051	3,231,445
Financial investments		2,031,064	1,822,297
– Financial assets at fair value through profit or loss		398,106	378,113
– Debt instruments at fair value through other comprehensive income		443,869	318,343
– Equity instruments at fair value through other comprehensive income		1,121	1,120
– Financial investments measured at amortised cost		1,187,968	1,124,721
Investment in subsidiaries	19	12,983	12,983
Property and equipment		16,403	15,836
Right-of-use assets		10,122	10,780
Goodwill		1,281	1,281
Deferred tax assets		31,146	18,517
Other assets		32,121	38,633
<b>Total assets</b>		<b>6,169,066</b>	<b>5,781,399</b>

## Notes to the Consolidated Financial Statements

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(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 48 Statement of financial position of the Bank (continued)

	31 December 2022	31 December 2021
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Due to the central bank	63,231	101,036
Deposits from banks and other financial institutions	544,410	528,061
Placements from banks and other financial institutions	105,321	98,520
Derivative financial liabilities	14,257	13,336
Financial assets sold under repurchase agreements	89,959	79,382
Deposits from customers	3,915,781	3,674,204
Accrued staff costs	18,473	16,385
Taxes payable	9,836	5,362
Lease liabilities	9,993	10,562
Debts securities issued	872,278	759,340
Other liabilities	27,151	19,953
<b>Total liabilities</b>	<b>5,670,690</b>	<b>5,306,141</b>
<b>Equity</b>		
Share capital	54,032	54,032
Other equity instrument	109,062	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	58,434	58,434
Other comprehensive income	(453)	3,390
Surplus reserve	26,245	26,245
General reserve	77,429	72,821
Retained earnings	173,627	151,274
<b>Total equity</b>	<b>498,376</b>	<b>475,258</b>
<b>Total liabilities and equity</b>	<b>6,169,066</b>	<b>5,781,399</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

#### **Corporate banking**

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

#### **Retail banking**

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

#### **Financial market business**

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

#### **Others**

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 49 Segment reporting (continued)

## (a) Segment results, assets and liabilities

	2022				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	20,821	67,033	25,801	–	113,655
Internal net interest income/(expense)	27,544	(19,537)	(8,007)	–	–
Net interest income	48,365	47,496	17,794	–	113,655
Net fee and commission income	7,522	18,399	823	–	26,744
Net trading gains	–	–	2,470	–	2,470
Dividend income	–	–	–	49	49
Net gains arising from investment securities	438	–	5,912	66	6,416
Net gains on derecognition of financial assets measured at amortised cost	–	–	858	–	858
Foreign exchange gains	245	48	191	–	484
Other net operating income	1,049	55	3	82	1,189
Operating income	57,619	65,998	28,051	197	151,865
Operating expenses	(18,176)	(25,006)	(1,899)	(146)	(45,227)
Credit impairment losses	(13,596)	(34,630)	(2,374)	–	(50,600)
Other impairment losses	(3)	(4)	(2)	–	(9)
Losses on investments of joint ventures	–	–	–	(63)	(63)
Profit before tax	25,844	6,358	23,776	(12)	55,966
Other segment information					
– Depreciation and amortisation	2,866	3,226	266	–	6,358
– Capital expenditure	1,819	2,672	176	–	4,667
	31 December 2022				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,453,436	1,673,543	2,133,844	5,703	6,266,526
Segment liabilities	2,977,717	1,176,387	1,632,788	3,582	5,790,474

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 49 Segment reporting (continued)

#### (a) Segment results, assets and liabilities (continued)

	2021				Total
	Corporate banking	Retail banking	Financial market business	Others	
Operating income					
External net interest income	23,337	64,538	24,280	–	112,155
Internal net interest income/(expense)	27,132	(19,792)	(7,340)	–	–
Net interest income	50,469	44,746	16,940	–	112,155
Net fee and commission income	7,947	18,493	874	–	27,314
Net trading gains	–	–	2,193	–	2,193
Dividend income	–	–	–	24	24
Net gains/(losses) arising from Investment securities	–	–	10,134	(42)	10,092
Net gains on derecognition of financial assets measured at amortised cost	–	–	115	–	115
Foreign exchange gains/(losses)	313	47	(357)	–	3
Other net operating income	964	94	54	358	1,470
Operating income	59,693	63,380	29,953	340	153,366
Operating expenses	(18,901)	(24,644)	(1,853)	(142)	(45,540)
Credit impairment losses	(21,103)	(28,136)	(5,533)	–	(54,772)
Other impairment losses	(17)	(2)	(4)	–	(23)
Losses on investments of joint ventures	–	–	–	(90)	(90)
Profit before tax	19,672	10,598	22,563	108	52,941
Other segment information					
– Depreciation and amortisation	2,671	2,865	229	–	5,765
– Capital expenditure	2,162	2,993	197	–	5,352
	31 December 2021				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,302,005	1,555,303	2,023,110	475	5,880,893
Segment liabilities	2,912,109	927,093	1,575,081	3,404	5,417,681

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### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 49 Segment reporting (continued)

##### (a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2022	31 December 2021
Segment assets		6,266,526	5,880,893
Goodwill	22	1,281	1,281
Deferred tax assets	23	32,703	19,895
Total assets		6,300,510	5,902,069
Segment liabilities		5,790,471	5,417,681
Dividend payables	36	23	22
Total liabilities		5,790,497	5,417,703

##### (b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul, Sydney and Macao, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qingdao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include property and equipment, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- “Pearl River Delta” refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- “Bohai Rim” refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- “Central” refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 49 Segment reporting (continued)

#### (b) Geographical information (continued)

- “Western” refers to the areas serviced by the following branches of the Bank: Xi’an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;
- “Northeastern” refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- “Overseas” refers to the areas serviced by the Bank and the following branches, CEB International, CEB Europe: Hong Kong, Seoul, Luxembourg, Sydney, Macao; and
- “Head Office” refers to the head office of the Bank.

	Operating Income								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
2022	28,355	27,202	20,771	26,434	21,625	18,587	5,889	3,002	151,865
2021	27,675	26,509	24,193	25,794	20,719	19,756	5,999	2,721	153,366

	Non-current Asset (Note(i))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
31 December 2022	3,704	3,408	12,191	12,995	3,241	2,763	1,214	491	40,007
31 December 2021	3,698	3,342	11,580	12,683	2,846	2,831	1,338	557	38,875

Note:

(i) Including property and equipment, right-of-use assets, intangible assets and land use rights.

### 50 Risk Management

The Group’s primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group’s depositors and other stakeholders for the Group’s prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group’s exposure to each of the above risks and their sources, and the Group’s objectives, policies and procedures for measuring and managing these risks.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

#### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

#### *Credit business*

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Finance Department, Investment Banking Department, Inclusive Finance Department, Credit Card Centre, Retail Credit Department, Digital Finance Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Bank. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit business* (continued)

- The Bank’s main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Asset Management Department/Asset Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of “Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution”.
- The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group’s credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower’s repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implemented control processes of “separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping” to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardized review and approval policies and process in accordance with the principle of “separation of review and approval” and “hierarchical approval” have been established for this process. The Group monitors borrowers’ repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit business* (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loans.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model predicts the PD for customers in the coming year. The risk rating of the customer is obtained through mapping relationship. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Financial market business*

The Group implemented differentiated risk access standards of investments, and ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group has integrated the financial markets business that assumes credit risk into the unified credit management system, to check and approve the customer credit limit and credit line for the subject taking credit risks, and carry out financial market business within the line of credit.

##### *Credit risk measurement*

###### *Measurement of ECL*

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit risk measurement* (continued)

##### *Measurement of ECL* (continued)

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flows

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit risk measurement* (continued)

##### *Measurement of ECL* (continued)

##### Criteria for judging significant increases in credit risk (continued)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

##### Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

##### Qualitative criteria

- Significant adverse change in debtors' operation or financial status
- Be classified into Special Mention category within five-tier loan classification

##### Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition.

##### Definition of credit-impaired assets

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit risk measurement* (continued)

##### *Measurement of ECL* (continued)

##### Definition of credit-impaired assets (continued)

- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

##### Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Mainly based on the requirements of IFRS 9, the Group takes into account the historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral and repayments) and forward-looking information in order to establish the model of PD, LGD and ECL.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the result of the credit risk rating of customers, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

##### Forward-looking information

The calculation of ECL involves forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI, investment in property and equipment.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### *Credit risk measurement* (continued)

##### *Measurement of ECL* (continued)

##### Forward-looking information (continued)

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In 2022, the key assumptions the Group has taken include the GDP growth rate, the CPI growth rate, the investment in property and equipment growth rate. The GDP growth rate: the predicted value under the base economic scenario during the year of 2023 is 4.6%, the optimistic predicted value is 6.1%, the pessimistic predicted value is 3.1%.

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or lifetime (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

##### Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 50 Risk Management (continued)

## (a) Credit risk (continued)

## (i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note V 53(a).

	31 December 2022				
	Stage 1	Stage 2	Stage 3	N/A	Total
<b>Assets</b>					
Cash and deposits with the central bank	356,426	—	—	—	356,426
Deposits with banks and other financial institutions	32,073	—	—	—	32,073
Placements with banks and other financial institutions	129,845	—	134	—	129,979
Financial assets held under resale agreements	28	—	—	—	28
Loans and advances to customers	3,389,741	90,710	18,900	—	3,499,351
Finance lease receivables	104,043	3,505	464	—	108,012
Financial investments	1,618,886	5,192	17,791	129,863	1,771,732
Others (Note)	21,338	6,539	—	15,730	43,607
<b>Total</b>	<b>5,652,380</b>	<b>105,946</b>	<b>37,289</b>	<b>145,593</b>	<b>5,941,208</b>
	31 December 2021				
	Stage 1	Stage 2	Stage 3	N/A	Total
<b>Assets</b>					
Cash and deposits with the central bank	378,263	—	—	—	378,263
Deposits with banks and other financial institutions	51,189	—	—	—	51,189
Placements with banks and other financial institutions	138,215	—	134	—	138,349
Financial assets held under resale agreements	31,164	—	—	—	31,164
Loans and advances to customers	3,106,200	112,504	20,692	—	3,239,396
Finance lease receivables	106,003	2,858	192	—	109,053
Financial investments	1,436,541	3,519	11,165	68,184	1,519,409
Others (Note)	27,347	5,712	—	13,705	46,764
<b>Total</b>	<b>5,274,922</b>	<b>124,593</b>	<b>32,183</b>	<b>81,889</b>	<b>5,513,587</b>

Note: Others comprise derivative financial assets and fees from wealth management business, deposit margin, interests receivable and other receivables recorded in other assets.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (a) Credit risk (continued)

##### (ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2022	31 December 2021
<i>Impaired</i>		
Carrying amount	300	300
Provision for impairment losses	(166)	(166)
Subtotal	134	134
<i>Neither overdue nor impaired</i>		
– grade A to AAA	158,470	209,720
– grade B to BBB	900	1,118
– unrated (Note)	2,576	9,730
Subtotal	161,946	220,568
Total	162,080	220,702

Note: Mainly represent deposits with banks and other financial institutions.

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2022	31 December 2021
<i>Impaired</i>		
Carrying amount	27,292	18,814
Provision for impairment losses	(9,501)	(7,649)
Subtotal	17,791	11,165
<i>Neither overdue nor impaired</i>		
<i>Bloomberg Composite</i>		
– grade AAA	5,217	–
– grade AA- to AA+	9,355	3,599
– grade A- to A+	33,794	20,275
– grade lower than A-	26,151	12,790
Subtotal	74,517	36,664
<i>Other agency ratings</i>		
– grade AAA	1,384,698	964,608
– grade AA- to AA+	208,649	310,143
– grade A- to A+	15,561	29,168
– grade lower than A-	6,924	17,619
– unrated	63,592	150,042
Subtotal	1,679,424	1,471,580
Total	A-568 1,771,732	1,519,409

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk (continued)

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc. The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

#### *Interest rate risk*

The Group is primarily exposed to interest rate risk arising from gap risk, basis risk and trading interest rate risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value. The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

#### *Gap risk*

Gap risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of the repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

#### *Basis risk*

Basis risk, is caused by interest rates on different pricing basis on the on-and off- balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

#### *Trading interest rate risk*

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk (continued)

##### *Interest rate risk* (continued)

(i) *The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year:*

	31 December 2022						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>							
Cash and deposits with the central bank	1.45%	356,426	14,922	341,504	-	-	-
Deposits with banks and other financial institutions	0.19%	32,073	19	32,054	-	-	-
Placements with banks and other financial institutions	2.56%	129,979	513	47,992	70,779	10,695	-
Financial assets held under resale agreements	1.62%	28	-	28	-	-	-
Loans and advances to customers	4.98%	3,499,351	12,589	2,647,346	756,364	81,450	1,602
Finance lease receivables	5.56%	108,012	1,122	20,983	60,173	19,863	5,871
Financial investments	3.48%	2,046,612	299,498	115,021	243,919	970,807	417,367
Others	N/A	128,029	124,407	1,420	-	-	2,202
<b>Total assets</b>	N/A	6,300,510	453,070	3,206,348	1,131,235	1,082,815	427,042

	31 December 2022						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Liabilities</b>							
Due to the central bank	2.93%	63,386	272	68	63,046	-	-
Deposits from banks and other financial institutions	2.06%	540,668	927	463,639	76,102	-	-
Placements from banks and other financial institutions	2.28%	188,601	892	106,837	80,872	-	-
Financial assets sold under repurchase agreements	1.63%	92,980	120	89,764	1,548	1,548	-
Deposits from customers	2.30%	3,917,168	76,352	2,161,300	811,022	868,413	81
Debt securities issued	2.62%	875,971	3,354	261,866	422,153	183,598	5,000
Others	N/A	111,723	80,815	29,523	-	1,358	27
<b>Total liabilities</b>	N/A	5,790,497	162,732	3,112,997	1,454,743	1,054,917	5,108
<b>Asset-liability gap</b>	N/A	510,013	290,338	93,351	(323,508)	27,898	421,934

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk (continued)

##### *Interest rate risk* (continued)

- (i) *The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year: (continued)*

	31 December 2021						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>							
Cash and deposits with the central bank	1.47%	378,263	21,046	357,217	-	-	-
Deposits with banks and other financial institutions	0.51%	51,189	27	49,762	1,400	-	-
Placements with banks and other financial institutions	1.72%	138,349	355	92,158	34,543	11,293	-
Financial assets held under resale agreements	2.19%	31,164	2	31,162	-	-	-
Loans and advances to customers	5.11%	3,239,396	12,126	2,456,909	685,895	82,352	2,114
Finance lease receivables	5.81%	109,053	1,223	25,706	55,661	20,253	6,210
Financial investments	3.72%	1,836,016	367,692	125,673	199,395	698,872	444,384
Others	N/A	118,639	115,839	-	-	-	2,800
<b>Total assets</b>	N/A	5,902,069	518,310	3,138,587	976,894	812,770	455,508

	31 December 2021						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Liabilities</b>							
Due to the central bank	2.99%	101,180	1,037	7,606	92,537	-	-
Deposits from banks and other financial institutions	2.45%	526,259	1,788	425,612	97,417	1,442	-
Placements from banks and other financial institutions	2.02%	179,626	713	90,908	88,005	-	-
Financial assets sold under repurchase agreements	1.78%	80,600	15	76,318	2,336	1,931	-
Deposits from customers	2.22%	3,675,743	62,116	2,002,866	732,266	878,404	91
Debt securities issued	2.92%	763,532	2,959	202,883	503,394	54,296	-
Others	N/A	90,763	79,566	10,884	223	87	3
<b>Total liabilities</b>	N/A	5,417,703	148,194	2,817,077	1,516,178	936,160	94
<b>Asset-liability gap</b>	N/A	484,366	370,116	321,510	(539,284)	(123,390)	455,414

\* *The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.*

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(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk Management (continued)

#### (b) Market risk (continued)

##### *Interest rate risk* (continued)

##### (ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2022, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB2,736 million (31 December 2021: increase by RMB2,177 million), and equity to decrease by RMB12,553 million (31 December 2021: decrease by RMB9,296 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB2,908 million (31 December 2021: increase by RMB2,333 million), and equity to increase by RMB13,337 million (31 December 2021: increase by RMB9,855 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rate movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the portfolio of asset and liability;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

##### *Foreign currency risk*

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (b) Market risk (continued)

##### *Foreign currency risk* (continued)

The Group's currency exposures as at the end of the year are as follows:

	31 December 2022			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with the central bank	344,797	7,628	4,001	356,426
Deposits with banks and other financial institutions	14,275	10,286	7,512	32,073
Placements with banks and other financial institutions	99,693	25,085	5,201	129,979
Financial assets held under resale agreements	–	–	28	28
Loans and advances to customers	3,354,625	74,791	69,935	3,499,351
Financial lease receivables	104,687	3,325	–	108,012
Financial investments	1,906,805	105,825	33,982	2,046,612
Others	110,819	15,285	1,925	128,029
<b>Total assets</b>	<b>5,935,701</b>	<b>242,225</b>	<b>122,584</b>	<b>6,300,510</b>
<b>Liabilities</b>				
Due to the central bank	63,386	–	–	63,386
Deposits from banks and other financial institutions	534,696	3,924	2,048	540,668
Placements from banks and other financial institutions	97,935	58,477	32,189	188,601
Financial assets sold under repurchase agreements	74,725	8,343	9,912	92,980
Deposits from customers	3,731,263	153,797	32,108	3,917,168
Debt securities issued	816,898	51,913	7,160	875,971
Others	99,343	9,900	2,480	111,723
<b>Total liabilities</b>	<b>5,418,246</b>	<b>286,354</b>	<b>85,897</b>	<b>5,790,497</b>
<b>Net position</b>	<b>517,455</b>	<b>(44,129)</b>	<b>36,687</b>	<b>510,013</b>
Off-balance sheet credit commitments	1,331,943	34,169	13,312	1,379,424
Derivative financial instruments (Note)	(927)	43,772	(8,031)	34,814

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 50 Risk management (continued)

## (b) Market risk (continued)

*Foreign currency risk* (continued)

The Group's currency exposures as at the end of the year are as follows: (continued)

	31 December 2021			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
<b>Assets</b>				
Cash and deposits with the central bank	361,425	14,942	1,896	378,263
Deposits with banks and other financial institutions	17,284	26,377	7,528	51,189
Placements with banks and other financial institutions	84,508	46,782	7,059	138,349
Financial assets held under resale agreements	31,029	–	135	31,164
Loans and advances to customers	3,083,882	93,185	62,329	3,239,396
Finance lease receivables	108,230	823	–	109,053
Financial investments	1,744,976	66,766	24,274	1,836,016
Others	103,446	13,758	1,435	118,639
<b>Total assets</b>	<b>5,534,780</b>	<b>262,633</b>	<b>104,656</b>	<b>5,902,069</b>
<b>Liabilities</b>				
Due to the central bank	101,180	–	–	101,180
Deposits from banks and other financial institutions	524,463	265	1,531	526,259
Placements from banks and other financial institutions	84,283	64,636	30,707	179,626
Financial assets sold under repurchase agreements	72,972	1,828	5,800	80,600
Deposits from customers	3,445,129	199,292	31,322	3,675,743
Debt securities issued	701,662	56,446	5,424	763,532
Others	79,603	9,375	1,785	90,763
<b>Total liabilities</b>	<b>5,009,292</b>	<b>331,842</b>	<b>76,569</b>	<b>5,417,703</b>
<b>Net position</b>	<b>525,488</b>	<b>(69,209)</b>	<b>28,087</b>	<b>484,366</b>
Off-balance sheet credit commitments	1,304,615	49,136	15,853	1,369,604
Derivative financial instruments (Note)	(56,670)	69,135	(24,128)	(11,663)

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (b) Market risk (continued)

##### *Foreign currency risk* (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the end of the year, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2022	31 December 2021
Exchange rates against RMB for the HK dollar	0.8914	0.8176
Exchange rates against RMB for the US dollar	6.9509	6.3748

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2022, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB31 million (31 December 2021: increase by RMB5 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB31 million (31 December 2021: decrease by RMB5 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;
- At the end of the reporting year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;
- Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

# Notes to the Consolidated Financial Statements

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (b) Market risk (continued)

##### *Price risk*

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

#### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2022							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
<b>Assets</b>								
Cash and deposits with the central bank	285,122	71,304	-	-	-	-	-	356,426
Deposits with banks and other financial institutions	-	29,321	269	2,231	80	-	172	32,073
Placements with banks and other financial institutions	134	-	37,301	10,778	70,999	10,767	-	129,979
Financial asset held under resale agreements	-	-	28	-	-	-	-	28
Loans and advances to customers	50,072	435,712	165,707	218,479	935,429	834,213	859,739	3,499,351
Finance lease receivables	33	46	4,371	5,486	23,607	67,841	6,628	108,012
Financial investments	25,405	216,233	35,753	53,166	268,783	1,013,567	433,705	2,046,612
Others	81,666	28,432	2,098	4,564	5,309	3,492	2,468	128,029
<b>Total assets</b>	<b>442,432</b>	<b>781,048</b>	<b>245,527</b>	<b>294,704</b>	<b>1,304,207</b>	<b>1,929,880</b>	<b>1,302,712</b>	<b>6,300,510</b>

	31 December 2022							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
<b>Liabilities</b>								
Due to the central bank	-	-	25	71	63,290	-	-	63,386
Deposits from banks and other financial institutions	-	274,073	57,135	133,346	76,114	-	-	540,668
Placements from banks and other financial institutions	-	6	64,023	43,183	81,389	-	-	188,601
Financial assets sold under repurchase agreements	-	-	82,059	7,820	1,550	1,551	-	92,980
Deposits from customers	-	1,382,165	318,146	364,756	830,288	1,021,718	95	3,917,168
Debt securities issued	-	-	13,069	243,628	426,169	188,105	5,000	875,971
Others	-	59,873	3,013	5,312	8,015	30,022	5,488	111,723
<b>Total liabilities</b>	<b>-</b>	<b>1,716,117</b>	<b>537,470</b>	<b>798,116</b>	<b>1,486,815</b>	<b>1,241,396</b>	<b>10,583</b>	<b>5,790,497</b>
<b>Net position</b>	<b>442,432</b>	<b>(935,069)</b>	<b>(291,943)</b>	<b>(503,412)</b>	<b>(182,608)</b>	<b>688,484</b>	<b>1,292,129</b>	<b>510,013</b>
Notional amount of derivative financial instruments	-	-	235,347	218,141	574,524	699,711	2,035	1,729,758

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## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year: (continued)

	31 December 2021							Total
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Assets</b>								
Cash and deposits with the central bank	283,955	94,308	-	-	-	-	-	378,263
Deposits with banks and other financial institutions	-	47,360	566	1,863	1,400	-	-	51,189
Placements with banks and other financial institutions	134	-	57,707	34,529	34,635	11,344	-	138,349
Financial asset held under resale agreements	-	-	31,164	-	-	-	-	31,164
Loans and advances to customers	40,247	424,929	138,685	204,972	848,399	758,453	823,711	3,239,396
Finance lease receivables	35	163	3,838	5,530	21,367	70,938	7,182	109,053
Financial investments	25,339	257,058	36,931	60,363	219,216	756,178	480,931	1,836,016
Others	68,841	33,293	1,980	1,797	2,715	7,197	2,816	118,639
<b>Total assets</b>	<b>418,551</b>	<b>857,111</b>	<b>270,871</b>	<b>309,054</b>	<b>1,127,732</b>	<b>1,604,110</b>	<b>1,314,640</b>	<b>5,902,069</b>

	31 December 2021							Total
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Liabilities</b>								
Due to the central bank	-	-	2	7,802	93,376	-	-	101,180
Deposits from banks and other financial institutions	-	195,213	81,904	149,184	98,516	1,442	-	526,259
Placements from banks and other financial institutions	-	6	48,460	42,837	88,323	-	-	179,626
Financial assets sold under repurchase agreements	-	-	73,810	2,520	2,338	1,932	-	80,600
Deposits from customers	-	1,428,708	242,027	369,592	713,016	891,849	30,551	3,675,743
Debt securities issued	-	-	37,863	129,319	511,269	85,081	-	763,532
Others	-	49,395	3,413	2,537	5,896	23,195	6,327	90,763
<b>Total liabilities</b>	<b>-</b>	<b>1,673,322</b>	<b>487,479</b>	<b>703,791</b>	<b>1,512,734</b>	<b>1,003,499</b>	<b>36,878</b>	<b>5,417,703</b>
<b>Net position</b>	<b>418,551</b>	<b>(816,211)</b>	<b>(216,608)</b>	<b>(394,737)</b>	<b>(385,002)</b>	<b>600,611</b>	<b>1,277,762</b>	<b>484,366</b>
Notional amount of derivative financial instruments	-	-	383,509	239,565	438,142	820,304	1,848	1,883,368

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the year:

	31 December 2022							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	63,386	64,799	-	25	72	64,702	-	-
Deposits from banks and other financial institutions	540,668	543,019	274,209	57,357	134,598	76,855	-	-
Placements from banks and other financial institutions	188,601	190,663	6	64,091	43,520	83,046	-	-
Financial assets sold under repurchase agreements	92,980	93,084	-	82,102	7,863	1,566	1,553	-
Deposits from customers	3,917,168	3,978,082	1,382,165	324,008	376,136	862,226	1,033,433	114
Debt securities issued	875,971	904,053	-	13,211	251,786	433,688	199,530	5,838
Other financial liabilities	65,432	70,298	28,111	354	2,711	2,872	28,620	7,630
<b>Total non-derivative financial liabilities</b>	<b>5,744,206</b>	<b>5,843,998</b>	<b>1,684,491</b>	<b>541,148</b>	<b>816,686</b>	<b>1,524,955</b>	<b>1,263,136</b>	<b>13,582</b>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		748	-	13	(2)	378	97	262
Derivative financial instruments settled on gross basis								
- Cash inflow		681,857	-	213,796	162,785	300,364	4,912	-
- Cash outflow		(489,327)	-	(106,413)	(128,164)	(249,837)	(4,913)	-
<b>Total derivative financial liabilities</b>		<b>192,530</b>	<b>-</b>	<b>107,383</b>	<b>34,621</b>	<b>50,527</b>	<b>(1)</b>	<b>-</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the year: (continued)

	31 December 2021							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	101,180	103,136	-	2	7,832	95,302	-	-
Deposits from banks and other financial institutions	526,259	529,293	195,668	82,009	150,733	99,439	1,444	-
Placements from banks and other financial institutions	179,626	181,293	6	48,505	43,129	89,653	-	-
Financial assets sold under repurchase agreements	80,600	82,195	-	75,391	2,523	2,344	1,937	-
Deposits from customers	3,675,743	3,747,415	1,428,709	245,370	373,963	731,797	937,005	30,571
Debt securities issued	763,532	790,079	-	38,466	136,112	518,738	96,763	-
Other financial liabilities	51,901	54,609	23,912	1,644	669	3,417	17,346	7,621
<b>Total non-derivative financial liabilities</b>	<b>5,378,841</b>	<b>5,488,020</b>	<b>1,648,295</b>	<b>491,387</b>	<b>714,961</b>	<b>1,540,690</b>	<b>1,054,495</b>	<b>38,192</b>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		433	-	47	(7)	62	329	2
Derivative financial instruments settled on gross basis								
- Cash inflow		835,750	-	355,824	192,172	274,567	13,187	-
- Cash outflow		(691,673)	-	(253,563)	(164,043)	(260,875)	(13,192)	-
<b>Total derivative financial liabilities</b>		<b>144,077</b>	<b>-</b>	<b>102,261</b>	<b>28,129</b>	<b>13,692</b>	<b>(5)</b>	<b>-</b>

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2022			Total
	Within one year	Between one year and five years	More than five years	
Loan and credit card commitments	365,068	540	1,520	367,128
Guarantees, acceptances and other credit commitments	964,754	46,456	1,086	1,012,296
<b>Total</b>	<b>1,329,822</b>	<b>46,996</b>	<b>2,606</b>	<b>1,379,424</b>

	31 December 2021			Total
	Within one year	Between one year and five years	More than five years	
Loan and credit card commitments	357,503	957	2,925	361,385
Guarantees, acceptances and other credit commitments	962,529	44,584	1,106	1,008,219
<b>Total</b>	<b>1,320,032</b>	<b>45,541</b>	<b>4,031</b>	<b>1,369,604</b>

#### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 50 Risk management (continued)

#### (d) Operational risk (continued)

- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

### 51 Fair value

#### (a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

##### (i) *Debt securities and equity investments*

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

##### (ii) *Receivables and other non-derivative financial assets*

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the year.

##### (iii) *Debt securities issued and other non-derivative financial liabilities*

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

##### (iv) *Derivative financial instruments*

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Thomson Reuters' quoted price.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 51 Fair value (continued)

#### (b) Fair value measurement

##### (i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers measured at amortised cost, finance lease receivables and financial investments measured at amortised cost, except for bond investments and asset-backed securities, are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, and equity instruments at fair value through other comprehensive income presented at fair value.

##### (ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

Financial liabilities at fair value through profit or loss and derivative financial liabilities presented at fair value.

The tables below summarise the carrying amounts and fair values of "debt securities and asset-backed instruments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of year:

	Carrying value		Fair value	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	1,118,734	991,472	1,135,161	1,003,770
<b>Financial liabilities</b>				
Debt securities issued	875,971	763,532	859,788	751,799

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 51 Fair value (continued)

#### (b) Fair value measurement (continued)

##### (ii) *Financial liabilities* (continued)

Debt securities and asset-backed instruments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd..

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

#### (c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg, Thomson Reuters and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated unlisted equity and derivative contracts with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 51 Fair value (continued)

## (c) Fair value hierarchy (continued)

*Assets and liabilities measured at fair value*

	31 December 2022			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
<i>Derivative financial assets</i>				
– Currency derivatives	–	10,961	–	10,961
– Interest rate derivatives	1	4,768	–	4,769
<i>Loan and advances to customers</i>	–	214,253	–	214,253
<i>Financial assets at fair value through profit or loss</i>				
– Debt instruments held for trading	1,287	108,098	255	109,640
– Other financial assets at fair value through profit or loss	217,137	69,144	7,696	293,977
<i>Debt instruments at fair value through other comprehensive income</i>	56,292	393,240	64	449,596
<i>Equity instruments at fair value through other comprehensive income</i>	24	–	1,102	1,126
Total	274,741	800,464	9,117	1,084,322
<b>Liabilities</b>				
<i>Financial liabilities at fair value through profit or loss</i>	27	–	–	27
<i>Derivative financial liabilities</i>				
– Currency derivatives	–	9,743	–	9,743
– Interest rate derivatives	–	4,518	–	4,518
Total	27	14,261	–	14,288

## Notes to the Consolidated Financial Statements

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(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 51 Fair value (continued)

## (c) Fair value hierarchy (continued)

*Assets and liabilities measured at fair value* (continued)

	31 December 2021			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<i>Derivative financial assets</i>				
– Currency derivatives	–	7,234	–	7,234
– Interest rate derivatives	–	6,470	–	6,470
– Credit derivatives	–	–	1	1
<i>Loans and advances to customers</i>	–	155,647	–	155,647
<i>Financial assets at fair value through profit or loss</i>				
– Debt instruments held for trading	1,801	48,840	250	50,891
– Other financial assets at fair value through profit or loss	255,932	66,775	10,068	332,775
<i>Debt instruments at fair value through other comprehensive income</i>	56,912	268,716	67	325,695
<i>Equity instruments at fair value through other comprehensive income</i>	23	–	1,102	1,125
<b>Total</b>	<b>314,668</b>	<b>553,682</b>	<b>11,488</b>	<b>879,838</b>
<b>Liabilities</b>				
<i>Financial liabilities at fair value through profit or loss</i>	67	–	–	67
<i>Derivative financial liabilities</i>				
– Currency derivatives	–	6,614	–	6,614
– Credit derivatives	–	6,723	–	6,723
<b>Total</b>	<b>67</b>	<b>13,337</b>	<b>–</b>	<b>13,404</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 51 Fair value (continued)

#### (c) Fair value hierarchy (continued)

##### *Assets and liabilities measured at fair value* (continued)

The movements during the year ended 31 December 2022 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Debt instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2022	1	10,318	1,102	67	11,488	-	-
Total gain or loss:	-	-	-	-	-	-	-
- Recognised in the profit or loss	(1)	(1,237)	-	(3)	(1,241)	-	-
Purchases	-	2,964	-	-	2,964	-	-
Settlements	-	(4,094)	-	-	(4,094)	-	-
31 December 2022	-	7,951	1,102	64	9,117	-	-
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(1)	(1,237)	-	(3)	(1,241)	-	-

The movements during the year ended 31 December 2021 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Debt instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2021	2	10,364	852	-	11,218	(2)	(2)
Transferred to level 3	-	250	-	67	317	-	-
Transferred from level 3	-	(634)	-	-	(634)	-	-
Total gain or loss:	-	-	-	-	-	-	-
- Recognised in the profit or loss	-	(489)	-	-	(489)	-	-
Purchases	1	941	250	-	1,192	-	-
Settlements	(2)	(114)	-	-	(116)	2	2
31 December 2021	1	10,318	1,102	67	11,488	-	-
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	-	(489)	-	-	(489)	-	-

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 51 Fair value (continued)

#### (c) Fair value hierarchy (continued)

##### *Financial assets and liabilities not measured at fair value*

The tables below summarise the three levels' fair values of "debt securities and asset-backed instruments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	31 December 2022			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	217,623	917,538	–	1,135,161
<b>Financial liabilities</b>				
Debt securities issued	21,583	838,205	–	859,788
	31 December 2021			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	184,283	819,487	–	1,003,770
<b>Financial liabilities</b>				
Debt securities issued	23,262	728,537	–	751,799

#### (d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity and derivative contracts. These financial instruments are valued using cash flow discount model and market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2022, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 52 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December 2022	31 December 2021
Entrusted loans	92,724	105,138
Entrusted funds	92,724	105,138

### 53 Commitments and contingent liabilities

#### (a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2022	31 December 2021
Loan commitments		
– Original contractual maturity within one year	16,007	15,635
– Original contractual maturity more than one year (inclusive)	6,009	7,564
Credit card commitments	345,112	338,186
Subtotal	367,128	361,385
Acceptances	724,330	669,088
Letters of guarantee	116,297	121,565
Letters of credit	171,484	217,381
Guarantees	185	185
Total	1,379,424	1,369,604

The Group may be exposed to credit risk in all the credit businesses above. Group management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

(Expressed in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 53 Commitments and contingent liabilities (continued)

## (b) Credit risk-weighted amount of credit commitments

	31 December 2022	31 December 2021
Credit risk-weighted amount of credit commitments	418,205	409,233

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

## (c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2022	31 December 2021
Contracted but not paid – Purchase of property and equipment	3,939	2,139
Approved but not contracted for – Purchase of property and equipment	5,708	4,530
Total	9,647	6,669

## (d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2022.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2022	31 December 2021
Redemption commitments	4,320	5,393

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 53 Commitments and contingent liabilities (continued)

#### (e) Outstanding litigations and disputes

As at 31 December 2022, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,688 million (31 December 2021: RMB674 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note V 36). The Group considers that the provisions made are reasonable and adequate.

### 54 Subsequent Events

The Group has no significant subsequent event.

## **Report on Review of Interim Financial Information**

### **To the Board of Directors of China Everbright Bank Company Limited**

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

#### **Introduction**

We have reviewed the accompanying interim financial information of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (together, the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2023 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Certified Public Accountants

Hong Kong

24 August 2023

China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Statement of Profit or Loss  
 For the six months ended 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

	<u>Note III</u>	<u>For the six months ended 30 June</u>	
		<u>2023</u> Unaudited	<u>2022</u> Unaudited
Interest income		125,016	118,396
Interest expense		(70,283)	(61,721)
<b>Net interest income</b>	1	<u>54,733</u>	<u>56,675</u>
Fee and commission income		14,886	16,255
Fee and commission expense		(1,441)	(1,420)
<b>Net fee and commission income</b>	2	<u>13,445</u>	<u>14,835</u>
Net trading gains	3	2,028	1,319
Dividend income		1	2
Net gains arising from investment securities	4	5,228	4,808
Net (losses)/gains on derecognition of financial assets measured at amortised cost		(376)	768
Net foreign exchange gains/(losses)		714	(297)
Other net operating income		758	421
<b>Operating income</b>		<u>76,531</u>	<u>78,531</u>
Operating expenses	5	(20,543)	(20,257)
Credit impairment losses	6	(26,595)	(29,024)
Other impairment losses		(2)	(1)
<b>Operating profit</b>		<u>29,391</u>	<u>29,249</u>
Gains/(Losses) on investment of joint ventures		22	(32)
<b>Profit before tax</b>		<u>29,413</u>	<u>29,217</u>
Income tax	7	(5,194)	(5,771)
<b>Net profit</b>		<u>24,219</u>	<u>23,446</u>
<b>Net profit attributable to:</b>			
Equity shareholders of the Bank		24,072	23,299
Non-controlling interests		147	147
<b>Earnings per share</b>			
Basic earnings per share (in RMB/share)	8	0.38	0.38
Diluted earnings per share (in RMB/share)	8	0.36	0.35

The notes form an integral part of this Interim Financial Information.

China Everbright Bank Company Limited  
Unaudited Condensed Consolidated Statement of Comprehensive Income  
For the six months ended 30 June 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	Note III	For the six months ended 30 June	
		<u>2023</u> Unaudited	<u>2022</u> Unaudited
<b>Net profit</b>		<u>24,219</u>	<u>23,446</u>
<b>Other comprehensive income, net of tax:</b>			
Items that will not be reclassified to profit or loss:			
- Equity instruments at fair value through other comprehensive income			
- Net change in fair value		4	(1)
- Related income tax effect	21(b)	<u>(1)</u>	<u>-</u>
Subtotal		<u>3</u>	<u>(1)</u>
Items that will be reclassified to profit or loss:			
- Debt instruments at fair value through other comprehensive income			
- Net change in fair value		3,646	(2,290)
- Changes in allowance for expected credit losses		520	432
- Reclassified to the profit or loss upon disposal		131	(654)
- Related income tax effect	21(b)	<u>(1,069)</u>	<u>601</u>
- Exchange differences on translation of financial statements		<u>80</u>	<u>85</u>
Subtotal		<u>3,308</u>	<u>(1,826)</u>
<b>Other comprehensive income, net of tax</b>		<u>3,311</u>	<u>(1,827)</u>
<b>Total comprehensive income</b>		<u>27,530</u>	<u>21,619</u>
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		27,381	21,471
Non-controlling interests		<u>149</u>	<u>148</u>
		<u>27,530</u>	<u>21,619</u>

The notes form an integral part of this Interim Financial Information.

China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Statement of Financial Position  
 As at 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

	<u>Note III</u>	30 June <u>2023</u> Unaudited	31 December <u>2022</u> Audited
<b>Assets</b>			
Cash and deposits with the central bank	9	338,544	356,426
Deposits with banks and other financial institutions	10	42,888	32,073
Precious metals		6,817	7,187
Placements with banks and other financial institutions	11	150,504	129,979
Derivative financial assets	12	18,826	15,730
Financial assets held under resale agreements	13	90,320	28
Loans and advances to customers	14	3,663,930	3,499,351
Finance lease receivables	15	102,598	108,012
Financial investments	16	2,202,425	2,046,612
- Financial assets at fair value through profit or loss		488,594	403,617
- Debt instruments at fair value through other comprehensive income		493,417	449,596
- Equity instruments at fair value through other comprehensive income		1,130	1,126
- Financial investments measured at amortised cost		1,219,284	1,192,273
Investments in joint ventures	17(b)	194	165
Property and equipment	18	26,161	26,174
Right-of-use assets	19	9,555	10,281
Goodwill	20	1,281	1,281
Deferred tax assets	21	33,735	32,703
Other assets	22	70,150	34,508
<b>Total assets</b>		<u>6,757,928</u>	<u>6,300,510</u>

The notes form an integral part of this Interim Financial Information.

China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Statement of Financial Position (Continued)  
 As at 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

	<u>Note III</u>	30 June <u>2023</u> Unaudited	31 December <u>2022</u> Audited
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to the central bank	24	99,281	63,386
Deposits from banks and other financial institutions	25	547,445	540,668
Placements from banks and other financial institutions	26	179,712	188,601
Financial liabilities at fair value through profit or loss	27	-	27
Derivative financial liabilities	12	19,440	14,261
Financial assets sold under repurchase agreements	28	206,231	92,980
Deposits from customers	29	4,156,940	3,917,168
Accrued staff costs	30	18,127	19,006
Taxes payable	31	6,831	11,141
Lease liabilities	32	9,419	10,151
Debt securities issued	33	914,749	875,971
Other liabilities	34	59,076	57,137
<b>Total liabilities</b>		<u>6,217,251</u>	<u>5,790,497</u>

The notes form an integral part of this Interim Financial Information.



China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Statement of Financial Position (Continued)  
 As at 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

	<u>Note III</u>	30 June <u>2023</u> Unaudited	31 December <u>2022</u> Audited
<b>Liabilities and equity (Continued)</b>			
<b>Equity</b>			
Share capital	35	59,086	54,032
Other equity instruments	36	104,899	109,062
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	39,993
Capital reserve	37	74,473	58,434
Other comprehensive income	38	2,719	(590)
Surplus reserve	39	26,245	26,245
General reserve	39	81,554	81,401
Retained earnings	40	189,422	179,299
Total equity attributable to equity shareholders of the Bank		538,398	507,883
Non-controlling interests		2,279	2,130
<b>Total equity</b>		<u>540,677</u>	<u>510,013</u>
<b>Total liabilities and equity</b>		<u>6,757,928</u>	<u>6,300,510</u>

Approved and authorised for issue by the board of directors on 24 August 2023.

Wang Jiang  
 Chairman,  
 Non-executive Director

Wang Zhiheng  
 President,  
 Executive Director

Sun Xinhong  
 General Manager of  
 Financial Accounting Department

The notes form an integral part of this Interim Financial Information.

China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Statement of Changes in Equity  
 For the six months ended 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

For the six months ended 30 June 2023

	Note III	Unaudited											Non- controlling interests	Total
		Attributable to equity shareholders of the Bank												
		Share capital	Other equity instruments			Capital reserve	Other comprehensive income		Surplus reserve	General reserve	Retained earnings	Subtotal		
	Preference shares	Perpetual bonds	Others											
Balance at 1 January 2023		54,032	64,906	39,993	4,163	58,434	(590)	26,245	81,401	179,299	507,883	2,130	510,013	
Changes in equity for the period:														
Net profit		-	-	-	-	-	-	-	-	24,072	24,072	147	24,219	
Other comprehensive income	38	-	-	-	-	-	3,309	-	-	-	3,309	2	3,311	
Investment and reduction of owners														
- Convertible corporate bonds to increase share capital and capital reserves		5,054	-	-	(4,163)	16,039	-	-	-	-	16,930	-	16,930	
Appropriation of profit:	40													
- Appropriation to general reserve		-	-	-	-	-	-	-	153	(153)	-	-	-	
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,226)	(11,226)	-	(11,226)	
- Dividends to other equity instrument holders		-	-	-	-	-	-	-	-	(2,570)	(2,570)	-	(2,570)	
Balance at 30 June 2023		59,086	64,906	39,993	-	74,473	2,719	26,245	81,554	189,422	538,398	2,279	540,677	

The notes form an integral part of this Interim Financial Information.

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China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Statement of Changes in Equity (Continued)  
 For the six months ended 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

For the six months ended 30 June 2022

Note	Unaudited												
	Attributable to equity shareholders of the Bank											Non-controlling interests	Total
	Share capital	Other equity instruments			Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal			
III	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total		
Balance at 1 January 2022	54,032	64,906	39,993	4,163	58,434	3,152	26,245	75,596	155,968	482,489	1,877	484,366	
Changes in equity for the period:													
Net profit	-	-	-	-	-	-	-	-	23,299	23,299	147	23,446	
Other comprehensive income	-	-	-	-	-	(1,828)	-	-	-	(1,828)	1	(1,827)	
Appropriation of profit:	40												
- Appropriation to general reserve	-	-	-	-	-	-	-	913	(913)	-	-	-	
- Dividends to ordinary shareholders	-	-	-	-	-	-	-	-	(10,860)	(10,860)	(20)	(10,880)	
- Dividends to other equity instrument holders	-	-	-	-	-	-	-	-	(2,570)	(2,570)	-	(2,570)	
Balance at 30 June 2022	54,032	64,906	39,993	4,163	58,434	1,324	26,245	76,509	164,924	490,530	2,005	492,535	

The notes form an integral part of this Interim Financial Information.

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China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Statement of Changes in Equity (Continued)  
 For the six months ended 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

2022

	Note	Attributable to equity shareholders of the Bank									Non-controlling interests	Total	
		Share capital	Other equity instruments			Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings			Subtotal
			Preference shares	Perpetual bonds	Others								
Balance at 1 January 2022		54,032	64,906	39,993	4,163	58,434	3,152	26,245	75,596	155,968	482,489	1,877	484,366
Changes in equity for the year:													
Net profit		-	-	-	-	-	-	-	-	44,807	44,807	233	45,040
Other comprehensive income	38	-	-	-	-	-	(3,742)	-	-	-	(3,742)	2	(3,740)
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	38	38
Appropriation of profit:	40												
- Appropriation to general reserve		-	-	-	-	-	-	-	5,805	(5,805)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(10,860)	(10,860)	(20)	(10,880)
- Dividends to other equity instrument holders		-	-	-	-	-	-	-	-	(4,811)	(4,811)	-	(4,811)
Balance at 31 December 2022		54,032	64,906	39,993	4,163	58,434	(590)	26,245	81,401	179,299	507,883	2,130	510,013

The notes form an integral part of this Interim Financial Information.

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China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Cash Flow Statement  
 For the six months ended 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	Unaudited	Unaudited
<b>Cash flows from operating activities</b>		
Profit before tax	29,413	29,217
<i>Adjustments for:</i>		
Credit impairment losses	26,595	29,024
Other impairment losses	2	1
Depreciation and amortisation	3,264	3,108
Unwinding of discount	(465)	(348)
Dividend income	(1)	(2)
Unrealised foreign exchange gains	(338)	(365)
Interest income from investment securities and net gains on disposal	(30,972)	(30,919)
Net losses/(gains) on derecognition of financial assets measured at amortised cost	376	(768)
(Gains)/Losses on investments in joint ventures	(22)	32
Net gains on disposal of trading securities	(1,770)	(1,625)
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(2,360)	523
Interest expense on debt securities issued	11,833	11,660
Interest expense on lease liabilities	192	218
Net losses on disposal of property and equipment	8	22
	<u>35,755</u>	<u>39,778</u>
<i>Changes in operating assets</i>		
Net increase in deposits with the central bank, banks and other financial Institutions	(3,899)	(10,097)
Net increase in placements with banks and other financial institutions	(24,045)	(10,292)
Net decrease/(increase) in financial assets held for trading	4,443	(39,843)
Net increase in loans and advances to customers	(191,216)	(229,587)
Net increase in financial assets held under resale agreements	(90,293)	(76,794)
Net increase in other operating assets	(26,088)	(31,742)
	<u>(331,098)</u>	<u>(398,355)</u>

The notes form an integral part of this Interim Financial Information.

China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Cash Flow Statement (Continued)  
 For the six months ended 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	<u>2023</u>	<u>2022</u>
	Unaudited	Unaudited
<b>Cash flows from operating activities (Continued)</b>		
<i>Changes in operating liabilities</i>		
Net increase/(decrease) in deposits from banks and other financial institutions	6,076	(82,559)
Net (decrease)/increase in placements from banks and other financial institutions	(9,239)	27,275
Net increase in financial assets sold under repurchase agreements	113,207	6,576
Net increase/(decrease) in amounts due to the central bank	34,774	(25,463)
Net increase in deposits from customers	244,134	265,200
Income tax paid	(11,664)	(13,890)
Net (decrease)/increase in other operating liabilities	(11,180)	2,657
	<u>366,108</u>	<u>179,796</u>
<b>Net cash from/(used in) operating activities</b>	<u>70,765</u>	<u>(178,781)</u>
<b>Cash flows from investing activities</b>		
Proceeds from disposal and redemption of investments	507,515	408,531
Investment income received	33,001	32,760
Proceeds from disposal of property and equipment and other long-term assets	16	96
Payments on acquisition of investments	(665,199)	(483,009)
Payments on acquisition of property and equipment, intangible assets and other long-term assets	(1,613)	(2,139)
	<u>(1,613)</u>	<u>(2,139)</u>
<b>Net cash used in investing activities</b>	<u>(126,280)</u>	<u>(43,761)</u>

The notes form an integral part of this Interim Financial Information.

China Everbright Bank Company Limited  
 Unaudited Condensed Consolidated Cash Flow Statement (Continued)  
 For the six months ended 30 June 2023  
 (Expressed in millions of Renminbi, unless otherwise stated)

	<u>Note III</u>	<u>For the six months ended 30 June</u>	
		<u>2023</u> Unaudited	<u>2022</u> Unaudited
<b>Cash flows from financing activities</b>			
Proceeds from insurance of debts		620,219	542,997
Repayments of debts issued		(564,641)	(394,056)
Interest paid on debt securities issued		(11,800)	(13,100)
Dividends paid		(2,570)	(10,869)
Other net cash flows from financing activities		<u>(1,570)</u>	<u>(1,592)</u>
<b>Net cash from financing activities</b>		<u>39,638</u>	<u>123,380</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<u>1,236</u>	<u>2,344</u>
<b>Net decrease in cash and cash equivalents</b>	44(a)	(14,641)	(96,818)
<b>Cash and cash equivalents as at 1 January</b>		<u>136,664</u>	<u>222,583</u>
<b>Cash and cash equivalents as at 30 June</b>	44(b)	<u>122,023</u>	<u>125,765</u>
Interest received		<u>96,925</u>	<u>92,928</u>
Interest paid (excluding interest expense on debt securities issued)		<u>(60,518)</u>	<u>(43,679)</u>

The notes form an integral part of this Interim Financial Information.

## **I BACKGROUND INFORMATION**

China Everbright Bank Company Limited (the “Bank”) commenced its operations in Beijing, the People’s Republic of China (the “PRC”) on 18 August 1992. The A Shares and H Shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and the Stock Exchange of Hong Kong Limited in December 2013, respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the “CBIRC”), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People’s Republic of China.

The principal activities of the Bank and its subsidiaries (Note III 17(a)) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of this interim financial information, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to countries and regions other than Mainland China.

This interim financial information has been approved by the Board of Directors on 24 August 2023.

## **II BASIS OF PREPARATION**

### **1 Compliance with International Financial Reporting Standards (“IFRSs”)**

The unaudited interim financial information for the six months ended 30 June 2023 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2022.

Except as described in Note II 3 below, the principal accounting policies adopted in the preparation of the unaudited interim financial information are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2022.

### **2 Use of estimates and assumptions**

The preparation of the interim financial information requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions. The nature and assumptions related to the Group’s accounting estimates are consistent with those adopted in the Group’s financial statements for the year ended 31 December 2022, except for the adoption of new amendments effective as of 1 January 2023.



## II BASIS OF PREPARATION (Continued)

### 3 Material accounting policy information

#### 3.1 Standards, amendments and interpretations effective in 2023

On 1 January 2023, the Group adopted the following amendments.

IFRS 17 and Amendments	<i>Insurance Contracts</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting policies</i>
Amendments to IAS 12	<i>Deferred tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

#### 3.2 Standard, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2023

		<b>Effective for annual periods beginning on or after</b>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2024
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>	1 January 2024
Amendments to IAS 7 and IFRS 7	<i>Disclosures: Supplier Finance Arrangements</i>	1 January 2024
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely

The adoption of the above amendments does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
For the six months ended 30 June 2023  
(Expressed in millions of Renminbi, unless otherwise stated)

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1 Net interest income**

	Note	For the six months ended 30 June	
		2023	2022
<b>Interest income arising from</b>			
Deposits with the central bank		2,326	2,253
Deposits with banks and other financial institutions		164	52
Placements with banks and other financial institutions		2,673	1,591
Loans and advances to customers	(a)		
- Corporate loans and advances		42,800	39,904
- Personal loans and advances		44,474	43,755
- Discounted bills		937	1,327
Finance lease receivables		2,802	3,035
Financial assets held under resale agreements		1,113	445
Investments		27,727	26,034
Subtotal		125,016	118,396
<b>Interest expenses arising from</b>			
Due to the central bank		1,144	1,325
Deposits from banks and other financial institutions		5,904	5,193
Placements from banks and other financial institutions		3,513	1,795
Deposits from customers			
- Corporate customers		32,659	30,463
- Individual customers		13,583	10,709
Financial assets sold under repurchase agreements		1,647	576
Debt securities issued		11,833	11,660
Subtotal		70,283	61,721
<b>Net interest income</b>		<b>54,733</b>	<b>56,675</b>

Note:

- (a) The interest income arising from impaired financial assets for the six months ended 30 June 2023 amounted to RMB465 million (Six months ended 30 June 2022: RMB348 million).

China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
For the six months ended 30 June 2023  
(Expressed in millions of Renminbi, unless otherwise stated)

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2 Net fee and commission income**

	For the six months ended 30 June	
	2023	2022
<b>Fee and commission income</b>		
Bank card service fees	6,102	6,570
Settlement and clearing fees	2,161	2,484
Wealth management service fees	2,038	2,260
Agency services fees	1,948	2,061
Custody and other fiduciary business fees	1,149	1,167
Acceptance and guarantee fees	780	911
Underwriting and advisory fees	699	775
Others	9	27
Subtotal	14,886	16,255
<b>Fee and commission expense</b>		
Bank card transaction fees	881	899
Settlement and clearing fees	372	322
Wealth management service fees	51	75
Underwriting and advisory fees	28	53
Acceptance and guarantee fees	4	3
Agency services fees	2	11
Others	103	57
Subtotal	1,441	1,420
<b>Net fee and commission income</b>	13,445	14,835

China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
For the six months ended 30 June 2023  
(Expressed in millions of Renminbi, unless otherwise stated)

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3 Net trading gains**

	For the six months ended 30 June	
	<u>2023</u>	<u>2022</u>
Trading financial instruments		
- Derivatives	209	87
- Debt securities	1,934	1,302
Subtotal	<u>2,143</u>	<u>1,389</u>
Financial instruments designated at fair value through profit or loss	(1)	-
Precious metal contracts	<u>(114)</u>	<u>(70)</u>
Total	<u>2,028</u>	<u>1,319</u>

**4 Net gains arising from investment securities**

	For the six months ended 30 June	
	<u>2023</u>	<u>2022</u>
Net gains arising from financial investments at fair value through profit or loss	5,359	4,154
Net (losses)/gains arising from debt instruments at fair value through other comprehensive income	(203)	267
Net gains arising from loans and advances to customers at fair value through other comprehensive income	<u>72</u>	<u>387</u>
Total	<u>5,228</u>	<u>4,808</u>

China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
For the six months ended 30 June 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5 Operating expenses**

	For the six months ended 30 June	
	<u>2023</u>	<u>2022</u>
Staff costs		
- Salaries and bonuses	7,765	8,560
- Pension and annuity	1,221	1,157
- Housing allowances	599	560
- Staff welfares	285	248
- Others	1,155	1,183
Subtotal	11,025	11,708
Premises and equipment expenses		
- Depreciation of right-of-use assets	1,371	1,379
- Depreciation of property, plant and equipment	1,231	1,170
- Amortisation of intangible assets	496	397
- Rental and property management expenses	228	216
- Interest expense on lease liabilities	192	218
- Amortisation of other long-term assets	166	162
Subtotal	3,684	3,542
Tax and surcharges	912	912
Other general and administrative expenses	4,922	4,095
Total	20,543	20,257

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Credit impairment losses**

	<u>For the six months ended 30 June</u>	
	<u>2023</u>	<u>2022</u>
Loans and advances to customers		
- measured at amortised cost	22,957	24,989
- measured at fair value through other comprehensive income	638	108
Debt instruments at fair value through other comprehensive income	(79)	307
Financial investments measured at amortised cost	2,327	2,682
Finance lease receivables	390	392
Others	362	546
	<u>26,595</u>	<u>29,024</u>

**7 Income tax**

(a) Income tax:

	<u>Note III</u>	<u>For the six months ended 30 June</u>	
		<u>2023</u>	<u>2022</u>
Current tax		7,468	17,364
Deferred tax	21(b)	(2,102)	(11,840)
Adjustments for prior years	7(b)	(172)	247
		<u>5,194</u>	<u>5,771</u>

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7 Income tax (Continued)**

(b) Reconciliations between income tax and accounting profit are as follows:

	<u>Note</u>	<u>For the six months ended 30 June</u>	
		<u>2023</u>	<u>2022</u>
Profit before tax		29,413	29,217
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		7,353	7,304
Effect of different tax rates applied by certain subsidiaries		-	(1)
Non-deductible expenses and others		1,163	1,043
Non-taxable gains			
- Non-taxable income	(i)	(3,150)	(2,822)
Subtotal		5,366	5,524
Adjustments for prior years		(172)	247
Income tax		5,194	5,771

Note:

(i) Non-taxable income mainly includes interest income of debt securities issued by government in mainland China and dividends of funds.

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8 Basic and diluted earnings per ordinary share**

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	<u>For the six months ended 30 June</u>	
	<u>2023</u>	<u>2022</u>
Net profit attributable to equity holders of the Bank	24,072	23,299
Less: Dividends on preference shares declared	<u>2,570</u>	<u>2,570</u>
Net profit attributable to ordinary shareholders of the Bank	21,502	20,729
Weighted average number of ordinary shares in issue (in million shares)	<u>56,992</u>	<u>54,032</u>
Basic earnings per share (in RMB/share)	<u><u>0.38</u></u>	<u><u>0.38</u></u>

Weighted average number of ordinary shares in issue (in million shares)

	<u>For the six months ended 30 June</u>	
	<u>2023</u>	<u>2022</u>
Issued ordinary shares as at 1 January	54,032	54,032
Add: Weighted average number of new issued ordinary shares in current period	<u>2,960</u>	<u>-</u>
Weighted average number of ordinary shares in issue (in million shares)	<u><u>56,992</u></u>	<u><u>54,032</u></u>



**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8 Basic and diluted earnings per ordinary share (Continued)**

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	For the six months ended 30 June	
	2023	2022
Net profit attributable to ordinary shareholders of the Bank	21,502	20,729
Add: Interest expense on convertible bonds, net of tax	272	391
Net profit used to determine diluted earnings per share	21,774	21,120
Weighted average number of ordinary shares in issue (in million shares)	56,992	54,032
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	2,993	6,817
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,985	60,849
Diluted earnings per share (in RMB/share)	0.36	0.35

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 9 Cash and deposits with the central bank

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
Cash on hand		8,229	4,022
Deposits with the central bank			
- Statutory deposit reserves	(a)	286,747	281,357
- Surplus deposit reserves	(b)	40,679	67,141
- Foreign exchange risk reserves	(c)	711	243
- Fiscal deposits		2,048	3,522
Subtotal		338,414	356,285
Accrued interest		130	141
Total		338,544	356,426

Notes:

- (a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	30 June <u>2023</u>	31 December <u>2022</u>
Reserve ratio for RMB deposits	7.25%	7.50%
Reserve ratio for foreign currency deposits	6.00%	6.00%

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The foreign-exchange risk reserve is the foreign-exchange risk reserve paid by the Group to the PBOC in accordance with the relevant provisions. As at 30 June 2023, the proportion of foreign-exchange risk reserve shall be 20% (31 December 2022: 20%).

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10 Deposits with banks and other financial institutions**

Analysed by type and location of counterparty

	30 June <u>2023</u>	31 December <u>2022</u>
Deposits in Mainland China		
- Banks	27,652	17,532
- Other financial institutions	2,910	1,022
Deposits overseas		
- Banks	<u>12,738</u>	<u>13,935</u>
Subtotal	43,300	32,489
Accrued interest	<u>11</u>	<u>19</u>
Total	43,311	32,508
Less: Provision for impairment losses	<u>(423)</u>	<u>(435)</u>
Net balances	<u><u>42,888</u></u>	<u><u>32,073</u></u>

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11 Placements with banks and other financial institutions**

Analysed by type and location of counterparty

	30 June <u>2023</u>	31 December <u>2022</u>
Placements in Mainland China		
- Banks	11,810	6,068
- Other financial institutions	99,304	85,049
Placements overseas		
- Banks	<u>39,093</u>	<u>38,727</u>
Subtotal	150,207	129,844
Accrued interest	<u>615</u>	<u>379</u>
Total	150,822	130,223
Less: Provision for impairment losses	<u>(318)</u>	<u>(244)</u>
Net balances	<u><u>150,504</u></u>	<u><u>129,979</u></u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12 Derivatives and hedge accounting

(a) Analysed by nature of contract

	30 June 2023		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
- Interest rate swaps	1,099,839	5,921	(5,426)
- Treasury bond futures	305	4	-
Currency derivatives			
- Foreign exchange forwards	10,876	463	(138)
- Foreign exchange swaps and cross-currency interest rate swaps	860,031	12,384	(13,825)
- Foreign exchange options	8,446	54	(51)
Credit derivatives	80	-	-
<b>Total</b>	<b>1,979,577</b>	<b>18,826</b>	<b>(19,440)</b>
	31 December 2022		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
- Interest rate swaps	1,037,901	4,768	(4,518)
- Treasury bond futures	308	1	-
Currency derivatives			
- Foreign exchange forwards	22,844	540	(348)
- Foreign exchange swap and cross-currency interest rate swaps	659,026	10,130	(9,379)
- Foreign exchange options	9,519	291	(16)
Credit derivatives	160	-	-
<b>Total</b>	<b>1,729,758</b>	<b>15,730</b>	<b>(14,261)</b>

- (1) The notional amounts of derivative financial instruments refer only to the amounts outstanding at the end of the reporting period and do not represent the amounts at risk.
- (2) The above derivative financial instruments include hedging instruments designated by the Group.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12 Derivatives and hedge accounting (Continued)

(b) Analysed by credit risk-weighted amount

	30 June <u>2023</u>	31 December <u>2022</u>
Counterparty default risk-weighted assets		
- Interest rate derivatives	964	1,390
- Currency derivatives	2,270	2,652
Credit value adjustment risk-weighted assets	<u>3,105</u>	<u>4,443</u>
Total	<u>6,339</u>	<u>8,485</u>

The risk-weighted assets for counterparty credit risk (“CCR”) of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment (“CVA”). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged item is fixed interest bonds. As at 30 June 2023, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB16,855 million (31 December 2022: RMB6,239 million). In the above hedging instrument, derivative financial assets was RMB556 million (31 December 2022: RMB416 million), derivative financial liabilities was RMB56 million (31 December 2022: RMB14 million).

For the six months ended 30 June 2023 and 30 June 2022, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13 Financial assets held under resale agreements**

(a) Analysed by type and location of counterparty

	30 June <u>2023</u>	31 December <u>2022</u>
In Mainland China		
- Banks	3,041	-
- Other financial institutions	87,280	-
Overseas		
- Banks	-	28
Subtotal	90,321	28
Accrued interest	19	-
Total	90,340	28
Less: Provision for impairment losses	(20)	-
Net balances	<u>90,320</u>	<u>28</u>

(b) Analysed by type of collateral held

	30 June <u>2023</u>	31 December <u>2022</u>
Bonds		
- Government bonds	9,974	-
- Other debt securities	80,347	28
Subtotal	90,321	28
Accrued interest	19	-
Total	90,340	28
Less: Provision for impairment losses	(20)	-
Net balances	<u>90,320</u>	<u>28</u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 14 Loans and advances to customers

(a) Analysed by nature

	30 June <u>2023</u>	31 December <u>2022</u>
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,986,982	1,838,407
Discounted bills	661	497
Personal loans and advances		
- Personal housing mortgage loans	591,503	589,758
- Personal business loans	275,008	257,190
- Personal consumption loans	197,810	208,442
- Credit cards	<u>453,576</u>	<u>463,729</u>
Subtotal	<u>1,517,897</u>	<u>1,519,119</u>
Loans and advances to customers at fair value through other comprehensive income		
Forfaiting - domestic letter of credit	121,414	93,043
Discounted bills	<u>116,793</u>	<u>121,210</u>
Subtotal	<u>238,207</u>	<u>214,253</u>
Total	3,743,747	3,572,276
Accrued interest	<u>10,826</u>	<u>10,255</u>
Gross loans and advances to customers	3,754,573	3,582,531
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(90,643)</u>	<u>(83,180)</u>
Net loans and advances to customers	<u>3,663,930</u>	<u>3,499,351</u>
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	<u>(1,414)</u>	<u>(776)</u>

As at the end of the reporting period, part of the above loans and advances to customers was pledged for repurchase agreements. See Note III 23(a).



### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 14 Loans and advances to customers (Continued)

(b) Analysed by industry

	30 June 2023		Loans and advances secured by collateral
	Amount	Percentage	
Manufacturing	420,988	11.23%	81,073
Water, environment and public utility management	336,209	8.98%	118,179
Leasing and commercial services	318,284	8.50%	71,029
Wholesale and retail trade	186,269	4.98%	39,837
Real estate	172,414	4.61%	111,219
Construction	157,090	4.20%	43,805
Transportation, storage and postal services	123,522	3.30%	39,400
Finance	92,288	2.47%	7,257
Production and supply of electricity, gas and water	80,852	2.16%	16,566
Agriculture, forestry, husbandry and fishery	66,911	1.79%	17,831
Others	153,569	4.10%	33,086
Subtotal of corporate loans and advances	2,108,396	56.32%	579,282
Personal loans and advances	1,517,897	40.54%	857,174
Discounted bills	117,454	3.14%	113,302
Total	3,743,747	100.00%	1,549,758
Accrued interest	10,826		
Gross loans and advances to customers	3,754,573		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(90,643)		
Net loans and advances to customers	3,663,930		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(1,414)		

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 14 Loans and advances to customers (Continued)

(b) Analysed by industry (Continued)

	31 December 2022		
	<u>Amount</u>	<u>Percentage</u>	<u>Loans and advances secured by collateral</u>
Manufacturing	379,002	10.59%	78,769
Water, environment and public utility management	320,176	8.96%	120,441
Leasing and commercial services	268,954	7.53%	65,021
Real estate	178,649	5.00%	117,234
Wholesale and retail trade	160,716	4.50%	41,166
Construction	151,748	4.25%	47,185
Transportation, storage and postal services	110,579	3.10%	38,971
Finance	85,008	2.38%	8,739
Production and supply of electricity, gas and water	72,531	2.03%	14,816
Agriculture, forestry, husbandry and fishery	65,622	1.84%	19,029
Others	138,465	3.88%	32,387
Subtotal of corporate loans and advances	<u>1,931,450</u>	<u>54.06%</u>	<u>583,758</u>
Personal loans and advances	1,519,119	42.53%	832,781
Discounted bills	121,707	3.41%	118,279
Total	3,572,276	100.00%	1,534,818
Accrued interest	<u>10,255</u>		
Gross loans and advances to customers	3,582,531		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(83,180)</u>		
Net loans and advances to customers	<u>3,499,351</u>		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	<u>(776)</u>		

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Loans and advances to customers (Continued)**

(c) Analysed by type of collateral

	30 June <u>2023</u>	31 December <u>2022</u>
Unsecured loans	1,283,179	1,192,422
Guaranteed loans	910,810	845,036
Secured loans		
- By tangible assets other than monetary assets	1,222,265	1,188,728
- By monetary assets	<u>327,493</u>	<u>346,090</u>
Total	3,743,747	3,572,276
Accrued interest	<u>10,826</u>	<u>10,255</u>
Gross loans and advances to customers	3,754,573	3,582,531
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(90,643)</u>	<u>(83,180)</u>
Net loans and advances to customers	<u>3,663,930</u>	<u>3,499,351</u>
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	<u>(1,414)</u>	<u>(776)</u>

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Loans and advances to customers (Continued)**

(d) Analysed by geographical distribution

	30 June 2023		
	<u>Loan balance</u>	<u>Percentage</u>	<u>Loans and advances secured by collateral</u>
Yangtze River Delta	888,268	23.74%	326,933
Central	642,441	17.16%	318,463
Pearl River Delta	556,340	14.86%	316,116
Bohai Rim	505,960	13.51%	266,428
Western	464,330	12.40%	224,183
Overseas	122,530	3.27%	22,504
Northeastern	106,591	2.85%	72,457
Head Office	457,287	12.21%	2,674
<b>Total</b>	<b>3,743,747</b>	<b>100.00%</b>	<b>1,549,758</b>

	31 December 2022		
	<u>Loan balance</u>	<u>Percentage</u>	<u>Loans and advances secured by collateral</u>
Yangtze River Delta	841,441	23.56%	332,851
Central	610,286	17.08%	319,605
Pearl River Delta	511,900	14.33%	303,254
Bohai Rim	465,674	13.04%	251,536
Western	446,599	12.50%	222,310
Overseas	116,267	3.25%	21,940
Northeastern	106,440	2.98%	74,881
Head Office	473,669	13.26%	8,441
<b>Total</b>	<b>3,572,276</b>	<b>100.00%</b>	<b>1,534,818</b>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 14 Loans and advances to customers (Continued)

(d) Analysed by geographical distribution (Continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	30 June 2023			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Pearl River Delta	10,252	(5,314)	(4,493)	(6,602)
Central	6,687	(5,552)	(4,242)	(3,276)
Yangtze River Delta	5,713	(10,259)	(2,544)	(3,309)
Bohai Rim	5,157	(3,212)	(2,065)	(3,246)
Western	4,771	(3,664)	(4,026)	(2,228)
<b>Total</b>	<b>32,580</b>	<b>(28,001)</b>	<b>(17,370)</b>	<b>(18,661)</b>
	31 December 2022			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Pearl River Delta	9,326	(6,261)	(3,008)	(5,213)
Central	6,099	(5,900)	(3,496)	(3,444)
Yangtze River Delta	4,724	(10,567)	(2,246)	(3,570)
Bohai Rim	4,428	(3,252)	(1,830)	(3,270)
Western	4,186	(4,734)	(3,499)	(2,398)
<b>Total</b>	<b>28,763</b>	<b>(30,714)</b>	<b>(14,079)</b>	<b>(17,895)</b>

For the definition of regional divisions, see Note III 47(b).

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Loans and advances to customers (Continued)**

(e) Overdue loans analysed by overdue period

	30 June 2023				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	13,176	11,218	1,441	767	26,602
Guaranteed loans	3,352	2,638	3,512	524	10,026
Secured loans					
- By tangible assets other than monetary assets	9,927	10,468	9,330	2,251	31,976
- By monetary assets	319	1,822	1,538	50	3,729
Subtotal	26,774	26,146	15,821	3,592	72,333
Accrued interest	101	-	-	-	101
Total	<u>26,875</u>	<u>26,146</u>	<u>15,821</u>	<u>3,592</u>	<u>72,434</u>
As a percentage of gross loans and advances to customers	<u>0.71%</u>	<u>0.70%</u>	<u>0.42%</u>	<u>0.10%</u>	<u>1.93%</u>
	31 December 2022				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	18,061	10,778	1,456	295	30,590
Guaranteed loans	2,881	5,094	1,975	357	10,307
Secured loans					
- By tangible assets other than monetary assets	11,121	7,382	7,540	1,289	27,332
- By monetary assets	119	969	548	38	1,674
Subtotal	32,182	24,223	11,519	1,979	69,903
Accrued interest	108	-	-	-	108
Total	<u>32,290</u>	<u>24,223</u>	<u>11,519</u>	<u>1,979</u>	<u>70,011</u>
As a percentage of gross loans and advances to customers	<u>0.90%</u>	<u>0.68%</u>	<u>0.32%</u>	<u>0.06%</u>	<u>1.96%</u>

Overdue loans represent loans of which the whole or part of the principal or interest was overdue for one day or more.

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Loans and advances to customers (Continued)**

(f) Loans and advances and provision for impairment losses

	30 June 2023				Stage 3 loans and advances as a percentage of loans and advances
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	
Loan principal	3,547,713	144,649	51,385	3,743,747	1.37%
Accrued interest	7,654	2,874	298	10,826	
Gross loans and advances to customers	3,555,367	147,523	51,683	3,754,573	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(37,551)</u>	<u>(23,455)</u>	<u>(29,637)</u>	<u>(90,643)</u>	
Net loans and advances to customers	<u>3,517,816</u>	<u>124,068</u>	<u>22,046</u>	<u>3,663,930</u>	
	31 December 2022				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	3,418,026	106,860	47,390	3,572,276	1.33%
Accrued interest	8,441	1,530	284	10,255	
Gross loans and advances to customers	3,426,467	108,390	47,674	3,582,531	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(36,726)</u>	<u>(17,680)</u>	<u>(28,774)</u>	<u>(83,180)</u>	
Net loans and advances to customers	<u>3,389,741</u>	<u>90,710</u>	<u>18,900</u>	<u>3,499,351</u>	

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### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 14 Loans and advances to customers (Continued)

##### (g) Reconciliation of provision for impairment losses

	For the six months ended 30 June 2023			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	
As at 1 January 2023	(36,726)	(17,680)	(28,774)	(83,180)
Transfer to Stage 1	(2,264)	2,043	221	-
Transfer to Stage 2	2,424	(2,750)	326	-
Transfer to Stage 3	260	2,213	(2,473)	-
Net charge for the period	(1,197)	(7,281)	(14,479)	(22,957)
Write-off and disposal	-	-	20,015	20,015
Recovery of loans and advances written off	-	-	(4,925)	(4,925)
Unwinding of discount on allowance	-	-	465	465
Exchange fluctuation and others	(48)	-	(13)	(61)
As at 30 June 2023	<u>(37,551)</u>	<u>(23,455)</u>	<u>(29,637)</u>	<u>(90,643)</u>
	2022			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2022	(31,363)	(19,935)	(25,591)	(76,889)
Transfer to Stage 1	(2,847)	2,511	336	-
Transfer to Stage 2	1,180	(1,377)	197	-
Transfer to Stage 3	427	3,348	(3,775)	-
Net charge for the year	(4,117)	(2,227)	(41,022)	(47,366)
Write-off and disposal	-	-	47,828	47,828
Recovery of loans and advances written off	-	-	(7,505)	(7,505)
Unwinding of discount on allowance	-	-	758	758
Exchange fluctuation and others	(6)	-	-	(6)
As at 31 December 2022	<u>(36,726)</u>	<u>(17,680)</u>	<u>(28,774)</u>	<u>(83,180)</u>

Note:

- (i) The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 30 June 2023, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB1,414 million (31 December 2022: RMB776 million).



**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Loans and advances to customers (Continued)**

(h) Rescheduled loans and advances to customers

	30 June <u>2023</u>	31 December <u>2022</u>
Rescheduled loans and advances to customers	4,307	4,404
Of which: Rescheduled loans and advances to customers overdue more than 90 days	1,266	19

**15 Finance lease receivables**

	30 June <u>2023</u>	31 December <u>2022</u>
Finance lease receivables	120,559	126,223
Less: Unearned finance lease income	<u>(14,096)</u>	<u>(14,945)</u>
Present value of finance lease receivables	106,463	111,278
Accrued interest	913	1,122
Less: Impairment losses	<u>(4,778)</u>	<u>(4,388)</u>
Net balance	<u>102,598</u>	<u>108,012</u>

Minimum finance lease receivables analysed by remaining period is listed as follows:

	30 June <u>2023</u>	31 December <u>2022</u>
Less than 1 year (inclusive)	39,620	39,200
1 year to 2 years (inclusive)	32,331	31,903
2 years to 3 years (inclusive)	22,700	24,686
3 years to 4 years (inclusive)	11,534	14,703
4 years to 5 years (inclusive)	5,443	7,428
More than 5 years	<u>8,931</u>	<u>8,303</u>
Total	<u>120,559</u>	<u>126,223</u>

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Financial investments**

	<u>Notes</u>	<u>30 June 2023</u>	<u>31 December 2022</u>
Financial assets at fair value through profit or loss	(a)	488,594	403,617
Debt instruments at fair value through other comprehensive income	(b)	493,417	449,596
Equity instruments at fair value through other comprehensive income	(c)	1,130	1,126
Financial investments measured at amortised cost	(d)	<u>1,219,284</u>	<u>1,192,273</u>
Total		<u>2,202,425</u>	<u>2,046,612</u>

(a) Financial assets at fair value through profit or loss

	<u>Notes</u>	<u>30 June 2023</u>	<u>31 December 2022</u>
Debt instruments held for trading	(i)	106,912	109,640
Other financial assets at fair value through profit or loss	(ii)	<u>381,682</u>	<u>293,977</u>
Total		<u>488,594</u>	<u>403,617</u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16 Financial investments (Continued)

(a) Financial assets at fair value through profit or loss (Continued)

(i) Debt instruments held for trading

	<u>Notes</u>	<u>30 June</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Issued by the following governments or institutions:			
In Mainland China			
- Government		21,584	9,407
- Banks and other financial institutions		49,205	79,658
- Other institutions	(1)	31,423	19,479
Overseas			
- Government		1,147	256
- Banks and other financial institutions		3,014	372
- Other institutions		539	468
Total	(2)	106,912	109,640
Listed	(3)	4,763	1,542
Of which: listed in Hong Kong		534	670
Unlisted		102,149	108,098
Total		106,912	109,640

Notes:

(1) Debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(2) At the end of the reporting period, some of the debt instruments held for trading were pledged for repurchase agreements. See Note III 23(a).

(3) Listed investments only include debt instruments traded on a stock exchange.

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Financial investments (Continued)**

(a) Financial assets at fair value through profit or loss (Continued)

(ii) Other financial assets at fair value through profit or loss

	30 June <u>2023</u>	31 December <u>2022</u>
Fund investments	297,799	214,031
Equity instruments	5,051	5,059
Others	<u>78,832</u>	<u>74,887</u>
Total	<u><u>381,682</u></u>	<u><u>293,977</u></u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16 Financial investments (Continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
In Mainland China			
- Government		237,927	196,287
- Banks and other financial institutions	(1)	135,345	143,053
- Other institutions	(2)	78,059	65,207
Overseas			
- Government		743	4,437
- Banks and other financial institutions		18,051	17,852
- Other institutions		16,795	16,078
Subtotal		486,920	442,914
Accrued interest		6,497	6,682
Total	(3)	<u>493,417</u>	<u>449,596</u>
Listed	(4)	59,962	55,718
Of which: listed in Hong Kong		28,477	33,248
Unlisted		426,958	387,196
Subtotal		486,920	442,914
Accrued interest		6,497	6,682
Total		<u>493,417</u>	<u>449,596</u>

Notes:

- (1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.
- (2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.
- (3) At the end of the reporting period, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note III 23(a).
- (4) Listed investments only include debt instruments traded on a stock exchange.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16 Financial investments (Continued)

(b) Debt instruments at fair value through other comprehensive income (Continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	For the six months ended 30 June 2023			<u>Total</u>
	Stage 1 (12-month <u>ECL</u> )	Stage 2 (Lifetime <u>ECL</u> )	Stage 3 (Lifetime <u>ECL</u> )	
As at 1 January 2023	(470)	(158)	(590)	(1,218)
Transfer to Stage 2	6	(6)	-	-
Transfer to Stage 3	52	-	(52)	-
Net charge for the period	86	(11)	4	79
Write-off and disposal	-	-	94	94
Exchange fluctuation and others	(22)	(6)	(28)	(56)
As at 30 June 2023	<u>(348)</u>	<u>(181)</u>	<u>(572)</u>	<u>(1,101)</u>
	2022			
	Stage 1 (12-month <u>ECL</u> )	Stage 2 (Lifetime <u>ECL</u> )	Stage 3 (Lifetime <u>ECL</u> )	<u>Total</u>
As at 1 January 2022	(410)	(104)	(173)	(687)
Transfer to Stage 2	10	(30)	20	-
Transfer to Stage 3	31	104	(135)	-
Net charge for the year	(95)	(103)	(302)	(500)
Exchange fluctuation and others	(6)	(25)	-	(31)
As at 31 December 2022	<u>(470)</u>	<u>(158)</u>	<u>(590)</u>	<u>(1,218)</u>

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Financial investments (Continued)**

(c) Equity instruments at fair value through other comprehensive income

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
Listed	(i)	28	24
Unlisted		<u>1,102</u>	<u>1,102</u>
Total	(ii)	<u>1,130</u>	<u>1,126</u>

Notes:

- (i) Listed investments only include equity instruments traded on a stock exchange.
- (ii) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. For the six months ended 30 June 2023, the Group has received RMB0.00 dividends from the above equity instruments (for the six months ended 30 June 2022: RMB0.00).

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Financial investments (Continued)**

(d) Financial investments measured at amortised cost

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
Debt securities and asset-backed instruments	(i)	1,159,983	1,105,621
Others	(ii)	<u>56,517</u>	<u>79,789</u>
Subtotal		1,216,500	1,185,410
Accrued interest		<u>15,490</u>	<u>17,745</u>
Total		1,231,990	1,203,155
Less: Provision for impairment losses		<u>(12,706)</u>	<u>(10,882)</u>
Net balance		<u>1,219,284</u>	<u>1,192,273</u>
Listed	(iii)	221,031	217,335
Of which: listed in Hong Kong		28,140	29,541
Unlisted		<u>982,763</u>	<u>957,193</u>
Subtotal		1,203,794	1,174,528
Accrued interest		<u>15,490</u>	<u>17,745</u>
Net balance		<u>1,219,284</u>	<u>1,192,273</u>



### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16 Financial investments (Continued)

(d) Financial investments measured at amortised cost (Continued)

(i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
In Mainland China			
- Government		450,436	405,772
- Banks and other financial institutions		400,762	385,852
- Other institutions	(1)	241,422	242,040
Overseas			
- Government		19,191	29,524
- Banks and other financial institutions		34,094	31,091
- Other institutions		14,078	11,342
Subtotal		1,159,983	1,105,621
Accrued interest		15,230	17,330
Total	(2)	1,175,213	1,122,951
Less: Provision for impairment losses		(4,249)	(4,217)
Net balance		<u>1,170,964</u>	<u>1,118,734</u>
Fair value		<u>1,196,299</u>	<u>1,135,161</u>

Notes:

(1) Debt securities and asset-backed instruments issued by other institutions mainly represent debt securities and asset-backed instruments issued by state-owned enterprises and joint stock enterprises in Mainland China.

(2) As at the end of the reporting period, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note III 23(a).

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments only include debt instruments traded on a stock exchange.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16 Financial Investments (Continued)

(d) Financial investments measured at amortised cost (Continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	For the six months ended 30 June 2023			<u>Total</u>
	Stage 1 (12-month <u>ECL</u> )	Stage 2 (Lifetime <u>ECL</u> )	Stage 3 (Lifetime <u>ECL</u> )	
As at 1 January 2023	(1,325)	(56)	(9,501)	(10,882)
Transfer to Stage 2	5	(5)	-	-
Net charge for the period	457	(3)	(2,781)	(2,327)
Write-off and disposal	-	-	513	513
Exchange fluctuation and others	(10)	-	-	(10)
As at 30 June 2023	<u>(873)</u>	<u>(64)</u>	<u>(11,769)</u>	<u>(12,706)</u>
	2022			
	Stage 1 (12-month <u>ECL</u> )	Stage 2 (Lifetime <u>ECL</u> )	Stage 3 (Lifetime <u>ECL</u> )	<u>Total</u>
As at 1 January 2022	(1,361)	(1,315)	(7,649)	(10,325)
Transfer to Stage 2	36	(36)	-	-
Transfer to Stage 3	162	1,314	(1,476)	-
Net charge for the year	(88)	(19)	(1,955)	(2,062)
Write-off and disposal	-	-	1,579	1,579
Exchange fluctuation and others	(74)	-	-	(74)
As at 31 December 2022	<u>(1,325)</u>	<u>(56)</u>	<u>(9,501)</u>	<u>(10,882)</u>

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**17 Investments in subsidiaries and joint ventures**

**(a) Investments in subsidiaries**

	30 June <u>2023</u>	31 December <u>2022</u>
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd.	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co., Ltd.	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd.	600	600
	<u>12,983</u>	<u>12,983</u>
Total	<u>12,983</u>	<u>12,983</u>

The details of the subsidiaries are presented as follows:

<u>Corporate name</u>	<u>Registered address</u>	<u>Registered capital</u>	<u>Investment proportion</u>	<u>Voting proportion</u>	<u>Main business</u>	<u>Economic nature/type</u>
Everbright Financial Leasing Co., Ltd. (Everbright Financial Leasing)	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd. (CEB International)	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd. (Shaoshan Everbright Bank)	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd. (Huai'an Everbright Bank)	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe) (CEB Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd. (Ruijin Everbright Bank)	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd. (Everbright Wealth)	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd. (Sunshine Consumer)	Beijing	1,000	60%	60%	Banking business	Incorporated company

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### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 17 Investments in subsidiaries and joint ventures (Continued)

##### (b) Investments in joint ventures

	For the six months ended <u>30 June 2023</u>	<u>2022</u>
As at 1 January 2023/ 1 January 2022	165	256
Decrease capital	-	(47)
Investment gains/(losses) under the equity method	22	(63)
Foreign currency conversion difference	7	19
As at 30 June 2023/ 31 December 2022	<u>194</u>	<u>165</u>

#### 18 Property and equipment

	<u>Premises</u> (Note (i))	<u>Aircraft</u> (Note (ii))	<u>Construction in progress</u>	<u>Electronic equipment</u>	<u>Others</u>	<u>Total</u>
<b>Cost</b>						
As at 1 January 2023	14,278	11,057	2,832	9,968	4,971	43,106
Additions	-	-	473	348	72	893
Transfer out	-	-	(5)	-	-	(5)
Disposals	(1)	-	-	(186)	(67)	(254)
Foreign currency conversion difference	-	409	-	1	1	411
As at 30 June 2023	<u>14,277</u>	<u>11,466</u>	<u>3,300</u>	<u>10,131</u>	<u>4,977</u>	<u>44,151</u>
<b>Accumulated depreciation</b>						
As at 1 January 2023	(5,337)	(1,370)	-	(6,269)	(3,793)	(16,769)
Charge for the period	(225)	(203)	-	(647)	(156)	(1,231)
Disposals	-	-	-	171	62	233
Foreign currency conversion difference	-	(60)	-	-	-	(60)
As at 30 June 2023	<u>(5,562)</u>	<u>(1,633)</u>	<u>-</u>	<u>(6,745)</u>	<u>(3,887)</u>	<u>(17,827)</u>
<b>Provision for impairment losses</b>						
As at 1 January 2023	(163)	-	-	-	-	(163)
As at 30 June 2023	<u>(163)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(163)</u>
<b>Net balances</b>						
As at 30 June 2023	<u>8,552</u>	<u>9,833</u>	<u>3,300</u>	<u>3,386</u>	<u>1,090</u>	<u>26,161</u>

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#### 18 Property and equipment (Continued)

	<u>Premises</u> (Note (i))	<u>Aircraft</u> (Note (ii))	<u>Construction in progress</u>	<u>Electronic equipment</u>	<u>Others</u>	<u>Total</u>
<b>Cost</b>						
As at 1 January 2022	13,529	10,134	2,656	9,151	4,818	40,288
Additions	59	1	930	1,373	351	2,714
Transfers in/(out)	690	-	(754)	-	-	(64)
Disposals	-	-	-	(556)	(198)	(754)
Foreign currency conversion difference	-	922	-	-	-	922
As at 31 December 2022	<u>14,278</u>	<u>11,057</u>	<u>2,832</u>	<u>9,968</u>	<u>4,971</u>	<u>43,106</u>
<b>Accumulated depreciation</b>						
As at 1 January 2022	(4,895)	(882)	-	(5,582)	(3,611)	(14,970)
Charge for the year	(442)	(394)	-	(1,212)	(364)	(2,412)
Disposals	-	-	-	525	182	707
Foreign currency conversion difference	-	(94)	-	-	-	(94)
As at 31 December 2022	<u>(5,337)</u>	<u>(1,370)</u>	<u>-</u>	<u>(6,269)</u>	<u>(3,793)</u>	<u>(16,769)</u>
<b>Provision for impairment</b>						
As at 1 January 2022	(163)	-	-	-	-	(163)
As at 31 December 2022	<u>(163)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(163)</u>
<b>Net book value</b>						
As at 31 December 2022	<u>8,778</u>	<u>9,687</u>	<u>2,832</u>	<u>3,699</u>	<u>1,178</u>	<u>26,174</u>

Notes:

- (i) As at 30 June 2023, title deeds were not yet finalised for the premises with a carrying amount of RMB23 million (31 December 2022: RMB35 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.
- (ii) As at 30 June 2023, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB9,833 million (31 December 2022: RMB9,687 million). As at the end of the reporting period, part of the finance lease receivables was pledged for borrowings from banks. See Note III 23(a).

The net balances of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	30 June <u>2023</u>	31 December <u>2022</u>
<b>Held in Mainland China</b>		
- Medium term leases (10 to 50 years)	7,938	8,173
- Short term leases (less than 10 years)	614	605
<b>Total</b>	<u>8,552</u>	<u>8,778</u>

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**19 Right-of-use Assets**

	<u>Premises</u>	<u>Transportation and others</u>	<u>Total</u>
<b>Cost</b>			
As at 1 January 2023	18,193	53	18,246
Charge for the period	1,129	4	1,133
Deductions	(1,407)	(18)	(1,425)
Foreign currency conversion difference	21	-	21
As at 30 June 2023	<u>17,936</u>	<u>39</u>	<u>17,975</u>
<b>Accumulated depreciation</b>			
As at 1 January 2023	(7,939)	(26)	(7,965)
Charge for the period	(1,367)	(4)	(1,371)
Reduction for the period	917	9	926
Foreign currency conversion difference	(10)	-	(10)
As at 30 June 2023	<u>(8,399)</u>	<u>(21)</u>	<u>(8,420)</u>
<b>Net balances</b>			
As at 30 June 2023	<u>9,537</u>	<u>18</u>	<u>9,555</u>
	<u>Premises</u>	<u>Transportation and others</u>	<u>Total</u>
<b>Cost</b>			
As at 1 January 2022	17,302	61	17,363
Charge for the year	2,250	8	2,258
Deductions	(1,406)	(16)	(1,422)
Foreign currency conversion difference	47	-	47
As at 31 December 2022	<u>18,193</u>	<u>53</u>	<u>18,246</u>
<b>Accumulated depreciation</b>			
As at 1 January 2022	(6,381)	(29)	(6,410)
Charge for the year	(2,749)	(11)	(2,760)
Reduction for the year	1,205	14	1,219
Foreign currency conversion difference	(14)	-	(14)
As at 31 December 2022	<u>(7,939)</u>	<u>(26)</u>	<u>(7,965)</u>
<b>Net balances</b>			
As at 31 December 2022	<u>10,254</u>	<u>27</u>	<u>10,281</u>

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### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 20 Goodwill

	<u>30 June 2023</u>	<u>31 December 2022</u>
Gross amount	6,019	6,019
Less: Provision for impairment losses	<u>(4,738)</u>	<u>(4,738)</u>
Net balances	<u>1,281</u>	<u>1,281</u>

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed the “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

#### 21 Deferred tax assets and liabilities

Deferred income tax assets and deferred income tax liabilities that have not been offset:

	<u>30 June 2023</u>	<u>31 December 2022</u>
Deferred income tax assets	36,642	34,855
Deferred income tax liabilities	<u>(2,907)</u>	<u>(2,152)</u>
Total	<u>33,735</u>	<u>32,703</u>

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21 Deferred tax assets and liabilities (Continued)**

(a) Analysed by nature

	30 June 2023		31 December 2022	
	<u>Temporary difference</u>	<u>Deferred tax assets/ (liabilities)</u>	<u>Temporary difference</u>	<u>Deferred tax assets/ (liabilities)</u>
Deferred income tax assets				
- Fair value changes	465	98	3,456	864
- Provision for impairment losses	123,089	30,762	113,780	28,445
- Accrued staff costs and others	<u>23,129</u>	<u>5,782</u>	<u>22,183</u>	<u>5,546</u>
Total	<u>146,683</u>	<u>36,642</u>	<u>139,419</u>	<u>34,855</u>
Deferred income tax liabilities				
- Fair value changes	(3,494)	(870)	(32)	(8)
- Others	<u>(8,148)</u>	<u>(2,037)</u>	<u>(8,576)</u>	<u>(2,144)</u>
Total	<u>(11,642)</u>	<u>(2,907)</u>	<u>(8,608)</u>	<u>(2,152)</u>



### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 21 Deferred tax assets and liabilities (Continued)

##### (b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2023	28,445	856	3,402	32,703
Recognised in profit or loss	2,452	(693)	343	2,102
Recognised in other comprehensive income	<u>(135)</u>	<u>(935)</u>	-	<u>(1,070)</u>
As at 30 June 2023	<u>30,762</u>	<u>(772)</u>	<u>3,745</u>	<u>33,735</u>
	Provision for impairment losses (Note (i))	Fair value changes of financial instruments (Note (ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2022	17,847	(953)	3,001	19,895
Recognised in profit or loss	10,827	379	401	11,607
Recognised in other comprehensive income	<u>(229)</u>	<u>1,430</u>	-	<u>1,201</u>
As at 31 December 2022	<u>28,445</u>	<u>856</u>	<u>3,402</u>	<u>32,703</u>

##### Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the period. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the period, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Fair value changes of financial instruments are subject to tax when realised.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 22 Other assets

	<u>Note</u>	30 June <u>2023</u>	31 December <u>2022</u>
Other receivables	(a)	51,302	17,229
Accrued interest		7,825	6,539
Intangible assets		3,532	3,475
Refundable Deposits		2,046	1,542
Property and equipment purchase prepayment		1,007	1,334
Long-term deferred expense		845	927
Repossessed assets		245	238
Land use right		74	77
Others	(b)	<u>3,274</u>	<u>3,147</u>
Total		<u>70,150</u>	<u>34,508</u>

Note:

- (a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.
- (b) Others are mainly agency financial assets.

#### 23 Pledged assets

- (a) Assets pledged as collateral

The Group's financial assets as collateral for liabilities include discounted bills, debt securities and property and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 30 June 2023 was RMB318.252 billion (as at 31 December 2022: RMB183.853 billion)

- (b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in the six months ended 30 June 2023.

As at 30 June 2023, the Group had no collateral received from banks and other financial institutions (31 December 2022: Nil). As at 30 June 2023, the Group had no collateral that was sold or re-pledged but was obligated to return (31 December 2022: Nil). These transactions are conducted under standard terms in the normal course of business.

China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24 Due to the central bank**

	30 June <u>2023</u>	31 December <u>2022</u>
Due to the central bank	97,916	63,142
Accrued interest	<u>1,365</u>	<u>244</u>
Total	<u><u>99,281</u></u>	<u><u>63,386</u></u>

**25 Deposits from banks and other financial institutions**

Analysed by type and location of counterparty

	30 June <u>2023</u>	31 December <u>2022</u>
Deposits in Mainland China		
- Banks	209,720	160,959
- Other financial institutions	336,070	376,763
Deposits overseas		
- Banks	<u>27</u>	<u>2,019</u>
Subtotal	545,817	539,741
Accrued interest	<u>1,628</u>	<u>927</u>
Total	<u><u>547,445</u></u>	<u><u>540,668</u></u>

China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**26 Placements from banks and other financial institutions**

Analysed by type and location of counterparty

	30 June <u>2023</u>	31 December <u>2022</u>
Placements in Mainland China		
- Banks	112,048	115,365
- Other financial institutions	3,980	6,605
Placements overseas		
- Banks	<u>62,448</u>	<u>65,745</u>
Subtotal	178,476	187,715
Accrued interest	<u>1,236</u>	<u>886</u>
Total	<u>179,712</u>	<u>188,601</u>

**27 Financial liabilities at fair value through profit or loss**

	30 June <u>2023</u>	31 December <u>2022</u>
Short position in debt securities	<u>-</u>	<u>27</u>
Total	<u>-</u>	<u>27</u>

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**28 Financial assets sold under repurchase agreements**

(a) Analysed by type and location of counterparty

	30 June <u>2023</u>	31 December <u>2022</u>
In Mainland China		
- Banks	183,299	74,624
- Other financial institutions	-	74
Overseas		
- Banks	22,173	17,947
- Other financial institutions	598	215
Subtotal	206,070	92,860
Accrued interest	161	120
Total	<u>206,231</u>	<u>92,980</u>

(b) Analysed by collateral

	30 June <u>2023</u>	31 December <u>2022</u>
Debt securities	203,802	89,892
Bank acceptances	2,268	2,968
Subtotal	206,070	92,860
Accrued interest	161	120
Total	<u>206,231</u>	<u>92,980</u>

China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**29 Deposits from customers**

	30 June <u>2023</u>	31 December <u>2022</u>
Demand deposits		
- Corporate customers	1,040,966	823,302
- Individual customers	<u>267,766</u>	<u>254,332</u>
Subtotal	<u>1,308,732</u>	<u>1,077,634</u>
Time deposits		
- Corporate customers	1,456,869	1,552,167
- Individual customers	<u>929,261</u>	<u>807,037</u>
Subtotal	<u>2,386,130</u>	<u>2,359,204</u>
Pledged deposits	395,972	409,978
Other deposits	<u>1,194</u>	<u>1,078</u>
Subtotal deposits from customers	4,092,028	3,847,894
Accrued interest	<u>64,912</u>	<u>69,274</u>
Total	<u><u>4,156,940</u></u>	<u><u>3,917,168</u></u>

**30 Accrued staff costs**

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
Salary and welfare payable		14,714	15,528
Pension and annuity payable	(a)	254	319
Supplementary retirement benefits payable	(b)	<u>3,159</u>	<u>3,159</u>
Total		<u><u>18,127</u></u>	<u><u>19,006</u></u>

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**30 Accrued staff costs (Continued)**

Notes:

(a) Pension and annuity payable

Pursuant to the relevant laws and regulations in the PRC, the Group operates a defined contribution scheme for its employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period.

Except for (a) and (b) above, the Group has no other major responsibilities for the payment of employee retirement benefits and other post-retirement benefits.

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**31 Taxes payable**

	30 June <u>2023</u>	31 December <u>2022</u>
Income tax payable	3,174	7,542
Value added tax payable	3,179	3,068
Others	478	531
Total	<u>6,831</u>	<u>11,141</u>

**32 Lease liabilities**

	30 June <u>2023</u>	31 December <u>2022</u>
Within 1 year (inclusive)	2,526	2,723
1 year to 2 years (inclusive)	2,021	2,171
2 years to 3 years (inclusive)	1,671	1,724
3 years to 5 years (inclusive)	2,332	2,539
More than 5 years	2,079	2,282
Total undiscounted lease liabilities	<u>10,629</u>	<u>11,439</u>
Lease liabilities	<u>9,419</u>	<u>10,151</u>

**33 Debt securities issued**

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
Financial bonds issued	(a)	172,929	130,346
Tier-two capital bonds issued	(b)	61,593	46,596
Convertible bonds issued	(c)	-	24,082
Interbank deposits issued	(d)	599,420	604,319
Certificates of deposit issued	(e)	53,105	46,798
Medium term notes	(f)	24,315	20,476
Subtotal		911,362	872,617
Accrued interest		<u>3,387</u>	<u>3,354</u>
Total		<u>914,749</u>	<u>875,971</u>



### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33 Debt securities issued (Continued)

##### (a) Financial bonds issued

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
Fixed rate financial bonds maturing in March 2024	(i)	39,996	39,993
Floating rate financial bonds maturing in May 2024	(ii)	1,440	1,415
Floating rate financial bonds maturing in August 2024	(iii)	961	944
Fixed rate financial bonds maturing in February 2025	(iv)	39,999	39,998
Floating rate financial bonds maturing in March 2025	(v)	433	-
Floating rate financial bonds maturing in March 2025	(vi)	793	-
Floating rate financial bonds maturing in April 2025	(vii)	543	-
Floating rate financial bonds maturing in May 2025	(viii)	288	-
Fixed rate financial bonds maturing in October 2025	(ix)	47,996	47,996
Fixed rate financial bonds maturing in May 2026	(x)	19,999	-
Floating rate financial bonds maturing in May 2026	(xi)	481	-
Fixed rate financial bonds maturing in June 2026	(xii)	<u>20,000</u>	<u>-</u>
<b>Total</b>		<u>172,929</u>	<u>130,346</u>

##### Notes:

- (i) Fixed rate social bonds for Small and Micro Enterprises Loans of RMB40.00 billion with a term of three years were issued by the Bank on 22 March 2021. The coupon rate is 3.45% per annum.
- (ii) Floating rate financial bonds of AUD 0.30 billion with a term of three years were issued by the Bank's Sydney branch on 18 May 2021. The coupon rate is 3MBBSW+68BPS per annum.
- (iii) Floating rate financial bonds of AUD 0.20 billion with a term of 1.75 years were issued by the Bank's Sydney branch on 11 November 2022. The coupon rate is 3MBBSW+103BPS per annum.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33 Debt securities issued (Continued)

##### (a) Financial bonds issued (Continued)

- (iv) Fixed rate social bonds for Small and Micro Enterprises Loans of RMB40.00 billion with a term of three years were issued by the Bank on 17 February 2022. The coupon rate is 2.73% per annum.
- (v) Floating rate financial bonds of AUD90.00 million with a term of two years were issued by the Bank's Sydney branch on 24 February 2023. The coupon rate is 3MBBSW+93BPS per annum.
- (vi) Floating rate financial bonds of AUD165.00 million with a term of two years were issued by the Bank's Sydney branch on 15 March 2023. The coupon rate is 3MBBSW+100BPS per annum.
- (vii) Floating rate financial bonds of AUD113.00 million with a term of two years were issued by the Bank's Sydney branch on 19 April 2023. The coupon rate is 3MBBSW+90BPS per annum.
- (viii) Floating rate financial bonds of AUD60.00 million with a term of two years were issued by the Bank's Sydney branch on 8 May 2023. The coupon rate is 3MBBSW+92BPS per annum.
- (ix) Fixed rate financial bonds of RMB48.00 billion with a term of three years were issued by the Bank on 18 October 2022. The coupon rate is 2.47% per annum.
- (x) Fixed rate financial bonds (Phase I) of RMB20.00 billion with a term of three years were issued by the Bank on 16 May 2023. The coupon rate is 2.68% per annum.
- (xi) Floating rate financial bonds of AUD100.00 million with a term of three years were issued by the Bank's Sydney branch on 5 May 2023. The coupon rate is 3MBBSW+105BPS per annum.
- (xii) Fixed rate green financial bonds (Phase I) of RMB20.00 billion with a term of three years were issued by the Bank on 19 June 2023. The coupon rate is 2.68% per annum.
- (xiii) As at 30 June 2023, the total fair value of the financial bonds issued approximated to RMB173,319 million (31 December 2022: RMB130,169 million).

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33 Debt securities issued (Continued)

##### (b) Tier-two capital bonds issued

	<u>Notes</u>	<u>30 June 2023</u>	<u>31 December 2022</u>
Tier-two capital fixed rate bonds maturing in September 2030	(i)	1,596	1,596
Tier-two capital fixed rate bonds maturing in August 2032	(ii)	39,998	40,000
Tier-two capital fixed rate bonds maturing in April 2033	(iii)	9,999	-
Tier-two capital fixed rate bonds maturing in August 2037	(iv)	5,000	5,000
Tier-two capital fixed rate bonds maturing in April 2038	(v)	5,000	-
<b>Total</b>		<u>61,593</u>	<u>46,596</u>

##### Notes:

- (i) Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 18 September 2025 at the nominal amount.
- (ii) Fixed rate tier-two capital bonds of RMB40.00 billion with a term of ten years were issued on 25 August 2022. The coupon rate is 3.10% per annum. The Group has an option to redeem the debts on 29 August 2027 at the nominal amount.
- (iii) Fixed rate tier-two capital bonds of RMB10.00 billion with a term of ten years were issued on 10 April 2023. The coupon rate is 3.55% per annum. The Group has an option to redeem the debts on 12 April 2028 at the nominal amount.
- (iv) Fixed rate tier-two capital bonds of RMB5.00 billion with a term of fifteen years were issued on 25 August 2022. The coupon rate is 3.35% per annum. The Group has an option to redeem the debts on 29 August 2032 at the nominal amount.
- (v) Fixed rate tier-two capital bonds of RMB5.00 billion with a term of fifteen years were issued on 10 April 2023. The coupon rate is 3.64% per annum. The Group has an option to redeem the debts on 12 April 2033 at the nominal amount.
- (vi) As at 30 June 2023, the fair value of the total tier-two capital bonds issued approximated to RMB61,616 million (31 December 2022: RMB45,113 million).

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33 Debt securities issued (Continued)

##### (c) Convertible bonds issued

	<u>30 June</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Fixed rate six years convertible bonds issued in March 2017	-	24,082

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	<u>Liability</u> <u>component</u>	<u>Equity</u> <u>component</u> Note III 36	<u>Total</u>
Nominal value of convertible bonds	24,826	5,174	30,000
Direct transaction costs	(64)	(13)	(77)
Balance as at the issuance date	24,762	5,161	29,923
Accumulated amortisation as at 1 January 2023	4,767	-	4,767
Accumulated conversion amount as at 1 January 2023	(5,447)	(998)	(6,445)
Balance as at 1 January 2023	24,082	4,163	28,245
Payment during the period	(7,152)	(1,251)	(8,403)
Conversion amount during the period (ii)	(16,930)	(2,912)	(19,842)
Balance as at 30 June 2023	-	-	-

Notes:

- (i) Pursuant to the approval of relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including the interest for the sixth year. The convertible bonds matured on 16 March 2023, and the Bank redeemed all the convertible bonds registered after the close of market on 16 March 2023 (redemption registration date).

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **33 Debt securities issued (Continued)**

(c) Convertible bonds issued (Continued)

Notes: (Continued)

(ii) As at 30 June 2023, a total of RMB22,731 million (31 December 2022: RMB5,801 million) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 6,596,456,061 (31 December 2022: 1,542,885,091).

(iii) For the six months ended 30 June 2023, a total of RMB363 million interests on the convertible bonds has been paid by the Bank (six months ended 30 June 2022: RMB436 million).

(d) Interbank deposits issued

For the six months ended 30 June 2023, 159 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB521,650 million (six months ended 30 June 2022: RMB503,000 million). The carrying amount of interbank deposits due in the six months ended 30 June 2023 was RMB525,400 million (six months ended 30 June 2022: RMB371,090 million). As at 30 June 2023, the fair value of its outstanding interbank deposits issued was RMB594,030 million (31 December 2022: RMB596,629 million).

(e) Certificates of deposit issued

As at 30 June 2023, the certificates of deposit were issued by the Bank's Hong Kong Branch, Seoul Branch, Sydney Branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33 Debt securities issued (Continued)

##### (f) Medium term notes

	<u>Notes</u>	30 June <u>2023</u>	31 December <u>2022</u>
Medium term notes with floating rate maturing on 3 August 2023	(i)	5,085	4,863
Medium term notes with fixed rate maturing on 11 March 2024	(ii)	3,994	3,819
Medium term notes with fixed rate maturing on 15 June 2024	(iii)	4,356	4,165
Medium term notes with fixed rate maturing on 14 September 2024	(iv)	3,630	3,471
Medium term notes with fixed rate maturing on 1 December 2024	(v)	2,174	2,081
Medium term notes with fixed rate maturing on 15 December 2024	(vi)	2,173	2,077
Medium term notes with fixed rate maturing on 2 March 2026	(vii)	<u>2,903</u>	<u>-</u>
Total		<u>24,315</u>	<u>20,476</u>

##### Notes:

- (i) Floating rate medium term notes of USD700.00 million with a term of three years were issued by the Bank's Hong Kong branch on 27 July 2020. The initial coupon rate is 1.10% per annum.
- (ii) Fixed rate medium term notes of USD550.00 million with a term of three years were issued by the Bank's Hong Kong branch on 4 March 2021. The coupon rate is 0.93% per annum.
- (iii) Fixed rate medium term notes of USD600.00 million with a term of three years were issued by the Bank's Hong Kong branch on 8 June 2021. The coupon rate is 0.84% per annum.
- (iv) Fixed rate medium term notes of USD500.00 million with a term of three years were issued by the Bank's Luxembourg branch on 14 September 2021. The coupon rate is 0.83% per annum.
- (v) Fixed rate medium term notes of USD300.00 million with a term of three years were issued by the Bank's Hong Kong branch on 1 December 2021. The coupon rate is 1.27% per annum.
- (vi) Fixed rate medium term notes of USD300.00 million with a term of three years were issued by the Bank's subsidiary CEB International on 9 December 2021. The coupon rate is 2.00% per annum.
- (vii) Fixed rate medium term notes of USD400.00 million with a term of three years were issued by the Bank's Hong Kong branch on 2 March 2023. The coupon rate is 4.99% per annum.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 33 Debt securities issued (Continued)

(f) Medium term notes (Continued)

Notes: (Continued)

(viii) As at 30 June 2023, the fair value of the medium term notes approximated to RMB23,550 million (31 December 2022: RMB19,574 million).

#### 34 Other liabilities

	Notes	30 June 2023	31 December 2022
Bank loans	(a)	20,792	20,718
Dividend payables		11,249	23
Deposit payable of finance leases		6,567	6,680
Payment and collection clearance accounts		4,703	13,436
Provisions	(b)	2,015	1,883
Dormant accounts		748	865
Others		13,002	13,532
<b>Total</b>		<b>59,076</b>	<b>57,137</b>

Notes:

(a) As at 30 June 2023, the Bank's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay the loan with the benefit of clear or quarterly.

(b) Provisions

	30 June 2023	31 December 2022
Expected credit losses on off-balance sheet items	1,770	1,598
Litigation losses	162	157
Others	83	128
<b>Total</b>	<b>2,015</b>	<b>1,883</b>

The reconciliation of the provision was as follows:

	For the six months ended 30 June 2023	2022
As at 1 January 2023/ 1 January 2022	1,883	2,213
Net charge for the period / year	133	(319)
Payments for the period / year	(1)	(11)
<b>As at 30 June 2023 / 31 December 2022</b>	<b>2,015</b>	<b>1,883</b>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 35 Share capital

The Bank's shareholding structure as at the end of the reporting period is as follows:

	31 December <u>2022</u>	The number of shares increased by conversion of convertible bonds <u>into A shares</u>	30 June <u>2023</u>
Ordinary shares listed in Mainland China (A share)	41,353	5,054	46,407
Ordinary shares listed in Hong Kong (H share)	<u>12,679</u>	-	<u>12,679</u>
Total	<u>54,032</u>	<u>5,054</u>	<u>59,086</u>

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

#### 36 Other equity instruments

	<u>Note III</u>	30 June <u>2023</u>	31 December <u>2022</u>
Preference shares (Notes (a), (b), (c), (e))		64,906	64,906
Equity of convertible bonds	33(c)	-	4,163
Perpetual bonds (Notes (d), (e))		<u>39,993</u>	<u>39,993</u>
Total		<u>104,899</u>	<u>109,062</u>



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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**36 Other equity instruments (Continued)**

(a) Preference shares at the end of the period

<u>Issue date</u>	<u>Dividend rate</u>	<u>Issue price</u> (RMB /share)	<u>Number of shares issued</u> (million)	<u>Issue amount</u> (RMB million)	<u>Conversion condition</u>
Everbright P1 2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2 2016-8-8	4.01%	100	100	10,000	Mandatory conversion triggering events
Everbright P3 2019-7-15	4.80%	100	350	<u>35,000</u>	Mandatory conversion triggering events
Subtotal				65,000	
Less: Issuing costs				<u>(94)</u>	
Book value				<u>64,906</u>	

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 36 Other equity instruments (Continued)

##### (b) Main clauses of preference shares

###### (i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

###### (ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

###### (iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

###### (iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than the ordinary shareholders.

###### (v) Mandatory conversion triggering events

Upon the occurrence of an Additional Tier-one Capital Triggering Event (adequacy ratio of common equity tier-one capital of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the adequacy ratio of common equity tier-one capital of the Group to above 5.125%; If preference shares were converted to A shares, they cannot be converted to preference shares again.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 36 Other equity instruments (Continued)

##### (b) Main clauses of preference shares (Continued)

##### (v) Mandatory conversion triggering events (Continued)

Upon the occurrence of a non-viability triggering event (the earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

##### (vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (annual dividend of the preference shares payment day) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the board directors in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

##### (c) Changes in preference shares outstanding

	1 January 2023		Additions for the period		30 June 2023	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	650	64,906	-	-	650	64,906

	1 January 2022		Additions for the year		31 December 2022	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	650	64,906	-	-	650	64,906

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **36 Other equity instruments (Continued)**

##### **(d) Main clauses of perpetual bonds**

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the “Bonds”) which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

The duration of the Bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the Bonds in whole or in part on each distribution payment date 5 years after the issuance date of the Bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the Bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the Bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank *pari passu* with the claims under any other additional tier 1 capital instruments of the Bank that rank *pari passu* with the Bonds.

The Bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the Bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the Bonds, after deduction of transaction costs, was wholly used to replenish the Bank’s additional tier one capital and to increase its capital adequacy ratio.

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**36 Other equity instruments (Continued)**

(e) Interests attributable to equity instruments' holders

<u>Items</u>	<u>30 June</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Total equity attributable to equity shareholders of the Bank	538,398	507,883
- Equity attributable to ordinary shareholders of the Bank	433,499	402,984
- Equity attributable to preference shareholders of the Bank	64,906	64,906
- Equity attributable to Perpetual bonds holders of the Bank	39,993	39,993
Total equity attributable to non-controlling interests	2,279	2,130
- Equity attributable to non-controlling interests of ordinary shares	2,279	2,130

**37 Capital reserve**

	<u>30 June</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Share premium	<u>74,473</u>	<u>58,434</u>

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**38 Other comprehensive income**

	30 June <u>2023</u>	31 December <u>2022</u>
<b>Items that will not be reclassified to profit or loss</b>		
Fair value changes on equity instruments at fair value through other comprehensive income	19	16
Remeasurement of a defined benefit plan	<u>(703)</u>	<u>(703)</u>
Subtotal	<u>(684)</u>	<u>(687)</u>
<b>Items that will be reclassified to profit or loss</b>		
Debt instruments at fair value through other comprehensive income	3,309	81
- Net change in fair value	1,380	(1,463)
- Net change in expected credit loss	1,929	1,544
Exchange differences on translation of foreign operations	<u>94</u>	<u>16</u>
Subtotal	<u>3,403</u>	<u>97</u>
Total	<u><u>2,719</u></u>	<u><u>(590)</u></u>

Other comprehensive income attributable to equity holders of the Bank in the condensed consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Remeasurement of a defined benefit plan	Total
As at 1 January 2022	2,929	939	16	(164)	(568)	3,152
Changes in amount for the previous year	<u>(4,392)</u>	<u>605</u>	<u>-</u>	<u>180</u>	<u>(135)</u>	<u>(3,742)</u>
As at 1 January 2023	(1,463)	1,544	16	16	(703)	(590)
Changes in amount for the period	<u>2,843</u>	<u>385</u>	<u>3</u>	<u>78</u>	<u>-</u>	<u>3,309</u>
As at 30 June 2023	<u><u>1,380</u></u>	<u><u>1,929</u></u>	<u><u>19</u></u>	<u><u>94</u></u>	<u><u>(703)</u></u>	<u><u>2,719</u></u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 39 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

Pursuant to the Measures for Managing the Appropriation of Provisions of Financial Enterprises (Cai Jin [2012] No. 20) issued by the Ministry of Finance, the Bank is required to provide for impairment losses of its assets and set aside a general reserve through the appropriation of net profits to cover potential losses against its assets. The general reserve is part of the equity shareholders' interests and the general reserve through profit net of tax should not be less than 1.5% of the period-end balance of risk-bearing assets.

The Bank's subsidiaries appropriated their profits to the general reserve according to the applicable local regulations.

The Group appropriated RMB153 million of profits to the general reserve for the six months ended 30 June 2023 (2022: RMB5,805 million). The Bank appropriated RMB0 million of profits to the general reserve for the six months ended 30 June 2023 (2022: RMB4,608 million).

#### 40 Appropriation of profits

(a) At the Annual General Meeting of Shareholders held on 21 June 2023, the Shareholders approved the following profit appropriations for the year ended 31 December 2022:

- Under the Company Law of the PRC, the Bank's statutory surplus reserve has reached 50% of its registered capital, so no further statutory surplus reserve shall be withdrawn for this profit distribution;
- Appropriated RMB4,608 million to general reserve;
- Declared cash dividends of RMB11,226 million to all ordinary shareholders, representing RMB1.90 per 10 shares before tax.

(b) At the Board Meeting held on 24 March 2023, the dividend distribution of the Everbright P3 for the year ended 2022 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,680 million before tax, representing RMB4.80 per share before tax, accruing from 1 January 2022, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3;

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 40 Appropriation of profits (Continued)

- (c) At the Board Meeting held on 2 June 2023, the dividend distribution of the Everbright P1 for the year ended 2023 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB890 million before tax, representing RMB4.45 per share before tax, accruing from 25 June 2022, and are calculated using the 4.45% of dividend yield ratio for the Everbright P1;
- (d) At the Board Meeting held on 2 June 2023, the dividend distribution of the Everbright P2 for the year ended 2023 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB401 million before tax, representing RMB4.01 per share before tax, accruing from 11 August 2022, and are calculated using the 4.01% of dividend yield ratio for the Everbright P2.
- (e) The Bank distributed the interest on the Undated Capital Bonds amounting to RMB1,840 million on 22 September 2022.
- (f) At the Annual General Meeting of Shareholders held on 19 May 2022, the Shareholders approved the following profit appropriations for the year ended 31 December 2021:
- Under the Company Law of the PRC, the bank's statutory surplus reserve has reached 50% of its registered capital, no further provision shall be made for this profit distribution;
  - Appropriated RMB6,806 million to general reserve;
  - Declared cash dividends of RMB10,860 million to all ordinary shareholders, representing RMB 2.10 per 10 shares before tax.
- (g) At the Board Meeting held on 25 March 2022, the dividend distribution of the Everbright P3 for the year ended 2021 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB1,680 million before tax, representing RMB4.80 per share before tax, accruing from 1 January 2021, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3.
- (h) At the Board Meeting held on 27 May 2022, the dividend distribution of the Everbright P1 for the year ended 2022 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB890 million before tax, representing RMB4.45 per share before tax, accruing from 25 June 2021, and are calculated using 4.45% of dividend yield ratio for the Everbright P1.
- (i) At the Board Meeting held on 27 May 2022, the dividend distribution of the Everbright P2 for the year ended 2022 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB401 million before tax, representing RMB4.01 per share before tax, accruing from 11 August 2021, and are calculated using 4.01% of dividend yield ratio for the Everbright P2.



### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 41 Involvement with structured entities

- (a) Structured entities sponsored by third party institutions in which the Group holds interests:

The types of structured entities that the Group does not consolidate but in which it holds interests for better investment return, which include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the reporting period:

	30 June 2023		31 December 2022	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
- Fund investments	297,799	297,799	214,031	214,031
- Asset management plans	59,391	59,391	52,909	52,909
Financial investments measured at amortised cost				
- Asset management plans	48,320	48,320	73,539	73,539
- Asset-backed securities	130,191	130,191	145,276	145,276
Total	535,701	535,701	485,755	485,755

- (b) Structured entities sponsored by the Group which the Group does not consolidate but hold interests in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interests held by the Group include investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2023, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised were not material in the statement of financial positions.

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**41 Involvement with structured entities (Continued)**

- (b) Structured entities sponsored by the Group which the Group does not consolidate but hold interests in: (Continued)

As at 30 June 2023, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products which are sponsored by the Group was RMB1,223,648 million (31 December 2022: RMB1,185,241 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2023 but matured before 30 June 2023 was RMB4,723 million (Six months ended 30 June 2022: RMB832 million).

For the six months ended 30 June 2023, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB2,038 million (Six months ended 30 June 2022: RMB2,260 million).

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into lending transactions with these wealth management products in accordance with market principles. As at 30 June 2023, the balance of above transactions was Nil (31 December 2022: Nil). For the six months ended 30 June 2023, the amount of interest receivables from the above financing transactions was not material.

In addition, please refer to Note III 42 for the interests in the unconsolidated structured entities of asset securitisation transactions held by the Group as at 30 June 2023. For the six months ended 30 June 2023, the Group's income from these structured entities was not material.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **41 Involvement with structured entities (Continued)**

##### **(c) Consolidated structured entities**

The consolidated structured entities of the Group are primarily the wealth management products with the principal guaranteed. The Group promises to provide investors with principal guarantee for the principal guaranteed wealth management products, which are sponsored and managed by the Group, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

#### **42 Transferred financial assets**

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases, these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

##### Credit assets backed securitisation

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB30.00 million as at 30 June 2023 (31 December 2022: Nil).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 30 June 2023, the Group has no continuing involvement in credit asset-backed securities (31 December 2022: Nil).

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **42 Transferred financial assets (Continued)**

##### Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 30 June 2023, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 30 June 2023, loans with an original carrying amount of RMB1,998 million (31 December 2022: RMB1,998 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 30 June 2023, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2022: RMB251 million).

#### **43 Capital management**

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **43 Capital management (Continued)**

According to the Regulation Governing Capital of Commercial Banks (provisional), the capital adequacy ratio of commercial banks at all levels shall not be lower than the following minimum requirements: common equity tier-one capital adequacy ratio shall not be less than 5%, tier-one capital adequacy ratio shall not be less than 6%, and capital adequacy ratio shall not be less than 8%. Commercial banks should set aside reserve capital on the basis of minimum capital requirements which is 2.5% of risk-weighted assets and is met by common equity tier-one capital. In certain circumstances, commercial banks should provide counter-cyclical capital above the minimum capital requirements and reserve capital requirements, which is 0-2.5% of risk-weighted assets and is met by common equity tier-one capital. According to the requirements of the Additional Regulatory Provisions on Systemically Important Banks (Provisional), systemically important banks should meet certain additional capital requirements which are met by common equity tier-one capital, on the basis of meeting the minimum capital requirements, reserve capital and counter-cyclical capital requirements. The Group is in the first group on the list of systemically important banks, and need to meet the additional capital requirement of 0.25%, which is implemented from 1 January 2023. In addition, subsidiaries or branches of the bank incorporated overseas are also directly regulated and supervised by their respective local banking supervisors, respectively. There are differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group has computed its capital adequacy ratios and related data in accordance with “Regulation Governing Capital of Commercial Banks (provisional)”. During the reporting period, the Group complied with the capital requirements imposed by the regulatory authorities.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 43 Capital management (Continued)

The Group calculates the capital adequacy ratios in accordance with “*Regulation Governing Capital of Commercial Banks (provisional)*” and relevant requirements are as follows:

	30 June <u>2023</u>	31 December <u>2022</u>
<b>Total common equity tier-one capital</b>	434,660	404,205
Share capital	59,086	54,032
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	77,198	62,007
Surplus reserve	26,245	26,245
General reserve	81,554	81,401
Retained earnings	189,408	179,293
Qualifying portions of non-controlling interests	1,169	1,227
<b>Common equity tier-one capital deductions</b>	(4,864)	(4,809)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(3,531)	(3,475)
Net deferred tax assets arising from operating losses that depend on future profits	(52)	(53)
<b>Net common equity tier-one capital</b>	<u>429,796</u>	<u>399,396</u>
<b>Additional tier-one capital</b>	105,055	105,063
Additional tier-one capital instruments	104,899	104,899
Qualifying portions of non-controlling interests	156	164
<b>Tier-one capital net</b>	<u>534,851</u>	<u>504,459</u>
<b>Tier-two capital</b>	107,415	88,759
Qualifying portions of tier-two capital instruments issued and share premium	59,997	45,000
Excess loan loss provisions	46,062	42,287
Qualifying portions of non-controlling interests	1,356	1,472
<b>Net capital base</b>	<u>642,266</u>	<u>593,218</u>
<b>Total risk-weighted assets</b>	4,754,839	4,579,772
<b>Common equity tier-one capital adequacy ratio</b>	9.04%	8.72%
<b>Tier-one capital adequacy ratio</b>	11.25%	11.01%
<b>Capital adequacy ratio</b>	13.51%	12.95%

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 44 Notes to consolidated cash flow statements

(a) Net decrease in cash and cash equivalents

	For the six months ended 30 June	
	2023	2022
Cash and cash equivalents as at 30 June	122,023	125,765
Less: Cash and cash equivalents as at 1 January	136,664	222,583
Net decrease in cash and cash equivalents	(14,641)	(96,818)

(b) Cash and cash equivalents

	30 June 2023	30 June 2022
Cash on hand	8,229	7,712
Deposits with the central bank	40,679	33,321
Deposits with banks and other financial institutions	42,380	39,784
Placements with banks and other financial institutions	30,735	44,948
Total	122,023	125,765

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **45 Related party relationships and transactions**

##### **(a) Related parity relationships**

###### **(i) The ultimate parent company and its subsidiaries**

The ultimate parent of the Group is China Investment Corporation (“CIC”) set up in China..

Approved by the State Council of the PRC, CIC was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. (“Huijin”) is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through the China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, interbank deposits and certificates of deposit which are tradable bearer bonds in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the reporting date. The amounts and balances with related parties and transactions between the Group and the ultimate parent company and its subsidiaries are listed in Note III 45(b).

###### **(ii) Affiliated companies**

The immediate parent of the Group is China Everbright Group Ltd. (“China Everbright Group”). The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note III 45(b).

The affiliated companies that have related party transactions with the Group are as follows:

##### Related parties

- Everbright Securities Asset Management Co., Ltd.
- Everbright Xinglong Trust Co., Ltd.
- Everbright Securities Company Limited
- China Everbright Group
- Sun Light Everbright Asset Management Co., Ltd.
- Everbright Jinou Asset Management Co., Ltd.
- Everbright Prudential Fund Management Co., Ltd.
- Everbright Life Insurance Co., Ltd.

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### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45 Related party relationships and transactions (Continued)

##### (a) Related parity relationships (Continued)

##### (ii) Affiliated companies (Continued)

The affiliated companies that have related party transactions with the Group are as follows: (Continued)

##### Related parties (Continued)

- Everbright Financial Holdings Asset Management Co., Ltd.
- Everbright Futures Co., Ltd.
- Da Cheng Fund Management Co., Ltd.
- Shanghai Guangkong Jiaxin Equity Investment Management Co., Ltd.
- Beijing Financial Assets Co., Ltd.
- China Everbright industry (Group) Co., Ltd.
- CEL Elite Limited
- Tianjin Guangkong Investment Management Partnership (Limited Partnership)
- CDB Jinzhan Economic and Trade Co., Ltd.
- Huadian Financial Leasing Co., Ltd.
- China Everbright Limited
- China Everbright Real Estate Co., Ltd.
- Qingdao Light Control Low Carbon Xinneng Equity Investment Co., Ltd.
- Chengdu Rongjin MEDICINE & TRADE Co., Ltd.
- China Everbright Environment Group Limited.
- Shanghai Jiashi Minglun Medical Equipment Co., Ltd.
- Zhangjiakou Guanghe Xiangda Property Service Co., Ltd.
- State Alpha Limited
- Kunshan Development Zone Guangkong Digital Industry Fund of Funds Partnership (Limited Partnership)
- Jia Shi Guo Run(Shanghai) Medical Technology Co., Ltd.
- Shanghai Jiashi Jiayi Medical Equipment Co., Ltd.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45 Related party relationships and transactions (Continued)

(a) Related parity relationships (Continued)

(iii) Other related parties

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, shareholders holding more than 5% shares of the Group and the key management personnel in direct control party.

The other related parties that have related party transactions with the Group are as follows:

Other related parties

- COSCO Shipping Group Finance Co., Ltd.
- COSCO Shipping Container Transportation Co., Ltd.
- Overseas Chinese Town Holding Company
- Zhongfei Leasing Finance Leasing Co., Ltd.
- China Cinda Asset Management Co., Ltd.
- Shenzhen Overseas Chinese Town Co., Ltd.
- Konka Group Co., Ltd.
- China Ocean Shipping (Group) Company
- COSCO SHIPPING Development (HONG KONG) Co., Ltd.
- Orient Securities Co., Ltd.
- Wuhan Qingshan Ancient Town Real Estate Co., Ltd.
- Shenneng Group Finance Co., Ltd.
- Zhongfei Baoqing Leasing (Tianjin) Co., Ltd
- Zhongfei Xianqing Leasing (Tianjin) Co., Ltd
- Beijing CYTS Trank Technology Co., Ltd.
- Shenzhen Zhaohua Exhibition Industry Co., Ltd.
- Xiangyang OCT Culture and Tourism Development Co., Ltd.
- Terminus Technology Group Co., Ltd.
- ZJ Yongle Leasing (Tianjin) Co., Ltd.
- CIMC Finance Leasing Co., Ltd.
- China Pacific Property Insurance Co., Ltd.
- Beijing Gubei Water Town Tourism Co., Ltd.
- Hunan OCT Cultural Tourism Investment Co., Ltd.
- CNOOC China Limited
- China Huarong Asset Management Co., Ltd.
- Beijing Huaheng Xingye Real Estate Development Co., Ltd.
- COSCO SHIPPING Holdings (Hong Kong) Limited
- China SHIPPING Cargo Services Co., Ltd.
- COSCO SHIPPING Investment Holdings Co., Limited

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45 Related party relationships and transactions (Continued)

(a) Related parity relationships (Continued)

(iii) Other related parties (Continued)

Other related parties (Continued)

- Shandong Zhongkuang Group Co., Ltd.
- Huarong International Financial Holdings Limited
- Everbright Finance (Shanxi) Advanced Manufacturing Investment Partnership (Limited Partnership)
- China Huarong Financial Leasing Co., Ltd.
- Zhongkuang Gold Industry Limited Company
- China Merchants Securities Co., Ltd.
- Huarongtianze Investment Company Limited
- Sinopec China Railway Oil Products Sales Co., Ltd.
- China Aircraft Recycling & Remanufacturing Limited

The amounts and balances of transactions between the Group and other related parties are shown in Note III 45(b).

(b) Related party transactions

(i) The ultimate parent company and its subsidiaries

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	For the six months ended 30 June	
	2023	2022
Interest income	629	239
Interest expense	(4,428)	(1,876)

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45 Related party relationships and transactions (Continued)

##### (b) Related party transactions (Continued)

##### (i) The ultimate parent company and its subsidiaries (Continued)

The Group's material balances with CIC, Huijin and its affiliates at the end of the reporting period are summarised as follows:

	30 June <u>2023</u>	31 December <u>2022</u>
Deposits with banks and other financial institutions	7,004	8,143
Precious metals	2,563	6
Placements with banks and other financial institutions	31,569	23,419
Derivative financial assets	3,903	3,128
Financial assets held under resale agreements	15,368	28
Loans and advances to customers	100	100
Financial investments	342,494	340,056
Financial assets at fair value through profit or loss	125,018	122,064
Debt instruments at fair value through other comprehensive income	54,130	51,592
Financial investments measured at amortised cost	163,346	166,400
Other assets	<u>12,615</u>	<u>11,396</u>
Total	<u>415,616</u>	<u>386,276</u>
Deposits from banks and other financial institutions	154,985	121,788
Placements from banks and other financial institutions	66,943	64,165
Derivative financial liabilities	4,085	3,215
Financial assets sold under repurchase agreements	124,185	17,281
Deposits from customers	94,795	108,483
Other liabilities	<u>653</u>	<u>1,101</u>
Total	<u>445,646</u>	<u>316,033</u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45 Related party relationships and transactions (Continued)

##### (b) Related party transactions (Continued)

##### (ii) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group’s banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group’s pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

##### (iii) Affiliated companies and other related parties

The Group’s material transactions and balances with China Everbright Group and the above related parties during and at the end of the reporting period are summarised as follows:

	<u>China Everbright Group</u>	<u>Other affiliated companies</u>	<u>Others</u>	<u>Total</u>
Transactions with related parties for the six months ended 30 June 2023:				
Interest income	-	1,023	411	1,434
Interest expense	(86)	(259)	(359)	(704)

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45 Related party relationships and transactions (Continued)

##### (b) Related party transactions (Continued)

##### (iii) Affiliated companies and other related parties (Continued)

The Group's material transactions and balances with China Everbright Group and the above related parties at the end of the reporting period are summarised as follows:  
(Continued)

	China Everbright Group	Other affiliated companies	Others	Total
Balances with related parties as at 30 June 2023:				
Precious metals	-	451	412	863
Placements with banks and other financial institutions	-	1,896	5,315	7,211
Derivative financial assets	-	-	23	23
Loans and advances to customers	-	4,063	12,969	17,032
Financial investments	1,997	6,205	6,236	14,438
Financial assets at fair value through profit or loss	1,997	6,090	1,187	9,274
Debt instruments at fair value through other comprehensive income	-	-	2,759	2,759
Financial investments at amortised cost	-	115	2,290	2,405
Other assets	-	372	2,463	2,835
Total	<u>1,997</u>	<u>12,987</u>	<u>27,418</u>	<u>42,402</u>
Deposits from banks and other financial institutions	-	11,772	10,819	22,591
Derivative financial liabilities	-	-	23	23
Deposits from customers	<u>11,854</u>	<u>10,167</u>	<u>33,770</u>	<u>55,791</u>
Total	<u>11,854</u>	<u>21,939</u>	<u>44,612</u>	<u>78,405</u>
Other significant items with related parties as at 30 June 2023:				
Guarantee granted (Note)	<u>180</u>	<u>-</u>	<u>-</u>	<u>180</u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45 Related party relationships and transactions (Continued)

##### (b) Related party transactions (Continued)

##### (iii) Affiliated companies and other related parties (Continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during and at the end of the reporting period are summarised as follows: (Continued)

	China Everbright Group	Other affiliated companies	Others	Total
Transactions with related parties for the six months ended 30 June 2022:				
Interest income	-	1,144	466	1,610
Interest expense	(36)	(149)	(454)	(639)
Balances with related parties as at 31 December 2022:				
Placements with banks and other financial institutions	-	3,100	2,000	5,100
Derivative financial assets	-	-	13	13
Loans and advances to customers	-	3,822	9,528	13,350
Financial investments	272	43,876	706	44,854
Financial assets at fair value through profit or loss	272	21,356	-	21,628
Debt instruments at fair value through other comprehensive income	-	41	77	118
Financial investments measured at amortised cost	-	22,479	629	23,108
Other assets	-	534	3,537	4,071
<b>Total</b>	<b>272</b>	<b>51,332</b>	<b>15,784</b>	<b>67,388</b>
Deposits from banks and other financial institutions	-	20,958	16,648	37,606
Derivative financial liabilities	-	-	20	20
Deposits from customers	5,164	10,387	22,138	37,689
Other liabilities	-	118	168	286
<b>Total</b>	<b>5,164</b>	<b>31,463</b>	<b>38,974</b>	<b>75,601</b>
Other significant items with related parties as at 31 December 2022:				
Guarantee granted (Note)	180	-	-	180

Note: As at 30 June 2023, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2022: RMB180 million) due to one of the state-owned commercial banks.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 45 Related party relationships and transactions (Continued)

##### (b) Related party transactions (Continued)

##### (iv) Remuneration of directors, supervisors and senior management

	For the six months ended 30 June	
	<u>2023</u> RMB'000	<u>2022</u> RMB'000
Remuneration	9,335	12,754
- Retirement benefits	536	963
- Basic social pension insurance	306	280

##### (v) Loans to related natural persons

The aggregate amount of relevant loans outstanding as at 30 June 2023 to related natural persons amounted to RMB8 million (As at 31 December 2022: RMB9 million).

Of which the aggregate amount of relevant loans outstanding to directors, supervisors and senior management, are as follows:

The aggregate amount of relevant outstanding loans to directors, supervisors, senior management or their associates of the Group disclosed pursuant to section 78 of Schedule 11 to the revised Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	<u>30 June</u> <u>2023</u> RMB'000	<u>31 December</u> <u>2022</u> RMB'000
Aggregate amount of relevant loans outstanding as at the end of period	4,759	8,199
Maximum aggregate amount of relevant loans outstanding during the period	4,960	8,308



### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 46 Statement of financial position of the Bank

	<u>Note III</u>	30 June <u>2023</u>	31 December <u>2022</u>
<b>Assets</b>			
Cash and deposits with the central bank		338,396	356,253
Deposits with banks and other financial institutions		35,780	28,279
Precious metals		6,817	7,187
Placements with banks and other financial institutions		161,476	137,450
Derivative financial assets		18,814	15,726
Financial assets held under resale agreements		90,040	-
Loans and advances to customers		3,655,043	3,489,051
Financial investments		2,186,329	2,031,064
- Financial assets at fair value through profit or loss		481,927	398,106
- Debt instruments at fair value through other comprehensive income		488,936	443,869
- Equity instruments at fair value through other comprehensive income		1,125	1,121
- Financial investments measured at amortised cost		1,214,341	1,187,968
Investments in subsidiaries	17(a)	12,983	12,983
Property and equipment		16,251	16,403
Right-of-use assets		9,429	10,122
Goodwill		1,281	1,281
Deferred tax assets		32,160	31,146
Other assets		67,533	32,121
<b>Total assets</b>		<u>6,632,332</u>	<u>6,169,066</u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 46 Statement of financial position of the Bank (Continued)

	30 June <u>2023</u>	31 December <u>2022</u>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Due to the central bank	99,240	63,231
Deposits from banks and other financial institutions	549,259	544,410
Placements from banks and other financial institutions	105,585	105,321
Derivative financial liabilities	19,440	14,257
Financial assets sold under repurchase agreements	202,796	89,959
Deposits from customers	4,155,806	3,915,781
Accrued staff costs	17,681	18,473
Taxes payable	6,157	9,836
Lease liabilities	9,292	9,993
Debt securities issued	910,925	872,278
Other liabilities	29,162	27,151
<b>Total liabilities</b>	<u>6,105,343</u>	<u>5,670,690</u>
<b>Equity</b>		
Share capital	59,086	54,032
Other equity instruments	104,899	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	74,473	58,434
Other comprehensive income	2,791	(453)
Surplus reserve	26,245	26,245
General reserve	77,429	77,429
Retained earnings	182,066	173,627
<b>Total equity</b>	<u>526,989</u>	<u>498,376</u>
<b>Total liabilities and equity</b>	<u><u>6,632,332</u></u>	<u><u>6,169,066</u></u>

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **47 Segment reporting**

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

##### *Corporate banking*

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

##### *Retail banking*

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

##### *Financial market business*

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

##### *Others*

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/(expense)".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

China Everbright Bank Company Limited  
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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**47 Segment reporting (Continued)**

(a) Segment results, assets and liabilities

	For the six months ended 30 June 2023				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,189	30,842	12,702	-	54,733
Internal net interest income/(expense)	<u>12,234</u>	<u>(5,596)</u>	<u>(6,638)</u>	-	-
Net interest income	23,423	25,246	6,064	-	54,733
Net fee and commission income	3,787	8,968	690	-	13,445
Net trading gains	-	-	2,028	-	2,028
Dividend income	-	-	-	1	1
Net gains/(losses) arising from investment securities	188	-	5,100	(60)	5,228
Net losses on derecognition of financial assets measured at amortised cost	-	-	(376)	-	(376)
Foreign exchange gains	104	29	581	-	714
Other net operating income	<u>721</u>	<u>15</u>	<u>1</u>	<u>21</u>	<u>758</u>
Operating income	28,223	34,258	14,088	(38)	76,531
Operating expenses	(8,439)	(10,997)	(1,055)	(52)	(20,543)
Credit impairment losses	(9,531)	(14,737)	(2,327)	-	(26,595)
Other impairment losses	2	(1)	(3)	-	(2)
Gains on investments in joint ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>22</u>
Profit before tax	<u>10,255</u>	<u>8,523</u>	<u>10,703</u>	<u>(68)</u>	<u>29,413</u>
Other segment information					
- Depreciation and amortisation	<u>1,487</u>	<u>1,611</u>	<u>166</u>	<u>-</u>	<u>3,264</u>
- Capital expenditure	<u>643</u>	<u>892</u>	<u>78</u>	<u>-</u>	<u>1,613</u>
	30 June 2023				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	<u>2,632,251</u>	<u>1,676,487</u>	<u>2,408,225</u>	<u>5,949</u>	<u>6,722,912</u>
Segment liabilities	<u>3,089,400</u>	<u>1,315,145</u>	<u>1,797,730</u>	<u>3,727</u>	<u>6,206,002</u>

China Everbright Bank Company Limited  
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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**47 Segment reporting (Continued)**

(a) Segment results, assets and liabilities (Continued)

	For the six months ended 30 June 2022				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,635	32,986	12,054	-	56,675
Internal net interest income/(expense)	13,604	(9,999)	(3,605)	-	-
Net interest income	25,239	22,987	8,449	-	56,675
Net fee and commission income	4,377	9,984	474	-	14,835
Net trading gains	-	-	1,319	-	1,319
Dividend income	-	-	-	2	2
Net gains arising from investment securities	260	-	4,821	(273)	4,808
Net gains on derecognition of financial assets measured at amortised cost	-	-	768	-	768
Foreign exchange gains/(losses)	118	22	(437)	-	(297)
Other net operating income	382	14	1	24	421
Operating income	30,376	33,007	15,395	(247)	78,531
Operating expenses	(8,890)	(10,124)	(1,170)	(73)	(20,257)
Credit impairment losses	(7,939)	(17,928)	(3,157)	-	(29,024)
Other impairment losses	3	(2)	(2)	-	(1)
Losses on investments in joint ventures	-	-	-	(32)	(32)
Profit before tax	13,550	4,953	11,066	(352)	29,217
Other segment information					
- Depreciation and amortisation	1,499	1,445	164	-	3,108
- Capital expenditure	918	1,106	115	-	2,139

	31 December 2022				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,453,436	1,673,543	2,133,844	5,703	6,266,526
Segment liabilities	2,977,717	1,176,387	1,632,788	3,582	5,790,474

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**47 Segment reporting (Continued)**

(a) Segment results, assets and liabilities (Continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	<u>Note III</u>	30 June <u>2023</u>	31 December <u>2022</u>
Segment assets		6,722,912	6,266,526
Goodwill	20	1,281	1,281
Deferred tax assets	21	<u>33,735</u>	<u>32,703</u>
Total assets		<u>6,757,928</u>	<u>6,300,510</u>
Segment liabilities		6,206,002	5,790,474
Dividend payables	34	<u>11,249</u>	<u>23</u>
Total liabilities		<u>6,217,251</u>	<u>5,790,497</u>

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **47 Segment reporting (Continued)**

##### **(b) Geographical information**

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Macao, Luxembourg, Seoul, and Sydney, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qingdao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include property and equipment, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- "Yangtze River Delta" refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- "Bohai Rim" refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- "Central" refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;
- "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;
- "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- "Overseas" refers to the areas serviced by the Bank and the following branches, CEB International, CEB Europe: Hong Kong, Seoul, Luxembourg, Sydney, Macao; and
- "Head Office" refers to the head office of the Bank.

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**47 Segment reporting (Continued)**

(b) Geographical information (Continued)

	Operating Income								
	<u>Yangtze River Delta</u>	<u>Bohai Rim</u>	<u>Head Office</u>	<u>Central</u>	<u>Pearl River Delta</u>	<u>Western</u>	<u>North eastern</u>	<u>Overseas</u>	<u>Total</u>
For the six months ended 30 June 2023	13,480	13,815	10,893	13,117	10,876	9,362	3,148	1,840	76,531
For the six months ended 30 June 2022	14,659	14,110	11,401	13,399	11,078	9,292	3,038	1,554	78,531
	Non-current Assets (Note(i))								
	<u>Yangtze River Delta</u>	<u>Bohai Rim</u>	<u>Head Office</u>	<u>Central</u>	<u>Pearl River Delta</u>	<u>Western</u>	<u>North eastern</u>	<u>Overseas</u>	<u>Total</u>
30 June 2023	3,693	3,230	11,722	13,069	3,110	3,055	1,151	292	39,322
31 December 2022	3,704	3,408	12,191	12,995	3,241	2,763	1,214	491	40,007

Note:

(i) Including property and equipment, right-of-use assets, intangible assets and land use rights.



### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management**

The goal of the Group's financial risk management is to optimize capital allocation and achieve value creation within an acceptable range of risks, while meeting the requirements of regulatory authorities, depositors, and other stakeholders for the stable operation of banks. The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

##### **(a) Credit risk**

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

##### **Credit business**

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management (Continued)**

##### **(a) Credit risk (Continued)**

###### **Credit business (Continued)**

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Finance Department/Strategic Account Department, Investment Banking Department, Inclusive Finance Department/Rural Revitalization Finance Department, Credit Card Centre, Retail Credit Department, Digital Finance Department/E-cloud Banking Services Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Bank. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.
- The Bank's main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Asset Management Department/Asset Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology - Investigation and approval – During and post-lending monitoring - Collection and Resolution".
- The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management (Continued)**

##### **(a) Credit risk (Continued)**

###### **Credit business (Continued)**

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardized review and approval policies and process in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management (Continued)**

##### **(a) Credit risk (Continued)**

###### **Credit business (Continued)**

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loans.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management (Continued)**

##### **(a) Credit risk (Continued)**

###### **Credit business (Continued)**

The Bank implemented a customer credit rating system based on the PD model. The PD model predicts the PD for customers in the coming year. The risk ratings of the customers is obtained through mapping relationship. The Group conducts recheck and optimization testing of the model according to the customer's actual default of the year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

###### **Financial market business**

The Group will incorporate the financial market business that bears credit risk into its unified credit management system, and ensure that the credit risk level borne by the financial market business meets the Group's risk appetite through differentiated access standards. Relevant standards will be dynamically adjusted.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (a) Credit risk (Continued)

Credit risk measurement

##### *Measurement of ECL*

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e., the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management (Continued)**

##### **(a) Credit risk (Continued)**

Credit risk measurement (Continued)

##### *Measurement of ECL (Continued)*

For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired assets
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flows

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

*Criteria for judging significant increases in credit risk*

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the absolute and relative changes in customer default probability exceeded an amount

Qualitative criteria

- Significant adverse change in debtors' operation or financial status
- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition.



### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

##### Definition of credit-impaired assets

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

##### Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). According to the requirements of IFRS 9, the Group takes into account the historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral and repayments) and forward-looking information in order to establish the model of PD, LGD and ECL.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

*Parameters of ECL measurement (Continued)*

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the result of the credit risk rating of customers, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

*Forward-looking information*

The calculation of ECL involves forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI, investment in property and equipment.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators at least every half year basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In the middle of 2023, the key assumptions the Group has taken include the GDP growth rate, the CPI growth rate, the investment in property and equipment growth rate. The GDP growth rate: the predicted value under the base economic scenario during the year of 2024 is 5.75%, the optimistic predicted value is 6.43%, the pessimistic predicted value is 2.87%.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

*Forward-looking information (Continued)*

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the predicted expected credit loss shall not exceed 5% of the current expected credit loss.

*Modification of contractual cash flows*

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (a) Credit risk (Continued)

##### (i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note III 51(a).

	30 June 2023				
	Stage 1	Stage 2	Stage 3	N/A	Total
<b>Assets</b>					
Deposits with the central bank	330,315	-	-	-	330,315
Deposits with banks and other financial institutions	42,888	-	-	-	42,888
Placements with banks and other financial institutions	150,385	-	119	-	150,504
Financial assets held under resale agreements	90,320	-	-	-	90,320
Loans and advances to customers	3,517,816	124,068	22,046	-	3,663,930
Finance lease receivables	99,084	2,805	709	-	102,598
Financial investments	1,691,687	6,271	14,742	123,656	1,836,356
Others (Note)	55,841	7,825	-	18,827	82,493
<b>Total</b>	<b>5,978,336</b>	<b>140,969</b>	<b>37,616</b>	<b>142,483</b>	<b>6,299,404</b>
	31 December 2022				
	Stage 1	Stage 2	Stage 3	N/A	Total
<b>Assets</b>					
Deposits with the central bank	352,404	-	-	-	352,404
Deposits with banks and other financial institutions	32,073	-	-	-	32,073
Placements with banks and other financial institutions	129,845	-	134	-	129,979
Financial assets held under resale agreements	28	-	-	-	28
Loans and advances to customers	3,389,741	90,710	18,900	-	3,499,351
Finance lease receivables	104,043	3,505	464	-	108,012
Financial investments	1,618,886	5,192	17,791	129,863	1,771,732
Others (Note)	21,338	6,539	-	15,730	43,607
<b>Total</b>	<b>5,648,358</b>	<b>105,946</b>	<b>37,289</b>	<b>145,593</b>	<b>5,937,186</b>

Note: Others comprise derivative financial assets and assets from wealth management business, interests receivable, deposit margin, and other receivables recorded in other assets.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (a) Credit risk (Continued)

##### (ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	30 June <u>2023</u>	31 December <u>2022</u>
<i>Impaired</i>		
Carrying amount	300	300
Provision for impairment losses	<u>(181)</u>	<u>(166)</u>
Subtotal	<u>119</u>	<u>134</u>
<i>Neither overdue nor impaired</i>		
- grade A to AAA	280,988	158,470
- grade B to BBB	179	900
- unrated (Note)	<u>2,426</u>	<u>2,576</u>
Subtotal	<u>283,593</u>	<u>161,946</u>
Total	<u>283,712</u>	<u>162,080</u>

Note: Mainly represent deposits with banks and other financial institutions.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (a) Credit risk (Continued)

##### (ii) Credit rating (Continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	30 June 2023	31 December 2022
<i>Impaired</i>		
Carrying amount	26,511	27,292
Provision for impairment losses	(11,769)	(9,501)
Subtotal	<u>14,742</u>	<u>17,791</u>
<i>Neither overdue nor impaired</i>		
<i>Bloomberg Composite</i>		
- grade AAA	1,528	5,217
- grade AA- to AA+	11,064	9,355
- grade A- to A+	36,713	33,794
- grade lower than A-	27,854	26,151
Subtotal	<u>77,159</u>	<u>74,517</u>
<i>Other agency ratings</i>		
- grade AAA	1,420,389	1,384,698
- grade AA- to AA+	243,453	208,649
- grade A- to A+	18,003	15,561
- grade lower than A-	7,249	6,924
- unrated	55,361	63,592
Subtotal	<u>1,744,455</u>	<u>1,679,424</u>
Total	<u>1,836,356</u>	<u>1,771,732</u>

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management (Continued)**

##### **(b) Market risk**

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management (Continued)**

##### **(b) Market risk (Continued)**

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc. The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.



**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(b) Market risk (Continued)

**Interest rate risk**

The Group is primarily exposed to interest rate risk arising from gap risk, basis risk and trading interest rate risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value. The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

*Gap risk*

Gap risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of the repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

*Basis risk*

Basis risk, is caused by interest rates on different pricing basis on the on-and off-balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

*Trading interest rate risk*

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
For the six months ended 30 June 2023  
(Expressed in millions of Renminbi, unless otherwise stated)

**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(b) Market risk (Continued)

**Interest rate risk (Continued)**

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period:

	Effective interest rate *	Total	30 June 2023				
			Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>							
Cash and deposits with the central bank	1.49%	338,544	17,032	321,512	-	-	-
Deposits with banks and other financial institutions	0.79%	42,888	11	42,877	-	-	-
Placements with banks and other financial institutions	3.29%	150,504	734	62,590	84,381	2,799	-
Financial assets held under resale agreements	1.88%	90,320	19	90,301	-	-	-
Loans and advances to customers	4.87%	3,663,930	13,116	2,716,113	837,985	94,876	1,840
Finance lease receivables	5.16%	102,598	913	17,269	58,564	20,146	5,706
Financial investments	3.34%	2,202,425	388,248	103,764	250,555	1,103,166	356,692
Others	N/A	166,719	162,958	1,616	-	-	2,145
<b>Total assets</b>	N/A	<b>6,757,928</b>	<b>583,031</b>	<b>3,356,042</b>	<b>1,231,485</b>	<b>1,220,987</b>	<b>366,383</b>

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(b) Market risk (Continued)

**Interest rate risk (Continued)**

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period: (Continued)

	30 June 2023						
	<u>Effective interest rate *</u>	<u>Total</u>	<u>Non-interest-bearing</u>	<u>Less than three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>
<b>Liabilities</b>							
Due to the central bank	2.63%	99,281	1,365	2,893	95,023	-	-
Deposits from banks and other financial institutions	2.15%	547,445	1,628	485,513	60,304	-	-
Placements from banks and other financial institutions	3.70%	179,712	1,243	131,558	46,911	-	-
Financial assets sold under repurchase agreements	1.94%	206,231	161	197,269	8,801	-	-
Deposits from customers	2.35%	4,156,940	77,746	2,121,011	901,854	1,055,992	337
Debt securities issued	2.59%	914,749	3,387	275,479	437,014	188,870	9,999
Others	N/A	112,893	81,502	19,065	3,009	7,772	1,545
<b>Total liabilities</b>	N/A	<u>6,217,251</u>	<u>167,032</u>	<u>3,232,788</u>	<u>1,552,916</u>	<u>1,252,634</u>	<u>11,881</u>
<b>Asset-liability gap</b>	N/A	<u>540,677</u>	<u>415,999</u>	<u>123,254</u>	<u>(321,431)</u>	<u>(31,647)</u>	<u>354,502</u>

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China Everbright Bank Company Limited  
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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk management (Continued)**

(b) Market risk (Continued)

**Interest rate risk (Continued)**

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period: (Continued)

	31 December 2022						
	Effective interest rate (*)	Total	Non- Interest- bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Assets</b>							
Cash and deposits with the central bank	1.45%	356,426	14,922	341,504	-	-	-
Deposits with banks and other financial institutions	0.19%	32,073	19	32,054	-	-	-
Placements with banks and other financial institutions	2.56%	129,979	513	47,992	70,779	10,695	-
Financial assets held under resale agreements	1.62%	28	-	28	-	-	-
Loans and advances to customers	4.98%	3,499,351	12,589	2,647,346	756,364	81,450	1,602
Finance lease receivables	5.56%	108,012	1,122	20,983	60,173	19,863	5,871
Financial investments	3.48%	2,046,612	299,498	115,021	243,919	970,807	417,367
Others	N/A	128,029	124,407	1,420	-	-	2,202
<b>Total assets</b>	N/A	<b>6,300,510</b>	<b>453,070</b>	<b>3,206,348</b>	<b>1,131,235</b>	<b>1,082,815</b>	<b>427,042</b>

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(b) Market risk (Continued)

**Interest rate risk (Continued)**

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period: (Continued)

	31 December 2022						
	<u>Effective interest rate (*)</u>	<u>Total</u>	<u>Non-interest-bearing</u>	<u>Less than three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>
<b>Liabilities</b>							
Due to the central bank	2.93%	63,386	272	68	63,046	-	-
Deposits from banks and other financial institutions	2.06%	540,668	927	463,639	76,102	-	-
Placements from banks and other financial institutions	2.28%	188,601	892	106,837	80,872	-	-
Financial assets sold under repurchase agreements	1.63%	92,980	120	89,764	1,548	1,548	-
Deposits from customers	2.30%	3,917,168	76,352	2,161,300	811,022	868,413	81
Debt securities issued	2.62%	875,971	3,354	261,866	422,153	183,598	5,000
Others	N/A	111,723	80,815	29,523	-	1,358	27
<b>Total liabilities</b>	N/A	<u>5,790,497</u>	<u>162,732</u>	<u>3,112,997</u>	<u>1,454,743</u>	<u>1,054,917</u>	<u>5,108</u>
<b>Asset-liability gap</b>	N/A	<u>510,013</u>	<u>290,338</u>	<u>93,351</u>	<u>(323,508)</u>	<u>27,898</u>	<u>421,934</u>

\* The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (b) Market risk (Continued)

##### Interest rate risk (Continued)

##### (ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 30 June 2023, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB3,024 million (31 December 2022: decrease by RMB2,736 million), and equity to decrease by RMB13,306 million (31 December 2022: decrease by RMB12,553 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB3,236 million (31 December 2022: increase by RMB2,908 million), and equity to increase by RMB14,083 million (31 December 2022: increase by RMB13,337 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;
- An interest rate movement is one hundred basis points based on the assumption of interest rate movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the portfolio of asset and liability;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (b) Market risk (Continued)

##### Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the period are as follows:

	30 June 2023			Total (RMB Equivalent)
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	
<b>Assets</b>				
Cash and deposits with the central bank	330,952	7,018	574	338,544
Deposits with banks and other financial institutions	24,788	9,572	8,528	42,888
Placements with banks and other financial institutions	113,042	34,538	2,924	150,504
Financial assets held under resale agreements	90,320	-	-	90,320
Loans and advances to customers	3,507,380	82,123	74,427	3,663,930
Finance lease receivables	98,835	3,763	-	102,598
Financial investments	2,068,530	95,617	38,278	2,202,425
Others	144,909	18,691	3,119	166,719
<b>Total assets</b>	<b>6,378,756</b>	<b>251,322</b>	<b>127,850</b>	<b>6,757,928</b>
<b>Liabilities</b>				
Due to the central bank	99,281	-	-	99,281
Deposits from banks and other financial institutions	546,883	523	39	547,445
Placements from banks and other financial institutions	94,360	60,399	24,953	179,712
Financial assets sold under repurchase agreements	183,318	12,745	10,168	206,231
Deposits from customers	3,993,807	123,258	39,875	4,156,940
Debt securities issued	846,316	55,552	12,881	914,749
Others	99,182	11,214	2,497	112,893
<b>Total liabilities</b>	<b>5,863,147</b>	<b>263,691</b>	<b>90,413</b>	<b>6,217,251</b>
<b>Net position</b>	<b>515,609</b>	<b>(12,369)</b>	<b>37,437</b>	<b>540,677</b>
Off-balance sheet credit commitments	1,288,295	32,722	11,761	1,332,778
Derivative financial instruments (Note)	15,218	17,422	(15,029)	17,611

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(b) Market risk (Continued)

**Foreign currency risk (Continued)**

The Group's currency exposures as at the end of the period are as follows: (Continued)

	31 December 2022			Total (RMB Equivalent)
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
<b>Assets</b>				
Cash and deposits with the central bank	344,797	7,628	4,001	356,426
Deposits with banks and other financial institutions	14,275	10,286	7,512	32,073
Placements with banks and other financial institutions	99,693	25,085	5,201	129,979
Financial assets held under resale agreements	-	-	28	28
Loans and advances to customers	3,354,625	74,791	69,935	3,499,351
Financial lease receivables	104,687	3,325	-	108,012
Financial investments	1,906,805	105,825	33,982	2,046,612
Others	110,819	15,285	1,925	128,029
<b>Total assets</b>	<b>5,935,701</b>	<b>242,225</b>	<b>122,584</b>	<b>6,300,510</b>
<b>Liabilities</b>				
Due to the central bank	63,386	-	-	63,386
Deposits from banks and other financial institutions	534,696	3,924	2,048	540,668
Placements from banks and other financial institutions	97,935	58,477	32,189	188,601
Financial assets sold under repurchase agreements	74,725	8,343	9,912	92,980
Deposits from customers	3,731,263	153,797	32,108	3,917,168
Debt securities issued	816,898	51,913	7,160	875,971
Others	99,343	9,900	2,480	111,723
<b>Total liabilities</b>	<b>5,418,246</b>	<b>286,354</b>	<b>85,897</b>	<b>5,790,497</b>
<b>Net position</b>	<b>517,455</b>	<b>(44,129)</b>	<b>36,687</b>	<b>510,013</b>
Off-balance sheet credit commitments	1,331,943	34,169	13,312	1,379,424
Derivative financial instruments (Note)	(927)	43,772	(8,031)	34,814

Note: Derivative financial instruments reflect the net notional amounts of derivatives.



### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (b) Market risk (Continued)

##### Foreign currency risk (Continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	<u>30 June 2023</u>	<u>31 December 2022</u>
Exchange rates against RMB for the HKD	0.9275	0.8914
Exchange rates against RMB for the USD	7.2670	6.9509

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 30 June 2023, assuming other variables remain unchanged, an appreciation of one hundred basis points in the USD against the RMB would increase both the Group's net profit and equity by RMB203 million (31 December 2022: increase by RMB31 million); a depreciation of one hundred basis points in the USD against the RMB would decrease both the Group's net profit and equity by RMB203 million (31 December 2022: decrease by RMB31 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;
- At the end of the reporting period, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;
- Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (b) Market risk (Continued)

###### **Price risk**

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

##### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group by maturity grouping based on the remaining periods to repayment at the end of the reporting period:

	30 June 2023							<u>Total</u>
	<u>Overdue/ indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
<b>Assets</b>								
Cash and deposits with the central bank	289,506	49,038	-	-	-	-	-	338,544
Deposits with banks and other financial institutions	-	41,282	1,241	156	-	-	209	42,888
Placements with banks and other financial institutions	119	-	37,975	24,906	84,633	2,871	-	150,504
Financial assets held under resale agreements	-	-	90,320	-	-	-	-	90,320
Loans and advances to customers	47,238	425,777	154,353	227,880	1,002,410	931,664	874,608	3,663,930
Finance lease receivables	129	9	3,268	5,379	24,649	62,062	7,102	102,598
Financial investments	19,300	300,286	20,162	60,926	285,036	1,140,684	376,031	2,202,425
Others	83,446	62,302	2,701	2,829	8,511	4,462	2,468	166,719
<b>Total assets</b>	<b>439,738</b>	<b>878,694</b>	<b>310,020</b>	<b>322,076</b>	<b>1,405,239</b>	<b>2,141,743</b>	<b>1,260,418</b>	<b>6,757,928</b>

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group by maturity grouping based on the remaining periods to repayment at the end of the reporting period: (Continued)

	30 June 2023							<u>Total</u>
	<u>Overdue/ indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
<b>Liabilities</b>								
Due to the central bank	-	-	-	2,903	96,378	-	-	99,281
Deposits from banks and other financial institutions	-	360,221	82,246	65,504	39,474	-	-	547,445
Placements from banks and other financial institutions	-	6	76,239	56,185	47,282	-	-	179,712
Financial assets sold under repurchase agreements	-	-	192,275	5,095	8,861	-	-	206,231
Deposits from customers	-	1,573,434	348,539	385,185	686,046	1,129,269	34,467	4,156,940
Debt securities issued	-	-	134,518	124,383	451,596	194,253	9,999	914,749
Others	-	55,496	3,208	3,928	13,752	31,370	5,139	112,893
<b>Total liabilities</b>	-	1,989,157	837,025	643,183	1,343,389	1,354,892	49,605	6,217,251
<b>Net position</b>	<u>439,738</u>	<u>(1,110,463)</u>	<u>(527,005)</u>	<u>(321,107)</u>	<u>61,850</u>	<u>786,851</u>	<u>1,210,813</u>	<u>540,677</u>
Notional amount of derivative financial instruments	-	-	341,065	230,817	715,106	687,991	4,598	1,979,577

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group by maturity grouping based on the remaining periods to repayment at the end of the reporting period: (Continued)

	31 December 2022							<u>Total</u>
	<u>Overdue/ indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
<b>Assets</b>								
Cash and deposits with the central bank	285,122	71,304	-	-	-	-	-	356,426
Deposits with banks and other financial institutions	-	29,321	269	2,231	80	-	172	32,073
Placements with banks and other financial institutions	134	-	37,301	10,778	70,999	10,767	-	129,979
Financial asset held under resale agreements	-	-	28	-	-	-	-	28
Loans and advances to customers	50,072	435,712	165,707	218,479	935,429	834,213	859,739	3,499,351
Finance lease receivables	33	46	4,371	5,486	23,607	67,841	6,628	108,012
Financial investments	25,405	216,233	35,753	53,166	268,783	1,013,567	433,705	2,046,612
Others	81,666	28,432	2,098	4,564	5,309	3,492	2,468	128,029
<b>Total assets</b>	<b>442,432</b>	<b>781,048</b>	<b>245,527</b>	<b>294,704</b>	<b>1,304,207</b>	<b>1,929,880</b>	<b>1,302,712</b>	<b>6,300,510</b>

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group by maturity grouping based on the remaining periods to repayment at the end of the reporting period: (Continued)

	31 December 2022							Total
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Liabilities</b>								
Due to the central bank	-	-	25	71	63,290	-	-	63,386
Deposits from banks and other financial institutions	-	274,073	57,135	133,346	76,114	-	-	540,668
Placements from banks and other financial institutions	-	6	64,023	43,183	81,389	-	-	188,601
Financial assets sold under repurchase agreements	-	-	82,059	7,820	1,550	1,551	-	92,980
Deposits from customers	-	1,382,165	318,146	364,756	830,288	1,021,718	95	3,917,168
Debt securities issued	-	-	13,069	243,628	426,169	188,105	5,000	875,971
Others	-	59,873	3,013	5,312	8,015	30,022	5,488	111,723
<b>Total liabilities</b>	-	1,716,117	537,470	798,116	1,486,815	1,241,396	10,583	5,790,497
<b>Net position</b>	442,432	(935,069)	(291,943)	(503,412)	(182,608)	688,484	1,292,129	510,013
Notional amount of derivative financial instruments	-	-	235,347	218,141	574,524	699,711	2,035	1,729,758

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China Everbright Bank Company Limited  
Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)  
For the six months ended 30 June 2023  
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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the reporting period:

	30 June 2023							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	99,281	100,496	-	-	2,944	97,552	-	-
Deposits from banks and other financial institutions	547,445	549,910	360,373	83,010	66,589	39,938	-	-
Placements from banks and other financial institutions	179,712	181,435	6	76,558	56,665	48,206	-	-
Financial assets sold under repurchase agreements	206,231	206,483	-	192,322	5,126	9,035	-	-
Deposits from customers	4,156,940	4,227,563	1,573,434	354,455	392,880	710,354	1,161,972	34,468
Debt securities issued	914,749	942,865	-	135,014	125,476	462,615	208,012	11,748
Other financial liabilities	66,480	72,481	29,705	292	694	4,911	29,493	7,386
<b>Total non-derivative financial liabilities</b>	<b>6,170,838</b>	<b>6,281,233</b>	<b>1,963,518</b>	<b>841,651</b>	<b>650,374</b>	<b>1,372,611</b>	<b>1,399,477</b>	<b>53,602</b>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		633	-	41	81	(21)	216	316
Derivative financial instruments settled on gross basis								
- Cash inflow		870,906	-	308,448	159,346	384,453	18,659	-
- Cash outflow		(677,959)	-	(189,509)	(108,595)	(361,092)	(18,763)	-
<b>Total derivative financial liabilities</b>		<b>192,947</b>	<b>-</b>	<b>118,939</b>	<b>50,751</b>	<b>23,361</b>	<b>(104)</b>	<b>-</b>

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China Everbright Bank Company Limited  
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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**48 Risk Management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the reporting period: (Continued)

	31 December 2022							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	63,386	64,799	-	25	72	64,702	-	-
Deposits from banks and other financial institutions	540,668	543,019	274,209	57,357	134,598	76,855	-	-
Placements from banks and other financial institutions	188,601	190,663	6	64,091	43,520	83,046	-	-
Financial assets sold under repurchase agreements	92,980	93,084	-	82,102	7,863	1,566	1,553	-
Deposits from customers	3,917,168	3,978,082	1,382,165	324,008	376,136	862,226	1,033,433	114
Debt securities issued	875,971	904,053	-	13,211	251,786	433,688	199,530	5,838
Other financial liabilities	65,432	70,298	28,111	354	2,711	2,872	28,620	7,630
<b>Total non-derivative financial liabilities</b>	<b>5,744,206</b>	<b>5,843,998</b>	<b>1,684,491</b>	<b>541,148</b>	<b>816,686</b>	<b>1,524,955</b>	<b>1,263,136</b>	<b>13,582</b>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		748	-	13	(2)	378	97	262
Derivative financial instruments settled on gross basis								
- Cash inflow		681,857	-	213,796	162,785	300,364	4,912	-
- Cash outflow		(489,327)	-	(106,413)	(128,164)	(249,837)	(4,913)	-
<b>Total derivative financial liabilities</b>		<b>192,530</b>	<b>-</b>	<b>107,383</b>	<b>34,621</b>	<b>50,527</b>	<b>(1)</b>	<b>-</b>

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

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### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 48 Risk Management (Continued)

##### (c) Liquidity risk (Continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2023			<u>Total</u>
	<u>Within one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
Loan and credit card commitments	376,659	441	1,278	378,378
Guarantees, acceptances and other credit commitments	<u>913,290</u>	<u>40,424</u>	<u>686</u>	<u>954,400</u>
<b>Total</b>	<u><u>1,289,949</u></u>	<u><u>40,865</u></u>	<u><u>1,964</u></u>	<u><u>1,332,778</u></u>
	31 December 2022			<u>Total</u>
	<u>Within one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
Loan and credit card commitments	365,068	540	1,520	367,128
Guarantees, acceptances and other credit commitments	<u>964,754</u>	<u>46,456</u>	<u>1,086</u>	<u>1,012,296</u>
<b>Total</b>	<u><u>1,329,822</u></u>	<u><u>46,996</u></u>	<u><u>2,606</u></u>	<u><u>1,379,424</u></u>

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **48 Risk Management (Continued)**

##### **(d) Operational risk**

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **49 Fair value**

##### **(a) Methods and assumptions for measurement of fair value**

The Group adopts the following methods and assumptions when evaluating fair values:

##### **(i) Debt securities and equity investments**

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

##### **(ii) Receivables and other non-derivative financial assets**

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the reporting period.

##### **(iii) Debt securities issued and other non-derivative financial liabilities**

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

##### **(iv) Derivative financial instruments**

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Thomson Reuters' quoted price.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **49 Fair value (Continued)**

##### **(b) Fair value measurement**

##### **(i) Financial assets**

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers measured at amortised cost, finance lease receivables and financial investments measured at amortised cost, except for bond investments and asset-backed securities, are mostly priced at floating interest rates close to the LPR. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income, and derivative financial assets presented at fair value.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 49 Fair value (Continued)

##### (b) Fair value measurement (Continued)

##### (ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, derivative financial liabilities, financial assets sold under repurchase agreements, deposits from customers, due to the central bank and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

Financial liabilities at fair value through profit or loss and derivative financial liabilities presented at fair value.

The tables below summarise the carrying amounts and fair values of "debt securities and asset-backed instruments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of period:

	Carrying value		Fair value	
	30 June 2023	31 December 2022	30 June 2023	31 December 2022
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	1,170,964	1,118,734	1,196,299	1,135,161
<b>Financial liabilities</b>				
Debt securities issued	914,749	875,971	905,641	859,788

Debt securities and asset-backed instruments measured at amortised cost are based on broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated by a discounted cash flow model is based on a current yield curve appropriate for the remaining term to maturity.

### **III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **49 Fair value (Continued)**

##### **(c) Fair value hierarchy**

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e., prices) or indirectly. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves and SOFR are sourced from ChinaBond, Thomson Reuters and Shanghai Clearing House. This level includes bonds and a majority of OTC derivative contracts.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated unlisted equity with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to that of another instrument that is substantially the same.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 49 Fair value (Continued)

##### (c) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value

The table below summaries the carrying values in three levels of assets and liabilities measured at fair value at the end of the period:

	30 June 2023			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<i>Derivative financial assets</i>				
- Currency derivatives	-	12,901	-	12,901
- Interest rate derivatives	4	5,921	-	5,925
<i>Loans and advances to customers</i>	-	238,207	-	238,207
<i>Financial assets at fair value through profit or loss</i>				
- Debt instruments held for trading	-	106,792	120	106,912
- Other financial assets at fair value through profit or loss	252,109	122,146	7,427	381,682
Debt instruments at fair value through other comprehensive income	-	493,393	24	493,417
Equity instruments at fair value through other comprehensive income	28	-	1,102	1,130
<b>Total</b>	<u>252,141</u>	<u>979,360</u>	<u>8,673</u>	<u>1,240,174</u>
<b>Liabilities</b>				
<i>Financial liabilities at fair value through profit or loss</i>				
<i>Derivative financial liabilities</i>				
- Currency derivatives	-	14,014	-	14,014
- Interest rate derivatives	-	5,426	-	5,426
<b>Total</b>	<u>-</u>	<u>19,440</u>	<u>-</u>	<u>19,440</u>

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 49 Fair value (Continued)

##### (c) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value (Continued)

The table below summaries the carrying values in three levels of assets and liabilities measured at fair value at the end of the period: (Continued)

	31 December 2022			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Assets</b>				
<i>Derivative financial assets</i>				
- Currency derivatives	-	10,961	-	10,961
- Interest rate derivatives	1	4,768	-	4,769
<i>Loan and advances to customers</i>	-	214,253	-	214,253
<i>Financial assets at fair value through profit or loss</i>				
- Debt instruments held for trading	-	109,385	255	109,640
- Other financial assets at fair value through profit or loss	192,352	93,929	7,696	293,977
Debt instruments at fair value through other comprehensive income	-	449,532	64	449,596
Equity instruments at fair value through other comprehensive income	24	-	1,102	1,126
<b>Total</b>	<u>192,377</u>	<u>882,828</u>	<u>9,117</u>	<u>1,084,322</u>
<b>Liabilities</b>				
<i>Financial liabilities at fair value through profit or loss</i>	27	-	-	27
<i>Derivative financial liabilities</i>				
- Currency derivatives	-	9,743	-	9,743
- Interest rate derivatives	-	4,518	-	4,518
<b>Total</b>	<u>27</u>	<u>14,261</u>	<u>-</u>	<u>14,288</u>



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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**49 Fair value (Continued)**

(c) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value (Continued)

The movements during the period ended 30 June 2023 in the balance of Level 3 fair value measurements are as follows:

	<u>Derivative financial assets</u>	<u>Financial assets at fair value through profit or loss</u>	<u>Equity instruments at fair value through other comprehensive income</u>	<u>Debt instruments at fair value through other comprehensive income</u>	<u>Total assets</u>	<u>Derivative financial liabilities</u>	<u>Total liabilities</u>
As at 1 January 2023	-	7,951	1,102	64	9,117	-	-
Transferred to level 3	-	15	-	-	15	-	-
Total gains or losses:							
- Recognised in profit or loss	-	(600)	-	(40)	(640)	-	-
Purchases	-	495	-	-	495	-	-
Settlements	-	(314)	-	-	(314)	-	-
As at 30 June 2023	-	7,547	1,102	24	8,673	-	-
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	-	(600)	-	(40)	(640)	-	-

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**III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**49 Fair value (Continued)**

(c) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value (Continued)

The movements during the year ended 31 December 2022 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Debt instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2022	1	10,318	1,102	67	11,488	-	-
Total gain or loss:							
- Recognised in the profit or loss	(1)	(1,237)	-	(3)	(1,241)	-	-
Purchases	-	2,964	-	-	2,964	-	-
Settlements	-	(4,094)	-	-	(4,094)	-	-
31 December 2022	-	7,951	1,102	64	9,117	-	-
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(1)	(1,237)	-	(3)	(1,241)	-	-

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### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 49 Fair value (Continued)

##### (c) Fair value hierarchy (Continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the fair values in three levels of “debt securities and asset-backed instruments measured at amortised cost” and “debt securities issued”, which are not presented at fair value on the statement of financial position:

	30 June 2023			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	-	1,196,273	26	1,196,299
<b>Financial liabilities</b>				
Debt securities issued	-	905,641	-	905,641
	31 December 2022			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	-	1,135,161	-	1,135,161
<b>Financial liabilities</b>				
Debt securities issued	-	859,788	-	859,788

##### (d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity. These financial instruments are valued using cash flow discount model and market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 30 June 2023, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also not material.

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 50 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	<u>30 June</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Entrusted loans	86,058	92,724
Entrusted funds	86,058	92,724

#### 51 Commitments and contingent liabilities

##### (a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	<u>30 June</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Loan commitments		
- Original contractual maturity within one year	19,763	16,007
- Original contractual maturity more than one year (inclusive)	6,919	6,009
Credit card commitments	351,696	345,112
Subtotal	378,378	367,128
Acceptances	652,423	724,330
Letters of guarantee	123,867	116,297
Letters of credit	177,925	171,484
Guarantees	185	185
Total	1,332,778	1,379,424

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 51 Commitments and contingent liabilities (Continued)

##### (a) Credit commitments (Continued)

The Group may be exposed to credit risk in all the credit businesses above. Group management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

##### (b) Credit risk-weighted amount of credit commitments

	<u>30 June</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Credit risk-weighted amount of credit commitments	403,019	418,205

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

##### (c) Capital commitments

As at the end of the reporting period, the Group's authorised capital commitments are as follows:

	<u>30 June</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Contracted but not paid		
- Purchase of property and equipment	4,059	3,939
Approved but not contracted for		
- Purchase of property and equipment	5,915	5,708
Total	9,974	9,647

### III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 51 Commitments and contingent liabilities (Continued)

##### (d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at the end of the reporting period.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the reporting period, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	30 June <u>2023</u>	31 December <u>2022</u>
Redemption commitments	<u>4,398</u>	<u>4,320</u>

##### (e) Outstanding litigations and disputes

As at 30 June 2023, the Group was the defendant or the third party in certain pending litigation and disputes with gross claims of RMB1,324 million (31 December 2022: RMB1,688 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note III 34). The Group considers that the provisions made are reasonable and adequate.

#### 52 Subsequent Events

The Group has no significant subsequent events.

**ISSUER**

**China Everbright Bank Co., Ltd., Hong Kong Branch**

23/F, Everbright Centre  
108 Gloucester Road, Wan Chai  
Hong Kong

**ARRANGERS AND DEALERS**

**China Everbright Bank Co., Ltd., Hong Kong Branch**

23/F, Everbright Centre  
108 Gloucester Road, Wan Chai  
Hong Kong

**CEB International Capital Corporation Limited**

35/F, Everbright Centre  
108 Gloucester Road, Wanchai  
Hong Kong

**Citigroup Global Markets Limited**

Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**AUDITOR OF THE BANK**

**Ernst & Young**

**Certified Public Accountants**

27/F, One Taikoo Place  
979 King's Road, Quarry Bay  
Hong Kong

**ISSUING AND PAYING AGENT,  
TRANSFER AGENT AND REGISTRAR**

**Citibank, N.A., London Branch**

Citigroup Centre, Canada Square  
Canary Wharf  
London E14 5LB, United Kingdom

**FISCAL AGENT, CMU LODGING AND  
PAYING AGENT AND CMU REGISTRAR**

**Citicorp International Limited**

9th Floor Citi Tower, One Bay East  
83 Hoi Bun Road  
Kwun Tong, Kowloon  
Hong Kong

**LEGAL ADVISERS**

*To the Issuer as to Hong Kong law*

**Linklaters**

11th Floor  
Alexandra House  
Chater Road  
Hong Kong

*To the Issuer as to PRC law*

**King & Wood Mallesons**

18th Floor, East Tower  
World Financial Center  
1 Dongsanhuan Zhonglu  
Chaoyang District  
Beijing 100020  
P. R. China

*To the Arrangers and Dealers  
as to English law*

**Clifford Chance**

27th Floor  
Jardine House  
One Connaught Place  
Central, Hong Kong

*To the Arrangers and Dealers  
as to PRC law*

**JunHe LLP**

20/F, China Resources Building  
8 Jianguomenbei Avenue  
Beijing 100005  
P. R. China

## IMPORTANT NOTICE

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

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

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

THE SUPPLEMENTAL OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS SUPPLEMENTAL 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. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of your Representation:** In order to be eligible to view the Supplemental Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. The Supplemental Offering Circular is being sent at your request and by accepting the e-mail and accessing the Supplemental Offering Circular, you shall be deemed to have represented to the Issuer, the Bank (each as defined in the Supplemental Offering Circular), China Everbright Bank Co., Ltd., Hong Kong Branch, Citigroup Global Markets Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, Bank of Communications Co., Ltd. Hong Kong Branch, China Construction Bank (Asia) Corporation Limited and Industrial and Commercial Bank of China (Asia) Limited (together, the “**Joint Global Coordinators**”), and ABCI Capital Limited, Agricultural Bank of China Limited Macao Branch, Agricultural Bank of China Limited, Singapore Branch, Bank of China (Hong Kong) Limited, CCB International Capital Limited, CEB International Capital Corporation Limited, China CITIC Bank International Limited, China Everbright Securities (HK) Limited, China Galaxy International Securities (Hong Kong) Co., Limited, China Industrial Securities International Brokerage Limited, China International Capital Corporation Hong Kong Securities Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, China Securities (International) Corporate Finance Company Limited, China Zheshang Bank Co., Ltd. (Hong Kong Branch), Chiyu Banking Corporation Limited, CMB Wing Lung Bank Limited, CMBC Securities Company Limited, CNCB (Hong Kong) Capital Limited, Crédit Agricole Corporate and Investment Bank, Guotai Junan Securities (Hong Kong) Limited, Hua Xia Bank Co., Limited Hong Kong Branch, ICBC International Securities Limited, Industrial and Commercial Bank of China (Macau) Limited, Industrial and Commercial Bank of China Limited, Singapore Branch, Industrial Bank Co., Ltd. Hong Kong Branch, Nanyang Commercial Bank, Limited, Natixis, Orient Securities (Hong Kong) Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SPDB International Capital Limited and The Bank of East Asia, Limited (together with the Joint Global Coordinators, the “**Joint Lead Managers**”) that you and any customers you represent are persons outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the Supplemental Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the Supplemental Offering Circular has been delivered to you on the basis that you are a person into whose possession the Supplemental Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Supplemental Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected.

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

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The Supplemental Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Bank, the Joint Lead Managers, any



person who controls any of the Joint Lead Managers, any director, officer, employee nor agent of the Issuer, the Bank, the Joint Lead Managers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Supplemental Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

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

**CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH**  
(a branch of a joint stock company incorporated in the People's Republic of China with limited liability)

**Issue of U.S.\$550,000,000 Floating Rate Notes due 2027**

**Issue of CNY1,500,000,000 3.00 per cent. Notes due 2026**

**issued under its U.S.\$5,000,000,000**

**Medium Term Note Programme**

This Supplemental Offering Circular (the "**Supplemental Offering Circular**") is supplemental to, forms part of and must be read and construed in conjunction with, to the offering circular dated 4 September 2023 (the "**Original Offering Circular**", together with the Supplemental Offering Circular, the "**Offering Circular**") prepared by China Everbright Bank Co., Ltd., Hong Kong Branch (the "**Issuer**"), in connection with the U.S.\$5,000,000,000 Medium Term Note Programme described in the Original Offering Circular (the "**Programme**"). This Supplemental Offering Circular is prepared for the U.S.\$550,000,000 floating rate notes due 2027 (the "**USD Notes**") and the CNY1,500,000,000 3.00 per cent. notes due 2026 (the "**CNY Notes**", together with the USD Notes, the "**Notes**" and each a "**Series**") to be issued by the Issuer under the Programme only and only amend and/or supplement the Original Offering Circular to the extent applicable to the Notes and does not otherwise modify the Programme. Terms given a defined meaning in the Original Offering Circular shall, unless the context otherwise requires, have the same meaning when used in this Supplemental Offering Circular. To the extent there is any inconsistency between any statement in this Supplemental Offering Circular and any statement in the Original Offering Circular, the statement in this Supplemental Offering Circular shall prevail.

Application has been made to The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") for the listing of and dealing in the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the, "**Professional Investors**") only. This document is for distribution to Professional Investors only.

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

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

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

Pursuant to the Examination and Registration Certificate of Issuance by Enterprises of Foreign Debt (《企業借外債審核登記證明》)(發改辦外資備[2023] 133 號) issued by the National Development and Reform Commission of the PRC (the "**NDRC**") wherein a quota of foreign debt (the "**Quota**") was granted by the NDRC on 5 June 2023, separate pre-issuance registration with the NDRC with respect to the Notes is not required as the Notes will be issued within the aforesaid Quota, but the Bank is still required to file with the NDRC the requisite information and documents on the issuance of the Notes after the issuance of such Notes. The Bank undertakes to file or cause to be filed with the NDRC the requisite information and documents within the relevant prescribed timeframes from time to time after the Issue Date in accordance with the Administrative Measures for the Review and Registration of Medium and Long-Term Foreign Debts of Enterprises (《企業中長期外債審核登記管理辦法》(國家發展和改革委員會令第 56 號)) issued by the NDRC on 5 January 2023 and which came into effect on 10 February 2023 and any implementation rules, reports, certificates and guidelines and applicable policies issued by the NDRC from time to time (the "**NDRC Measures**"); and comply with the NDRC Measures and other obligations required by the NDRC as it applies to the Notes.

The USD Notes will be represented by beneficial interests in a global note certificate (the "**USD Global Note Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depository for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the USD Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for the USD Notes will not be issued in exchange for interests in the relevant USD Global Note Certificate.

The CNY Notes will be represented by beneficial interests in a global note certificate (the "**CNY Global Note Certificate**", together with the USD Global Note Certificate, the "**Global Note Certificates**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date, with a sub-custodian for the Central Money Markets Unit (the "**CMU**") operated by the Hong Kong Monetary Authority (the "**HKMA**"). The CNY Global Note Certificate will be held for the account of CMU members who have accounts with the CMU operator, or the CMU participants. Beneficial interests in the CNY Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by the CMU. For persons seeking to hold a beneficial interest in the CNY Notes through Euroclear Bank SA/NV ("**Euroclear**") or Clearstream Banking S.A. ("**Clearstream**"), such persons will hold their interest through an account opened and held by Euroclear or Clearstream (as the case may be) with the CMU operator. Except as described in the CNY Global Note Certificate, individual certificates for CNY Notes will not be issued in exchange for beneficial interests in the CNY Global Note Certificate. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "**Summary of Provisions Relating to the Notes while in Global Form**" in the Original Offering Circular.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes may not be offered or sold within the United States except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain restrictions on offers and sales of the Notes and the distribution of the Original Offering Circular, see "**Subscription and Sale**" in the Original Offering Circular, as supplemented by "**Subscription and Sale**" in this Supplemental Offering Circular. Each Series of Notes may be subject to additional selling restrictions as set out in the relevant Pricing Supplement.

Each Series of Notes is expected to be assigned a rating of "BBB+" by Fitch Ratings, Inc. ("**Fitch**"). The Programme has been rated "BBB+" by Fitch and "BBB+" by S&P Global Ratings ("**S&P**"). These ratings are only correct as at the date of this Supplemental Offering Circular. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating organisation.

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

The sections of the Original Offering Circular entitled "**Summary Financial Information of the Bank**", "**Risk Factors**", "**Use of Proceeds**", "**Capitalisation and Indebtedness**", "**Description of the Bank**", "**Description of the Issuer**", "**Risk Management**", "**Directors, Supervisors and Senior Management**", "**Substantial Shareholders**" and "**General Information**" have been supplemented and/or amended with the information in this Supplemental Offering Circular in respect of the Notes only.

With effect from the date of this Supplemental Offering Circular, the information appearing in the Original Offering Circular with respect to the Notes shall be amended and/or supplemented by the inclusion of the information set out in the Supplemental Offering Circular and does not otherwise modify the Programme.

**Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers**

<b>China Everbright Bank Hong Kong Branch</b>	<b>Citigroup</b>	<b>Agricultural Bank of China Limited Hong Kong Branch</b>		
<b>Bank of China</b>	<b>Bank of Communications</b>	<b>China Construction Bank (Asia)</b>	<b>ICBC (Asia)</b>	
<b>Joint Bookrunners and Joint Lead Managers</b>				
<b>ABC International</b>	<b>ABC Macao Branch</b>	<b>Agricultural Bank of China Singapore Branch</b>	<b>Bank of China (Hong Kong)</b>	<b>CCB International</b>
<b>CEB International</b>	<b>China CITIC Bank International</b>	<b>Everbright Securities International</b>	<b>China Galaxy International</b>	<b>China Industrial Securities International</b>
<b>China International Capital Corporation</b>	<b>China Minsheng Banking Corp., Ltd., Hong Kong Branch</b>	<b>China Securities International</b>	<b>China Zheshang Bank Co., Ltd. (Hong Kong Branch)</b>	<b>Chiyu Banking Corporation Limited</b>
<b>CMB Wing Lung Bank Limited</b>	<b>CMBC Capital</b>	<b>CNCB Capital</b>	<b>Crédit Agricole CIB</b>	<b>Guotai Junan International</b>
<b>Hua Xia Bank Co., Limited Hong Kong Branch</b>	<b>ICBC International</b>	<b>ICBC (Macao)</b>	<b>ICBC Singapore</b>	<b>Industrial Bank Co., Ltd. Hong Kong Branch</b>
<b>Nanyang Commercial Bank</b>	<b>Natixis</b>	<b>Orient Securities (Hong Kong)</b>	<b>Shanghai Pudong Development Bank Hong Kong Branch</b>	<b>SPDB International</b>
				<b>The Bank of East Asia, Limited</b>

The date of this Supplemental Offering Circular is 7 May 2024.

## IMPORTANT NOTICE

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

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

Each Series of Notes will be issued on the terms set out under “*Terms and Conditions of the Notes*” in the Original Offering Circular, as amended and/or supplemented by the relevant pricing supplement set out in this Supplemental Offering Circular (the “**Pricing Supplements**”). This Supplemental Offering Circular and the Original Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to each Series of Notes, must be read and construed together with the relevant Pricing Supplement. This Supplemental Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of the Original Offering Circular.

The distribution of this Supplemental Offering Circular (together with the Original Offering Circular) and the Pricing Supplements and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplemental Offering Circular (together with the Original Offering Circular) comes are required by the Issuer, the Group, China Everbright Bank Co., Ltd., Hong Kong Branch, Citigroup Global Markets Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, Bank of Communications Co., Ltd. Hong Kong Branch, China Construction Bank (Asia) Corporation Limited and Industrial and Commercial Bank of China (Asia) Limited (together, the “**Joint Global Coordinators**”), and ABCI Capital Limited, Agricultural Bank of China Limited Macao Branch, Agricultural Bank of China Limited, Singapore Branch, Bank of China (Hong Kong) Limited, CCB International Capital Limited, CEB International Capital Corporation Limited, China CITIC Bank International Limited, China Everbright Securities (HK) Limited, China Galaxy International Securities (Hong Kong) Co., Limited, China Industrial Securities International Brokerage Limited, China International Capital Corporation Hong Kong Securities Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, China Securities (International)

Corporate Finance Company Limited, China Zheshang Bank Co., Ltd. (Hong Kong Branch), Chiyu Banking Corporation Limited, CMB Wing Lung Bank Limited, CMBC Securities Company Limited, CNCB (Hong Kong) Capital Limited, Cr dit Agricole Corporate and Investment Bank, Guotai Junan Securities (Hong Kong) Limited, Hua Xia Bank Co., Limited Hong Kong Branch, ICBC International Securities Limited, Industrial and Commercial Bank of China (Macau) Limited, Industrial and Commercial Bank of China Limited, Singapore Branch, Industrial Bank Co., Ltd. Hong Kong Branch, Nanyang Commercial Bank, Limited, Natixis, Orient Securities (Hong Kong) Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SPDB International Capital Limited and The Bank of East Asia, Limited (together with the Joint Global Coordinators, the “**Joint Lead Managers**”) to inform themselves about and to observe any such restrictions. None of the Issuer, the Group or the Joint Lead Managers represents that this Supplemental Offering Circular (together with the Original Offering Circular) or the Pricing Supplements may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Group or the Joint Lead Managers which would permit a public offering of the Notes or distribution of this Supplemental Offering Circular (together with the Original Offering Circular) or the Pricing Supplements in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of the Supplemental Offering Circular (together with the Original Offering Circular), the Pricing Supplements or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore and Taiwan, and to persons connected therewith. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Notes may not be offered or sold within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of the Original Offering Circular, see “*Subscription and Sale*” in the Original Offering Circular, as supplemented by “*Subscription and Sale*” in this Supplemental Offering Circular. Each Series of Notes may be subject to additional selling restrictions as set out in the relevant Pricing Supplement.

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

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

Neither the delivery of this Supplemental Offering Circular (read together with the Original Offering Circular) nor the Pricing Supplements nor the offering, sale or delivery of any Notes shall in any circumstances create any implication that the information contained this Supplemental Offering Circular (read together with the Original Offering Circular) is true subsequent to the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or the Group since the date hereof or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the

financial condition or affairs of the Issuer or the Group during the term of the Notes or to advise any investor in the Notes of any information coming to their attention.

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

Neither this Supplemental Offering Circular nor the Original Offering Circular describes all of the risks and investment considerations (including those relating to each investor’s particular circumstances) of an investment in the Notes. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement for the relevant Series of Notes, which may describe additional risks and investment considerations associated with such Series of Notes. The risks and investment considerations identified in this Supplemental Offering Circular (read together with the Original Offering Circular) and the Pricing Supplements are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in the Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

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

The Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States. **For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Supplemental Offering Circular, see “*Subscription and Sale*” in the Original Offering Circular, as supplemented by “*Subscription and Sale*” in this Supplemental Offering Circular.**

**MIFID II product governance/Professional investors and ECPs only target market** – Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional

clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); 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 target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

**Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct — Important Notice to Prospective Investors**

Prospective investors should be aware that certain intermediaries in the context of this offering of the Notes pursuant to the Programme, including certain Joint Lead Managers, are “capital market intermediaries” (the “**CMI**s”) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Notes and Futures Commission (the “**SFC Code**”). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as “overall coordinators” (the “**OC**s”) for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Bank, a CMI or its group companies would be considered under the SFC Code as having an association (an “**Association**”) with the Issuer, the Bank, the CMI or the relevant group company. Prospective investors associated with the Issuer, the Bank or any CMI (including its group companies) should specifically disclose this when placing an order for the Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to this offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to this offering, such order is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). If a prospective investor is an asset management arm affiliated with any Joint Lead Manager, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Joint Lead Manager or its group company has more than 50 per cent. interest, in which case it will be classified as a “proprietary order” and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such “proprietary order” may negatively impact the price discovery process in relation to this offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. If a prospective investor is otherwise affiliated with any Joint Lead Manager, such that its order may be considered to be a “proprietary order” (pursuant to the SFC Code), such prospective investor should indicate to the relevant Joint Lead Manager when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to this offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the Joint Lead Managers and/or any other third parties as may be required by the SFC Code, including to the Issuer, the Bank, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for

the purpose of complying with the SFC Code, during the bookbuilding process for this offering. Failure to provide such information may result in that order being rejected.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

For convenience only, this Supplemental Offering Circular contains translations of certain amounts denominated in Renminbi and U.S. dollars. Unless indicated otherwise, the translations between Renminbi and U.S. dollars were made at the rate of RMB7.0999 to U.S.\$1.00, based on the noon buying rate as set forth in the H. 10 statistical release of the Federal Reserve Bank of New York on 29 December 2023. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Further information on exchange rates are set forth in the section headed “Exchange Rates” in this Supplemental Offering Circular.

As at the date of this Supplemental Offering Circular, the Bank’s audited consolidated financial statements as at and for the years ended 31 December 2021, 2022 and 2023 are the most recently published financial statements available.

The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2021 and 2022 were prepared in accordance with International Financial Reporting Standards (“IFRS”) and have been audited by Ernst & Young and are included in the F-pages of the Original Offering Circular and are incorporated by reference into this Supplemental Offering Circular. The audited consolidated financial statements of the Bank as at and for the year ended 31 December 2023 were prepared in accordance with IFRS and have been audited by Ernst & Young and are included in the F-pages of this Supplemental Offering Circular. The Bank has applied new standards and amendments starting from 1 January 2022, including Amendments to IFRS 3 - Reference to the Conceptual Framework, Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use, Amendments to IAS 37 - Onerous Contracts –Costs of Fulfilling a Contract and Annual Improvements to IFRSs 2018-2020 - Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. The adoption of the above amendments did not have any significant impact on the operating results, financial position and comprehensive income of the Group. Certain statistical data and other information appearing in this Supplemental Offering Circular (read together with the Original Offering Circular), including under the headings “Risk Factors” and “Description of the Bank”, have been extracted from public sources identified in this Supplemental Offering Circular and the Original Offering Circular such as the People’s Bank of China (“PBOC”). None of the Issuer, the Bank or the Joint Lead Managers accepts responsibility for the factual correctness of any such statistics or information but the Issuer accepts responsibility for accurately extracting and transcribing such statistics and information.



## **FORWARD LOOKING STATEMENTS**

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

## **STABILISATION**

In connection with the issue of each Series of Notes, one or more of the Joint Lead Managers as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the relevant Pricing Supplement may over allot the relevant Series of Notes or effect transactions with a view to supporting the market price of such Series of Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of such Series of Notes and 60 days after the date of the allotment of such Series of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

## **INFORMATION INCORPORATED BY REFERENCE**

This Supplemental Offering Circular should be read and construed in conjunction with the Original Offering Circular (and the documents incorporated by reference therein) and all amendments and supplements from time to time to this Supplemental Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Supplemental Offering Circular and which shall be deemed to modify or supersede the contents of this Supplemental Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

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

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## SUMMARY FINANCIAL INFORMATION OF THE BANK

The section entitled “Summary Financial Information of the Bank” on pages 7 to 11 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

The summary consolidated financial information as at and for the years ended 31 December 2021, 2022 and 2023 set forth below is derived from the Bank’s audited consolidated financial statements as at and for the years ended 31 December 2022 and 2023 and should be read in conjunction with the Bank’s audited consolidated financial statements as at and for the year ended 31 December 2022 and the notes thereto, which are included in the Original Offering Circular, and as at and for the year ended 31 December 2023 and the notes thereto, which are included elsewhere in this Supplemental Offering Circular.

The Bank’s audited consolidated financial statements as at and for the years ended 31 December 2022 and 2023 were prepared in accordance with IFRS and have been audited by Ernst & Young. The Bank has applied several new and revised standards and amendments for the first time starting from 1 January 2023, including FRS 17 and Amendments - Insurance Contracts, Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies, Amendments to IAS 8 - Definition of Accounting Estimates, Amendments to IAS 12 - Deferred tax related to Assets and Liabilities arising from a Single Transaction and Amendments to IAS 12 - International Tax Reform – Pillar Two Model Rules. The adoption of the above standards and amendments did not have any significant impact on the operating results, financial position and comprehensive income of the Group.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Bank’s audited consolidated financial statements as at and for the year ended 31 December 2022, which are included in the Original Offering Circular, and as at and for the year ended 31 December 2023, which are included elsewhere in this Supplemental Offering Circular.

On 29 April 2024, the 2024 first quarter report of the Bank (the “2024 First Quarter Report”) was published on the website of the HKSE, which included the consolidated financial information as at and for the three months ended 31 March 2023 and 2024, was prepared in accordance with IFRS and has neither been audited nor reviewed by a certified public accountant.

Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review. Potential investors must exercise caution when using such data to evaluate the Bank’s financial condition and results of operations. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2024 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 2024. For more details of the consolidated quarterly financial information as at and for the three months ended 31 March 2024, please refer to the section entitled “RECENT DEVELOPMENTS OF THE BANK - 2024 First Quarter Report” below.

### Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December			
	2021	2022	2023	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
			<i>(audited)</i>	
Interest income.....	229,334	241,309	250,809	35,326
Interest expense.....	(117,179)	(127,654)	(143,329)	(20,187)
<b>Net interest income</b> .....	112,155	113,655	107,480	15,139

For the year ended 31 December

	2021	2022	2023	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
			<i>(audited)</i>	
Fee and commission income.....	30,131	30,077	26,724	3,764
Fee and commission expense.....	(2,817)	(3,333)	(3,026)	(426)
<b>Net fee and commission income</b> .....	<b>27,314</b>	<b>26,744</b>	<b>23,698</b>	<b>3,338</b>
Net trading gains.....	2,193	2,470	3,233	455
Dividend income.....	24	49	44	6
Net gains arising from investment securities.....	10,092	6,416	8,926	1,257
Net gains/(losses) on derecognition of financial assets measured at amortised cost.....	115	858	(555)	(78)
Net foreign exchange gains.....	3	484	1,125	158
Other net operating income.....	1,470	1,189	1,784	251
<b>Operating income</b> .....	<b>153,366</b>	<b>151,865</b>	<b>145,735</b>	<b>20,526</b>
Operating expenses.....	(45,540)	(45,227)	(43,909)	(6,184)
Credit impairment losses.....	(54,772)	(50,600)	(52,075)	(7,335)
Other impairment losses.....	(23)	(9)	(30)	(4)
<b>Operating profit</b> .....	<b>53,031</b>	<b>56,029</b>	<b>49,721</b>	<b>7,003</b>
(Losses)/Gains on investment of joint ventures....	(90)	(63)	36	5
<b>Profit before tax</b> .....	<b>52,941</b>	<b>55,966</b>	<b>49,757</b>	<b>7,008</b>
Income tax.....	(9,302)	(10,926)	(8,681)	(1,223)
<b>Net profit</b> .....	<b>43,639</b>	<b>45,040</b>	<b>41,076</b>	<b>5,785</b>
<b>Other comprehensive income, net of tax:</b>				
Items that will not be reclassified to profit or loss:				
– Remeasurement of supplementary retirement benefits.....	(287)	(135)	(192)	(27)
- Equity instruments at fair value through other comprehensive income.....				
- Net change in fair value.....	-	-	6	0.85
- Related income tax effect.....	-	-	(2)	(0.28)
Subtotal.....	(287)	(135)	(188)	(26)
Items that will be reclassified to profit or loss:				
– Debt instruments at fair value through other comprehensive income.....				
– Net Change in fair value.....	2,828	(5,046)	3,824	539
– Changes in allowance for expected credit losses.....	112	834	(12)	(2)
– Reclassified to the profit or loss upon disposal.....	(126)	(774)	146	21
– Related income tax effect.....	(685)	1,201	(987)	(139)
- Cash flow hedge.....	-	-	4	0.56
– Exchange differences on translation of financial statements.....	(83)	180	49	7
Subtotal.....	2,046	(3,605)	3,024	426
<b>Other comprehensive income, net of tax</b> .....	<b>1,759</b>	<b>(3,740)</b>	<b>2,836</b>	<b>399</b>

**For the year ended 31 December**

	2021	2022	2023	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
	<i>(audited)</i>			
<b>Total comprehensive income</b> .....	45,398	41,300	43,912	6,185
<b>Net profit attributable to:</b>				
Equity shareholders of the Bank.....	43,407	44,807	40,792	5,745
Non-controlling interests .....	232	233	284	40
	43,639	45,040	41,076	5,785
<b>Total comprehensive income attributable to:</b>				
Equity shareholders of the Bank.....	45,166	41,065	43,627	6,145
Non-controlling interests .....	232	235	285	40
	45,398	41,300	43,912	6,185
<b>Earnings per share</b>				
Basic earnings per share (in RMB/Share).....	0.71	0.74	0.62	0.09
Diluted earnings per share (in RMB/Share) .....	0.65	0.67	0.61	0.09

Note:

- (1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB7.0999 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 29 December 2023.

**Consolidated Statement of Financial Position**

**As at 31 December**

	2021	2022	2023	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
	<i>(audited)</i>			
<b>Assets</b>				
Cash and deposits with the central bank .....	378,263	356,426	349,184	49,182
Deposits with banks and other financial institutions .	51,189	32,073	39,942	5,626
Precious metals .....	6,426	7,187	6,916	974
Placements with banks and other financial institutions.....	138,349	129,979	142,242	20,034
Derivative financial assets .....	13,705	15,730	13,324	1,877
Financial assets held under resale agreements .....	31,164	28	67,500	9,507
Loans and advances to customers .....	3,239,396	3,499,351	3,712,925	522,955
Finance lease receivables .....	109,053	108,012	99,158	13,966
Financial investments.....	1,836,016	2,046,612	2,241,462	315,703
- Financial assets at fair value through profit or loss .	383,666	403,617	432,896	60,972
- Debt instruments at fair value through other comprehensive income.....	325,695	449,596	561,047	79,022
- Equity instruments at fair value through other comprehensive income.....	1,125	1,126	1,132	159
- Financial investments measured at amortised cost..	1,125,530	1,192,273	1,246,387	175,550

As at 31 December

	2021	2022	2023	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
			<i>(audited)</i>	
Investment in joint ventures.....	256	165	204	29
Property, plant and equipment.....	25,155	26,174	25,838	3,639
Right-of-use assets.....	10,953	10,281	10,408	1,466
Goodwill.....	1,281	1,281	1,281	180
Deferred tax assets.....	19,895	32,703	33,974	4,785
Other assets.....	40,968	34,508	28,438	4,005
<b>Total assets.....</b>	<b>5,902,069</b>	<b>6,300,510</b>	<b>6,772,796</b>	<b>953,928</b>

Note:

- (1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB7.0999 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 29 December 2023.

As at 31 December

	2021	2022	2023	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
			<i>(audited)</i>	
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Due to the central bank.....	101,180	63,386	99,633	14,033
Deposits from banks and other financial institutions.....	526,259	540,668	552,326	77,793
Placements from banks and other financial institutions.....	179,626	188,601	194,205	27,353
Financial liabilities at fair value through profit or loss.....	67	27	-	-
Derivative financial liabilities.....	13,337	14,261	13,946	1,964
Financial assets sold under repurchase agreements.....	80,600	92,980	73,115	10,298
Deposits from customers.....	3,675,743	3,917,168	4,094,528	576,702
Accrued staff costs.....	16,777	19,006	20,064	2,826
Taxes payable.....	6,535	11,141	7,304	1,029
Lease liabilities.....	10,736	10,151	10,349	1,458
Debt securities issued.....	763,532	875,971	1,099,326	154,837
Other liabilities.....	43,311	57,137	53,215	7,495
<b>Total liabilities.....</b>	<b>5,417,703</b>	<b>5,790,497</b>	<b>6,218,011</b>	<b>875,789</b>
<b>Equity</b>				
Share capital.....	54,032	54,032	59,086	8,322
Other equity instrument of which:	109,062	109,062	104,899	14,775
– Preference shares.....	64,906	64,906	64,906	9,142
– Perpetual bonds.....	39,993	39,993	39,993	5,633

As at 31 December

	2021	2022	2023	
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
		<i>(audited)</i>		
Capital reserve .....	58,434	58,434	74,473	10,489
Other comprehensive income .....	3,152	(590)	2,245	316
Surplus reserve.....	26,245	26,245	26,245	3,697
General reserve .....	75,596	81,401	26,245	3,697
Retained earnings.....	155,968	179,299	199,282	28,068
Total equity attributable to equity shareholders of the Bank.....	482,489	507,883	552,391	77,803
Non-controlling interests .....	1,877	2,130	2,394	337
<b>Total equity</b> .....	<b>484,366</b>	<b>510,013</b>	<b>554,785</b>	<b>78,140</b>
<b>Total liabilities and equity</b> .....	<b>5,902,069</b>	<b>6,300,510</b>	<b>6,772,796</b>	<b>953,928</b>

Note:

- (1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB7.0999 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 29 December 2023.

## RISK FACTORS

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

*The section entitled “Risk Factors” in the Original Offering Circular (except for sections entitled “Risks Relating to the Notes Issued under the Programme”, “Risks Relating to the Structure of A Particular Issue of Notes”, “Risks Relating to the Market Generally” and “Risks Relating to Renminbi-Denominated Notes” in the Original Offering Circular) shall be deleted in its entirety and replaced with the following:*

### **RISKS RELATING TO THE BANK’S BUSINESS**

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

The Bank’s business is inherently subject to global capital market fluctuations and general economic conditions. Global market factors, including economic growth rates, inflation, deflation, interest rates, credit spreads, equity prices, real estate markets, energy prices, foreign currency exchange rates, consumer spending, business investment, government spending and the volatility and strength of the capital markets all affect the business and economic environment and, ultimately, the amount and profitability of the Bank’s business. In particular, uncertain economic conditions, volatility and disruptions in global capital markets, can have a material adverse effect on the Bank.

The international economy has faced complex and intertwined changes in 2023, with the phenomenon of “three highs and one low” (high inflation, high interest rate, high debt and low growth). The PRC’s economic growth has also displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC’s gross domestic product (“GDP”) in recent years. In 2023, the PRC Government reported a GDP of RMB126.06 trillion, representing year-on-year growth of 5.2 per cent. This was caused by a combination of factors most of which are beyond the Bank’s control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally. Although the PRC Government has recently taken several measures and actions with an aim to increase investors’ confidence in the PRC economy, there can be no assurance that those measures will be effective. Furthermore, the sustained tension between the United States and China over trade policies could undermine the stability of the global economy. The United States and China have been involved in disputes over trade barriers that have escalated into a trade war between the two countries. Both countries have implemented tariffs and trade barriers on certain industries and products, adversely affecting cross-border investment and global supply chains. The two governments have entered into an initial phase one agreement to resolve the disputes on 15 January 2020. However, there are uncertainties as to when and whether the phase two negotiations will begin and whether the two governments will fulfil their respective obligations under the phase one agreement.



Central banks of a number of major economies, including the Federal Reserve Board of Governors of the United States, have also accelerated their shifts in monetary policies and increased interest rates in response to sustained inflationary pressure. The tightening of credit and liquidity by central banks has resulted in lower demand for loans and general downbeat investor sentiment. There can be no assurance that monetary and fiscal policy measures adopted by central banks or national governments will have the intended effects or that a global economic downturn will not occur or market volatilities will not persist. In early 2023, the global financial markets have experienced further turmoil with the collapse of mid-size United States banks Silicon Valley Bank, Signature Bank and First Republic Bank, as well as the collapse of global financial institution Credit Suisse, which has resulted in tightened credit standards, reduced capital investment and higher uncertainty in the global macroeconomic environment. In addition, the ongoing corporate deleveraging efforts by the PRC Government since 2017 and the increased amount of corporate defaults over recent years, particularly in the PRC real estate sector, have contributed to further turmoil in financial markets in the PRC.

Since February 2022, Russia started military actions in Ukraine. Many countries imposed economic sanctions against Russia, Russia-related corporations and individuals. The on-going war has caused turmoil to global financial and commodities market, especially in the United States, EU and the UK, where some of the countries have experienced shortage in energy and commodities supply, significant inflation which those governments are introducing methods to control. The external sanctions environment remains dynamic, and sanctions regimes are increasingly complex and less predictable. In particular, extensive financial, trade, transport, and immigration sanctions have been imposed by the UK, the EU and U.S., among others, against Russian individuals and companies in light of the Russia-Ukraine geopolitical conflicts. Increasing tension between the U.S. and China may further contribute to the dynamism of the sanctions environment. The sanctions regimes put in place since the Russia-Ukraine geopolitical conflicts have led to rising prices of energy, food and other commodities, and consequently a historical level of high inflation globally. As a result, the aggravated geopolitical tension brings uncertainty to the global economy as well as significant volatilities in the global financial market. Meanwhile, the Israeli-Palestinian conflict has continued for several years, in October 2023, a new round of Palestinian Israeli conflict erupted, over 30,000 civilians have died and over 2 million people have been displaced in the Gaza Strip. At the same time, armed groups from Lebanon, Iraq, Syria and other countries frequently attack US military targets, and the Red Sea is facing a security crisis, the negative impact of external factors cannot be underestimated.

In addition, on 31 January 2020, the United Kingdom officially exited the European Union (“EU”) following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which was rectified in April 2021 and entered into force on 1 May 2021 by the European Parliament and the Council of the EU. Given the lack of precedent, it is unclear how Brexit and the implementation of the EU-UK Trade and Cooperation Agreement would affect the long-term fiscal, monetary and regulatory landscape within the UK, the EU and globally. Moreover, there are ongoing concerns about European sovereign debt levels, negative interest rate and the consequences for economic growth and investor confidence in the Eurozone, political gridlock in the United States over government spending, debt levels and civil rights issues and the consequences for economic growth and investor confidence in the United States, and the uncertainty around the Federal Reserve’s future monetary policies.

All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies, which may have a material adverse impact to the Bank’s business, prospects, financial conditions and results of operations in many ways, including, among others:

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

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

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

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

As with most PRC commercial banks, the Bank's results of operations depend to a large extent on the Bank's net interest income and net interest margin. For the years ended 31 December 2021, 2022 and 2023, the Bank's net interest income represented 73.13 per cent., 74.84 per cent. and 73.75 per cent., respectively, of the Bank's operating income. For the years ended 31 December 2021, 2022 and 2023, the Bank's net interest margin was 2.16 per cent., 2.01 per cent. and 1.74 per cent., respectively. Increasing competition in the banking industry and further liberalisation of the PRC interest rate regime may affect the volatility of interest rates. Changes in the PBOC benchmark interest rates or volatility in market interest rates may adversely affect the Bank's net interest income, which may adversely affect the Bank's business, financial condition and results of operations.

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

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

In addition, adjustments made by PBOC to the benchmark interest rates on loans or deposits, or any changes in market interest rates, may negatively impact the Bank's financial condition and results of operations. For

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

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

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

On 26 October 2023, the National Administration of Financial Regulation (the "NAFR") promulgated the Rules Governing Capital Management of Commercial Banks (商業銀行資本管理辦法) (the "**Capital Management Rules**"), which became effective on 1 January 2024. According to the Capital Management Rules, the minimum capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. A commercial bank is also subject to the capital conservation buffer over and above the minimum capital requirement at 2.5 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital, and under certain circumstances, a countercyclical buffer is required and the specific requirement of the countercyclical buffer shall be separately stipulated by the PBOC in conjunction with the NAFR. In addition, if a commercial bank is designated as a domestic systematically important commercial bank by the CBIRC (now the NAFR), such domestic systematically important bank is required to maintain a further capital surcharge above prevailing core tier-1 capital requirements as separately stipulated by the PBOC in conjunction with the NAFR. The Bank issued RMB40 billion undated tier-1 capital bonds in September 2020. In August 2022, the Bank issued RMB45 billion tier-2 capital bonds, effectively replenishing tier-2 capital and consolidating capital foundation. As at 31 December 2023, the Bank's common equity tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio were 9.18 per cent., 11.36 per cent. and 13.50 per cent., respectively. Although these capital adequacy ratios were in compliance with the relevant PRC laws and regulations, certain developments could affect the Bank's ability to satisfy the capital adequacy requirements in the future, including but not limited to:

- losses resulting from deterioration in the Bank's asset quality;
  - a decrease in the value of the Bank's investments;
  - an increase in the minimum capital adequacy requirements by banking regulators;
  - changes in guidelines by banking regulators regarding the calculation of capital adequacy ratios of commercial banks;
  - decreases in the Bank's net profits and thus decreases in its retained earnings; and
  - other factors discussed elsewhere in this section.
- the Bank may also be required to raise additional capital in the future by issuing equity securities and other financial instruments in order to maintain the Bank's capital adequacy ratios above the minimum required level. In addition, the Bank's ability to raise additional capital may be limited by numerous factors, including:

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

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

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

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

***The Bank is subject to currency risk.***

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

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

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

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

Deposits from customers are the Bank’s primary source of funding. From 31 December 2021 to 31 December 2022, the Bank’s total deposits from customers (including accrued interest) grew from RMB3,675,743 million to RMB3,917,168 million, which further grew to RMB4,094,528 million as at 31 December 2023. However, there are many factors that may affect the growth of deposits, some of which are beyond the Bank’s control, such as economic and political conditions, availability of other investment channels and retail customers’ changing perceptions toward savings.

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

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

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

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

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

The Bank has been expanding and will continue to expand the range of its products and services to meet the increasing and changing needs of the Bank’s customers and to enhance the Bank’s competitiveness. For

example, the Bank has continued to grow its existing businesses and develop new businesses, such as wealth management, financial derivatives transactions, investment banking, financial advisory services, assets custody, enterprise annuity, digital banking and cloud payment. Expansion of the Bank's businesses may expose the Bank to a number of risks and challenges, including but not limited to:

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

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

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

In recent years, the Bank has taken actions to expand its operations outside Mainland China. As at 31 December 2023, it had six overseas institutions outside Mainland China, with branches in Hong Kong, Macau, Seoul, Luxembourg and Sydney and a representative office in Tokyo. The application for establishing the Bank's Macau Branch was approved by CBIRC (now the NAFR) and Macau Special Administrative Region Government in November 2020 and July 2022, respectively. In March 2023, the Bank's Macau Branch was opened for business.

The expansion into jurisdictions outside of the PRC exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including

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

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

In recent years, with the slowdown in the growth of deposits in the PRC banking industry as a whole, competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including the Bank, have been expanding their offering of wealth management products and services to customers. In September 2019, CBIRC (now the NAFR) approved the establishment of Everbright Wealth Management Co., Ltd. as China's first wealth management subsidiary under a joint-stock commercial bank, driving the Bank's initiative of "building a first-class wealth management bank". The Bank's wealth management service fees amounted to RMB3,976 million, RMB4,677 million and RMB4,141 million, respectively, for the years ended 31 December 2021, 2022 and 2023.

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

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

authorities further restrict the wealth management business of PRC commercial banks, it could materially and adversely affect the Bank's business, financial condition and results of operations.

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

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

***The Bank is exposed to systemic risk resulting from failures by banks, other financial institutions and corporates.***

Within the financial services industry, the default of any institution or corporate could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions as the commercial soundness of many financial institutions may be closely correlated as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as "systemic risk", and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, other financial institutions and exchanges with whom the Bank interacts on a daily basis. In turn, the actual or perceived soundness of these institutions could have an adverse effect on the Bank's ability to raise new funding, including regulatory capital, and could have a material impact on the Bank's financial condition and results of operations.

The recent financial markets turmoil with the collapse of Silicon Valley Bank, followed by Signature Bank and First Republic Bank in the United States and the crisis of Credit Suisse, has resulted in higher uncertainty in the financial services industry and has prompted questions about the viability of other financial services firms with the tightening of credit controls and liquidity for banks and possibility of broader systemic risk. In addition, the actions of government regulators and central banks to the recent financial markets turmoil, including the intervention of Swiss authorities in response to the collapse of Credit Suisse, has caused market participants to question how regulators and central banks will exercise resolution authority powers with respect to financial institutions or respond in the event of further turbulence or crisis in financial markets. As a result, there is greater uncertainty about the ability of financial institutions to raise regulatory capital, which could increase the Bank's cost of capital, or require the Bank to utilise different methods of raising regulatory capital than the Bank has used in the past and could have a material impact on the Bank's financial condition and results of operations.

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

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



the Bank's ability to manage RMB-denominated investment assets risk is restricted due to the limited availability of RMB-denominated hedging instruments. A significant decrease in the value of the Bank's RMB-denominated financial assets within a short period could have a material adverse effect on the Bank's financial condition and results of operations.

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

Apart from the Bank's businesses of taking deposits, providing loans and credit and providing fee-and commission-based products and services, the Bank also engages in a range of investment activities. As at 31 December 2023, financial investments measured at amortised costs were the largest component of the Bank's total investment in securities and other financial assets. The Bank's returns on investment and its profitability may be materially and adversely affected by the foreign exchange rate, credit and liquidity conditions, the performance and volatility of capital markets, asset values and macroeconomic and geopolitical conditions. Any adverse changes in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment portfolio and could have a material and adverse effect on the Bank's business, financial condition and results of operations.

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

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

In recent years, the Bank has made substantial investments in debt securities classified as receivables, which include investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions. Due to the adoption of IFRS 9, debt securities classified as receivables has been reclassified, which has resulted in adjustments to the other line items recognised under total investment in securities and other financial assets. As at 31 December 2023, the Bank's investments in securities and other financial assets (which includes financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income, financial investments measured at amortised cost and derivative financial assets) amounted to RMB2,254,786 million.

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

PRC regulatory authorities have not prohibited commercial banks from making such investments. However, there can be no assurance that future changes in regulatory policies will not restrict the Bank or its counterparties with respect to such investments. Any adverse development relating to these types of

investments could cause a significant decline in the value of the Bank's investments and, as a result, may materially and adversely affect the Bank's profitability and liquidity.

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

The Bank recorded net cash inflows of RMB80,387 million for the year ended 31 December 2021 and net cash outflows of RMB88,926 million for the year ended 31 December 2022, respectively. For the year ended 31 December 2023, the Bank recorded net cash outflows of RMB13,420 million, which were primarily due to net cash outflows from investing activities of RMB205,825 million and net cash outflows from operating activities of RMB3,614 million, and were partially offset by net cash inflows from financing activities of RMB196,019 million. The Bank's net cash outflows from investing activities were primarily due to acquisition of investments, and net cash outflows from operating activities were primarily due to changes in operating assets. The Bank's net cash outflow from investing activities were primarily due to payments on acquisition of investments. There can be no assurance that the Bank will not record net cash outflow positions in the future due to other reasons, including the risk factors disclosed herein. If the Bank has net cash outflow positions in the future, the Bank's working capital may be constrained and the Bank may be forced to seek additional external funding at a cost higher than the Bank's existing financial arrangements. Any such development could materially and adversely affect the Bank's liquidity condition and results of operations.

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

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

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

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

In addition, the Bank in the past was subject to fines and other penalties for cases of the Bank's non-compliance. For example, in January 2024, NAFR fined the Bank RMB4.2 million for the undue pre-loan investigation and the non-compliance of loan fund payment management. There can be no assurance that the Bank will be able to meet all the regulatory requirements and guidelines, or comply with all the laws and regulations at all times, or that the Bank will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the Bank's business, reputation, financial condition and results of operations may be materially and adversely affected. See also "*Risks Relating to the Bank's Business - The Bank may not be able to fully detect money laundering and other illegal or improper activities completely or on a timely basis, which could expose the Bank to additional liability and harm the Bank's business or reputation*" and "*Risks Relating to the Bank's Business - The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank's staff, customers or other entities*"

Apart from the penalties imposed by regulatory authorities, the Bank may also be sued by its shareholders and other related parties in relation to the Bank's business operations and capital markets activities which

may materially and adversely affect the Bank's business, reputation, financial condition and results of operations.

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

As at 31 December 2023, as the controlling shareholder of the Bank, China Everbright Group Ltd. directly held 24,227,813,441 A shares and 1,782,965,000 H shares of the Bank, accounting for 44.02 per cent. of the total equity of the Bank.

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

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

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

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

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

The Bank has in the past suffered from certain internal control deficiencies and risk management weaknesses and was subject to fines and other penalties for non-compliance with the relevant legal or regulatory requirements. The Bank has significantly revamped and enhanced its risk management and internal control policies and systems in a continual effort to improve its risk management capabilities and enhance its internal controls. See "*Risk Management – Overview*". However, there can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit risks and other risks faced by the Bank. Some of these risks are unforeseeable or unidentifiable and may be more severe than what the Bank may anticipate. In addition, the Bank cannot assure potential investors that its employees will be able to consistently comply with or correctly apply these policies and procedures.

The Bank's risk management capabilities and ability to effectively monitor credit risk and other risks are restricted by the information, tools, models and technologies available to the Bank. Moreover, the Bank's employees will require time to adjust to these policies and procedures and there can be no assurance that the Bank's employees will be able to consistently comply with or accurately apply them. If the Bank's risk

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

***The Bank is subject to operational risks and risks relating to our information technology systems.***

According to the seven categories of operational risks classified by Basel III, the Bank is subject to operational risks such as internal and external fraud, risks related to customers, products and business activities, execution risks, closing and process management risks, employment system and workplace safety, damage to physical assets and risks related to information technology systems.

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

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

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

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

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

***The Bank generates and processes a large amount of data, and any improper use or disclosure of such data could subject us to significant reputational, financial, legal, and operational consequences, and deter current and potential customers from using its services.***

The Bank generates and processes a large quantity of personal and transaction data. It faces risks inherent in handling large volumes of data and in protecting the security of such data. In particular, the Bank faces a number of challenges relating to data from transactions and other activities on its platforms, including:

- protecting the data in and hosted on its system, including against attacks on its system by outside parties or fraudulent behaviour by its employees;
- addressing concerns related to privacy and sharing, safety, security, and other factors; and
- complying with applicable laws, rules, and regulations relating to the collection, use, retention, disclosure, or security of personal information, including any requests from regulatory and government authorities relating to such data.

Any systems failure or security breach or lapse that result in the release of user data could harm the Bank's reputation and brand and, consequently, its business, in addition to exposing it to potential legal liability. Any failure, or perceived failure, to comply with the Bank's privacy policies or with any regulatory requirements or privacy protection-related laws, rules, and regulations could result in proceedings or actions against it by governmental entities or others. These proceedings or actions may subject the Bank to significant penalties and negative publicity, require the Bank to change its business practices, increase its costs, and severely disrupt its business.

The Bank is subject to domestic and international laws relating to the collection, use, retention, security, and transfer of personally identifiable information, with respect to its customers and employees. In many cases, these laws do not only apply to third-party transactions, but may also restrict transfers of personally identifiable information among the Bank and its affiliates. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause the Bank to incur substantial costs or require it to change its business practices, and failure to comply with any data protection laws could subject the Bank to significant penalties and negative publicity and severely disrupt its operations.

***Failure by the Bank to meet its environmental, social and governance ("ESG") or corporate social responsibility ("CSR") targets may have an adverse effect on the Bank's performance.***

The Bank takes its corporate social responsibilities seriously and seeks to serve the public, promote livelihoods, and become a low-carbon and environmentally friendly bank for sustainable development. The Bank formulated and issued the Rolling Strategic Plan for 2021-2025, which requires the Bank to "vigorously develop green finance, support the development of green, low-carbon and circular economy, and provide investment and financing support for the goal of carbon peaking and carbon neutrality in a

market-oriented manner, so as to ensure that the growth rate of green financing is not lower than the average financing growth rate of the Bank”. The Medium- and Long-Term Development Strategy (2018-2027) of the Bank clearly defined the green finance strategy, which requires the Bank to work on green finance and cooperate with various stakeholders to continuously improve its economic, environmental and social responsibility performance and social responsibility management. Meanwhile, the Bank conscientiously implemented relevant regulatory policies, practiced the green development philosophy in all respects, built green top-level designs, and improved the green finance management mechanism by formulating the Medium-Term Action Plan for Promoting Carbon Peaking and Carbon Neutrality and Green Finance (2022-2025) and the Management Measures for Green Finance (Trial).

Furthermore, the Bank also publishes its Corporate Social Responsibility Reports annually, which sets out the Bank’s implementation strategies, targets and goals (such as emission reduction goals, energy conservation goals, waste reduction goals and water conservation goals) and proposed business processes and standards, with respect to ESG and CSR. Any failure by the Bank to meet any of the targets, strategies, goals, processes and standards mentioned above, or any failure by the Bank to satisfy investor or other stakeholder expectations or standards in the execution of its ESG strategies, may affect the Bank’s current and future business performance, results of operations and reputation. These may in turn negatively affect the Bank’s ability to service the Notes and to satisfy its other obligations under the Notes.

***The Bank relies on independent contract workers.***

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

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

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

The Bank is required to comply with applicable anti-money laundering and anti-terrorism laws and regulations stipulated in the PRC, Hong Kong and other relevant jurisdictions. These laws and regulations require the Bank to adopt and enforce “know-your-customer” policies and procedures and to report suspicious and large transactions to the relevant regulatory authorities in different jurisdictions. Due to reasons such as the complexity and secrecy of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely identify and eliminate such illegal or improper activities at the time when the Bank may be used by other parties to engage in these activities. To the extent that the Bank fails to fully comply with such laws and regulations, the relevant government agencies which regulate the Bank have the power and authority to impose fines and other penalties on the Bank. See also “– Risks Relating to the Bank’s Business – The Bank is subject to various PRC and overseas regulatory requirements, and the Bank’s failure to fully comply with such requirements could materially and adversely

*affect the Bank's business, reputation, financial condition and results of operations*" and "*– Risks Relating to the Bank's Business – The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank's staff, customers or other entities*". For example, in February 2020, the Bank was fined RMB18.2 million by PBOC for (1) failure to perform customer identification obligations; (2) failure to keep customer identity data and transaction records; (3) failure to submit large transaction reports and suspicious transaction reports; and (4) conducting transaction with unidentified customers. The Bank has taken corrective measures to strengthen the enforcement of its "know-your-customer" policies, such as improving the internal control system, strengthening its money laundering and terrorism financing assessment, conducting enhanced training for its employees and implementing anti-money laundering data governance, and to optimise its monitoring system, but there can be no assurances by the Bank that there will be no such fines or penalties against the Bank in the future. The Bank's business and reputation could be negatively impacted if customers manipulate their transactions with the Bank for money laundering or other illegal or improper purposes.

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

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

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

In the past, the Bank has been sanctioned and fined for the misconducts of its employees, and there can be no assurance by the Bank that it can prevent its employees from engaging in misconducts in the future. The misconducts may also include making or accepting bribery activities, conducting inside dealing, improperly using or disclosing confidential information and otherwise not complying with applicable laws and regulations. In recent years, there have been instances previously where employees, current or former senior management of the Bank have been investigated for bribery or otherwise not complying with applicable laws

and regulations. There can be no assurance by the Bank that there will be no such investigations against the employees of the Bank in the future. Types of misconduct conducted by other entities against the Bank include, among others, fraud, theft and robbery. The types and incidents of fraud and other misconduct by staff, customers or other entities against the Bank in the future may be more difficult to detect compared to certain fraudulent acts and misconducts found in the past. For example, it was discovered that the Bank's company website was imitated by others on several occasions. By the use of such fraudulent websites on the internet, the imitators solicited and successfully acquired certain important confidential bank account information from some of the Bank's customers. As a result, some of these customers' funds were obtained by deception. Such imitators usually plagiarise the Bank's company website by imitating the Bank's company website's layout and applying for similar website addresses with an intention to confuse the Bank's customers, to deceive the Bank's customers into providing their key account information and to steal their funds by using such confidential information obtained through these fraudulent websites.

In addition, the Bank's staff may commit errors or take improper actions, resulting in the risk that the Bank could be liable for economic compensation, or be subject to regulatory actions, litigation or other legal proceedings. As at 31 December 2023, the Bank had 39 tier-one branches, 115 tier-two branches, 1,158 business outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking departments of branches), 438 community banks in the PRC and 47,582 employees. As at 31 December 2023, the Bank had six overseas institutions outside Mainland China, with branches in Hong Kong, Macau, Seoul, Luxembourg and Sydney and a representative office in Tokyo. Although the Bank has continuously sought to enhance management and supervision of its branches and/or branches' officers (including putting in place policies on employee conduct), as the branches have relatively significant autonomy in their operations and management within the scope of authorisation, the Bank cannot assure that it can always timely detect or prevent operational or management problems within its branches. There can be no assurance that all of the Bank's staff will comply with the Bank's risk management and internal control policies and procedures. There can be no assurance that the Bank can adequately detect and prevent the Bank's staff and any other third-party from engaging in fraudulent acts or any other misconduct. Any fraudulent acts or other misconduct, whether involving an act in the past that has not been detected or an act in the future, may have a material adverse effect on the Bank's reputation, results of operations and business prospects.

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

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

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

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



operations located at the affected properties, the Bank may incur additional costs as a result of such relocation.

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

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

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

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

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

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

parties. The occurrence of any of the foregoing could have a material adverse effect on the Bank's business, results of operations and financial condition.

***The Bank or the Bank's customers may be subject to OFAC or other penalties if we are determined to have violated any OFAC regulations or similar sanctions.***

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

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

For several years, global regulators and central banks have been driving international efforts to reform key benchmark interest rates and indices; in particular interbank offered rates ("IBORs") such as the London Interbank Offered Rate ("LIBOR"). This has resulted in significant changes to the methodology and operation of certain benchmarks and indices, the adoption of alternative risk-free rates ("RFRs"), the discontinuation of certain reference rates (including LIBOR), and the introduction of implementing legislation and regulations. The publication of certain non-U.S. Dollar LIBOR tenors (including all sterling, euro, Swiss franc and yen settings) and U.S. Dollar LIBOR 1-week and 2-month settings ceased at the end of 2021. The publication of yen LIBOR on a synthetic basis ceased at the end of 2022 and the United Kingdom Financial Conduct Authority ("FCA") also confirmed in January 2022 that the publication of sterling LIBOR on a synthetic basis will end in early 2024. Furthermore, the remaining U.S. Dollar LIBOR tenors (including overnight, 1-month, 3-month, 6-month and 12-month) ceased in June 2023, and restrictions have been imposed on new use of U.S. Dollar LIBOR. Following the 30 June 2023 cessation date, the FCA requires the publication of 1-, 3- and 6-month synthetic U.S. Dollar LIBOR until 30 September 2024, using an unrepresentative "synthetic" methodology, as part of the smooth wind-down of LIBOR. These synthetic U.S. Dollar LIBOR settings will not be permitted to be used for new contracts.

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

- regulatory compliance, legal and conduct risks, arising from both sales of products referencing RFRs and the transition of legacy contracts to alternative rates. There is a risk that the Bank's sales processes are not appropriately adapted to account for the additional complexity of new products, or new RFR market conventions, additional conduct risks and regulatory actions may result and there may be a

heightened risk of disputes. In addition, there may be conduct risks resulting from clients of the Bank alleging that they have not been treated fairly throughout the transition or may not be aware of the options available to them and the implications of decisions taken, leading them to claim unfair financial detriment;

- legal risks associated with the enforceability of fall-back provisions in IBOR contracts. There is a risk that some contracts will not be transitioned before the relevant IBOR is discontinued and the parties will need to rely on the “fall-back” provisions of those contracts. As these fall-back provisions do not always contemplate the permanent cessation of the relevant IBOR, there is a risk that the provisions may not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. This may lead to complaints, litigation and/or regulatory action. While legislative solutions have been proposed in the UK, U.S. and EU, market participants will need to consider the impact of any proposals ultimately adopted;
- financial risks resulting from the discontinuation of IBORs and the development of RFR market liquidity will affect the Bank throughout transition. The differences in IBOR and RFR interest rate levels will create a basis risk that the Bank will need to actively manage through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively;
- operational risks resulting from changes to existing reference rates and indices, discontinuation of any reference rate or index and transition to alternative RFRs may require changes to some of the Bank’s information technology systems, trade reporting infrastructure, operational processes and control. In addition, if any reference rate or index (such as LIBOR) is no longer available to calculate amounts payable, the Group may incur additional expenses in amending documentation for new and existing transactions and/or effecting the transition from the original reference rate or index to a new reference rate or index;
- market risks as it is possible that markets and industries transition at different paces in different regions and across different products, presenting various sources of basis risk and posing major challenges on hedging strategies; and
- accounting risk as the changes in benchmark rates, and their impact on matters such as measurement of financial instruments, may not be incorporated correctly by the Group in its financial statements.

If any of these risks materialise, it could have a material adverse effect on the Bank’s business, financial condition, results of operations, prospects and customers.

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

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

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

In recent years, the PRC banking industry has been the subject of negative reports or criticism by various media, including in relation to incidents of fraud and issues relating to loan quality, capital adequacy, solvency, internal controls and management. In particular, there have been negative publications in the media regarding two of the Bank’s branches being unable to fulfil their obligations to repay short-term inter-bank

loans. See “*Risk Factors – Risks Relating to the Bank’s Business - The Bank may not be able to obtain necessary short-term funding and inter-bank deposits through the exchange market and inter-bank market, which may have a material adverse effect on the Bank’s liquidity or financial condition*”. In addition, the Bank shares a common major shareholder with a company that has received negative publicity due to sanctions and penalties levied by the PRC Government in connection with such company’s improper behaviour in its trading of securities. Furthermore, the Bank’s practices of selecting third party service providers have been questioned by and subject to negative media coverage, which the Bank believes is without merit. In response, the Bank has made timely clarifications of such negative publications. However, if the Bank or the PRC banking industry as a whole suffers from similar negative media reports or criticism in the future, the Bank cannot make any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Any negative coverage, whether or not related to the Bank or the Bank’s related parties and regardless of truth or merit, may have an impact on the Bank’s reputation and, consequently, may undermine the confidence of the Bank’s customers and investors, which may in turn materially and adversely affect the Bank’s business, results of operations, financial condition, reputation and prospects.

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

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has exchange rate contracts, interest rate contracts and commodity derivatives contracts with a number of domestic and international banks, financial institutions and other entities. As a result, the Bank is subject to credit risk from its various counterparties. As at 31 December 2023, the notional amount of the Bank’s outstanding derivative financial instruments amounted to RMB1,849,459 million, and the fair value of the Bank’s outstanding derivative assets and liabilities amounted to RMB13,324 million and RMB13,946 million, respectively. Although the Bank cautiously evaluates the credit risks from its counterparties in its derivative transactions and believe that the overall credit quality of the Bank’s counterparties is adequate, there can be no assurance that parties with significant risk exposure will not have difficulty in fulfilling derivative contracts that may cause losses for the Bank.

## **RISKS RELATING TO THE BANK’S LOAN PORTFOLIO**

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

The Bank’s results of operations may be negatively impacted by its non-performing loans (“NPL”). As at 31 December 2021, 2022 and 2023, the Bank’s non-performing loan ratio (“NPL ratio”) was 1.25 per cent., 1.25 per cent. and 1.25 per cent. respectively, and the Bank’s total NPL was RMB41,366 million, RMB44,674 million and RMB47,476 million, respectively. During these periods, the Bank’s NPL remains controllable but there can be no assurance that it will not deteriorate as the Bank experiences upward pressure resulting from a number of factors including a downturn in the economic cycle or economic volatility and disruptions. Hence, there can be no assurance that the Bank will be able to maintain the Bank’s NPL ratio at the current relatively low level in the future or that the quality of the Bank’s existing or future loans and advances to customers will not deteriorate. The Bank’s NPL ratios as at the above-mentioned dates may not fully reflect the actual changes to the Bank’s asset quality due to the Bank’s collective disposal of NPL.

The quality of the Bank’s loan portfolio may deteriorate due to various reasons, most of which are beyond the Bank’s control, such as slowdown of the PRC or global economies, deterioration of the global credit environment, other adverse macroeconomic trends in the PRC or globally and the occurrence of natural disasters or other catastrophes, all of which could adversely impact the Bank’s borrowers’ businesses, financial conditions or liquidity and in turn impair their repayment abilities. The actual or perceived deterioration in creditworthiness of the Bank’s borrowers, decline in real property prices, increases in unemployment rate and decreases in profitability of the Bank’s borrowers may also have an adverse impact on the Bank’s asset quality and may lead to significant increases in the provision made for the Bank’s

impaired loans, as well as impairment loss on loan. The impairment loss on loans and advances to customers decreased from RMB47,668 million as at 31 December 2022 to RMB45,155 million as at 31 December 2023. However, there is no assurance that the impairment loss on loans and advances to customers of Bank will not decrease materially in the future, given that the provision for impairment of loans has increased from RMB83,180 million as at 31 December 2022 to RMB85,371 million as at 31 December 2023. If any of the Bank's NPL or the provision made for the Bank's impaired loans or the impairment loss on loan significantly increases in the future, the Bank's results of operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its abilities to effectively manage its credit risk and to maintain or improve the quality of its loan portfolio. There can be no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from any deficiencies or are adequate to manage all credit risks faced by the Bank. Failure of the Bank's credit risk management policies, procedures, or systems may lead to an increase in the Bank's NPL and adversely affect the quality of the Bank's loan portfolio.

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

As at 31 December 2021, 2022 and 2023, the coverage ratio of the Bank's provisions for NPL to total NPL was 187.02 per cent., 187.93 per cent. and 181.27 per cent., respectively, which is consistently above the standard provision coverage ratio of 150 per cent. as prescribed under the Administrative Measures for the Loan Loss Reserves of Commercial Banks (商業銀行貸款損失準備管理辦法) issued by China Banking Regulatory Commission (the "CBRC", which later merged with the China Insurance Regulatory Commission into China Banking and Insurance Regulatory Commission (the "CBIRC", now the NAFR), which shall be responsible for the duties previously performed by the CBIRC) (the "Rules"). As at 31 December 2023, the provision coverage ratio was 181.27 per cent., decreased by 6.66 percentage points as compared to 31 December 2022. The Rules provide that the standard provision coverage ratio may be adjusted by NAFR in response to the prevailing macroeconomic environment or individually adjusted and applied to a relevant bank depending on such bank's operating conditions. In accordance with the Rules, a warning would be issued by NAFR to a relevant bank if such provision coverage ratio was below the applicable level for three consecutive months, requesting for such bank's rectification; if such event subsists for at least six consecutive months, NAFR may impose on the relevant bank administrative and regulatory measures as provided under the Banking Industry Supervision and Administration Law of the PRC (中華人民共和國銀行業監督管理法). NAFR may adjust the coverage ratio for NPL from time to time. There can be no assurance that the Bank's provision coverage ratio will not fall below the ratio prescribed by NAFR.

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

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

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

The Bank's net loans and advances to customers have grown significantly in the past few years, increasing from RMB3,239,396 million as at 31 December 2021 to RMB3,499,351 million as at 31 December 2022 and further increased to RMB3,712,925 million as at 31 December 2023. The future growth of the Bank's loan portfolio may be affected by various factors beyond the Bank's control, such as the PRC's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow, or the balance of the Bank's loan portfolio may even decline. In addition, in response to constraints on the Bank's regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby materially and adversely affect the Bank's business, financial condition and results of operations.

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

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

For example, the PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years, and the PRC Government has, from time to time, imposed macroeconomic control measures that are aimed at preventing the real estate market from over-heating, and also transforming the real estate market into a steady, healthy and sound market for necessity but not speculation. Such factors may adversely affect the growth and quality of the Bank's loans to the real estate industry and its financial condition and results of operations. In late August 2020, the Ministry of Housing and Urban-Rural Development (“MOHURD”) and the PBOC imposed the “three red lines” policy to regulate the real estate market, requiring some real estate enterprises to maintain (i) a debt-to-asset ratio of no greater than 70 per cent. after exclusion of the deposits received; (ii) a net debt ratio of no greater than 100 per cent.; and (iii) a cash to short-term debt ratio of no less than one. On 28 December 2020, the PBOC and the CBIRC (now the NAFR) promulgated the Notice on Establishing the Regulatory Mechanism on the Concentration Ratio of Real Estate Loans for Banking Financial Institutions (關於建立銀行業金融機構房地產貸款集中度管理制度的通知), which requires that the percentage of (a) the balance of real estate loans of a banking financial institution to its balance of RMB loans; and (b) the balance of personal residential loans of such banking financial institution to its balance of RMB loans shall not exceed the caps prescribed by the PBOC and CBIRC (now the NAFR). Banking financial institutions shall adjust their business within the transitional period of two years (for those not exceeding 2 per cent. of the prescribed caps) or four years (for those exceeding 2 per cent. of the prescribed caps). On 26 March 2021, the MOHURD, the PBOC and the CBIRC (now the NAFR) issued the Circular on the Prevention of Irregular Flow of Loans for Business Purposes into the Real Estate Sector (《關於防止經營用途貸款違規流入房地產領域的通知》), to make great efforts to clear up the problem of loans for business purposes flowing into the real estate sector and to cool down the real estate market.

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

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

As at 31 December 2021 and 2022, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) leasing and commercial services, (iv) real estate and (v) wholesale and retail trade, which, in aggregate, represented 37.41 per cent. and 36.58 per cent. of the balance of the Bank's total loans and advances to customers, respectively. As at 31 December 2023, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) leasing and commercial services, (iv) wholesale and retail trade and (v) real estate, which, in aggregate, represented 38.57 per cent. of the balance of the Bank's total loans and advances to customers, respectively. If any of the industries which dominates a relatively large portion of the Bank's loans experiences a slowdown in the future, the Bank's NPL may increase and the extension of the Bank's new loans may be negatively affected. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As mentioned above, the Bank is exposed to risks relating to the real estate market. As at 31 December 2023, the Bank's real estate loans to corporate customers represent 4.38 per cent. of the Bank's total loans and advances, and the Bank's personal residential housing mortgage loans, which are secured by real estate collateral, represented 15.42 per cent. of the Bank's total loans and advances. In recent years, the PRC real estate market has been subject to volatility and property prices have experienced significant fluctuations. The PRC Government has in recent years been imposing various macroeconomic measures with an aim of cooling the overheated real estate market in the PRC, such as setting minimum down payment requirements and minimum mortgage rates on residential housing purchases, imposing value-added taxes on the transfer of certain residential properties and levying mandatory personal income tax for second home sales and imposing the "three red lines" (which refers to prescribed asset to liability ratio, net debt to equity ratio and cash to short-term borrowings ratio requirements) on certain real estate developers to control their growing debt levels and restore the real estate's sector growth to more sustainable levels. Though the Bank follows strictly its credit risk management procedures, including ongoing credit monitoring of borrowers' financial information, and strictly enforcing repayment schedules; in addition, the Bank has strengthened the on-spot examination of key business fields such as real estate loans, such measures taken by the PRC Government may adversely affect the growth and quality of the Bank's personal residential housing mortgage loans and loans to the real estate industry.

As a result of these cooling measures, the PRC real estate sector has slowed down materially, which has resulted in a financial crisis in the sector and lead to defaults on bonds issued by certain real estate companies. This has in turn had negative impact on property prices and transaction volumes and resulted in an oversupply of residential and commercial properties. As a result, the PRC Government has recently promulgated certain stimulus measures to support the PRC real estate market and certain real estate property developers, but there is no guarantee that any such measures could achieve their intended effect. A continued decline in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and the Bank's ability to generate new loans and recover on its loans in the event of default as the value of the real estate securing the Bank's loans may decrease, which in turn could have a material adverse effect on the Bank's business, financial condition and results of operations.

As at 31 December 2023, loans provided by the Bank to its top ten customers totalled RMB68,471 million, which represented 1.81 per cent. of the Bank's total loans and advances and 10.51 per cent. of the Bank's net capital. However, if the quality of any of the loans to the above or other single-borrowers or group-borrowers with large borrowing amounts deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Moreover, the Bank also provides loans to small-and medium-sized enterprises (“SMEs”) and micro-and small-size enterprises (“MSEs”). The Bank’s loans to SMEs and MSEs are generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. SMEs and MSEs may also be more likely to suffer from inadequate or ineffective internal control or risk management systems and may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. SMEs and MSEs are generally more vulnerable to fluctuations in the macroeconomy, and the adverse impact brought by major economic crisis or regulatory changes. In addition, these enterprises may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In the absence of accurate assessment of the relevant credit risks, the non-performing loans of the Bank may increase significantly if a large number of its SMEs and MSEs clients are affected by major economic crisis or regulatory changes. As a result, this may have an impact on the Bank’s overall risk profile and quality of the loan portfolio, which could in turn materially and adversely affect its business, financial condition and results of operations. There can be no assurance that the risk management measures adopted by the Bank for the loans to SMEs and MSEs will effectively reduce or eliminate the risks relating to such customers. If the quality of the Bank’s loans to SMEs and MSEs deteriorates, the Bank’s asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank provides a majority of its corporate loans to customers in certain regions or industries. If these regions or industries encounter operational or cash flow problems due to the economic cycle or economic transformations, the Bank’s NPL associated with such regions or industries could experience upward pressure. As at 31 December 2023, approximately 69.85 per cent. of the Bank’s total loans and advances to customers were generated from the Bank’s branches located in the Yangtze River Delta, Central China, Pearl River Delta and Bohai Rim regions in aggregate. If the economies in those regions experience a slowdown or deteriorate or face local, regional or systemic risks, or if the Bank’s credit risk assessments of the borrowers who are located at or conduct substantial business activities in those areas are inaccurate, the Bank’s NPL may increase. As a result, the Bank’s asset quality, financial condition and results of operations may be materially and adversely affected.

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

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

In recent years, with the aim of reinforcing the risk management of loans to LGFVs, the State Council, CBIRC (now the NAFR) and PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to LGFVs. In September 2014, the State Council released the Opinion on Enhancing the Administration of Fiscal Debts of Local Governments (關於加強地方政府性債務管理的意見) (“Circular 43”), pursuant to which LGFVs shall no longer serve the fiscal financing functions nor incur new government debts. In addition, Circular 43 sets forth the general principles of dealing with existing debts of LGFVs. Based on the audit results of such debts run by the local governments, LGFVs’ existing debts that should be repaid by the local governments



shall be identified, reported to the State Council for approval, and then included in the budget plan of local governments. If the local government or the State Council does not approve all or any portion of such debts to be repaid with local government public funds, the LGFVs' financial condition and debt-repayment ability may be materially adversely affected. In addition, media publications have continued to express concerns about LGFV debt levels. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to LGFVs and enhancing the mortgages and guarantees on such loans, any unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments, or other factors may adversely affect the debt repayment abilities of these LGFVs and other government-related entities, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations. For the Bank's risk management measures relating to the Bank's loans to LGFVs, see "*Risk Management – Credit Risk Management – Management of Credit Risk Associated with Corporate Credit Business*".

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

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

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

A significant portion of the Bank's loan portfolio is secured by collateral or guarantees. As at 31 December 2023, 31.97 per cent., 8.60 per cent. and 24.75 per cent. of the Bank's total loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing the Bank's loans primarily comprised of real estate properties and other assets located in the PRC. The value of the collateral securing the Bank's loans is usually higher than the amount of the corresponding loans but such value may significantly decline due to factors beyond the Bank's control, such as a slowdown in the PRC economic growth or a downturn of the PRC's real estate market. A slump in the PRC's real estate market may result in a decline in the value of the real estate properties securing the Bank's loans to a level below the outstanding balances of the principal and interest of such loans. Any such decline may reduce the amount the Bank may be able to recover from such collateral and, as a result, increase the Bank's impairment losses.

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

In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may be subordinated to other rights. For example, pursuant to the PRC Enterprises Bankruptcy Law (中華人民共和國企業破產法), effective from 1 June 2007, if the other assets of a bankrupt enterprise are insufficient to

cover the outstanding salaries, medical and injury allowances, death or disability compensation and basic pension and medical insurance contribution attributable to its employees' personal accounts, as well as other compensation payable to the employees as required by law and administrative regulations, the relevant claims of such employees shall prevail over the Bank's rights to the collateral.

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

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

## **RISKS RELATING TO THE PRC BANKING INDUSTRY**

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

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

reducing the Bank's fee and commission income, affecting the growth of the Bank's loan or deposit portfolios and their related products and services, reducing the Bank's interest income, increasing the interest expenses and decreasing its net interest margin, reducing the Bank's fees and commission income, leading to a deterioration of the Bank's asset quality and increasing competition for soliciting senior management talent and qualified professional personnel.

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

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

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

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

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

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

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

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

The Bank expects the banking industry in the PRC to expand as a result of anticipated growth in the PRC's economy, increases in household income, further social welfare reforms, demographic changes and the opening of the PRC's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of the PRC's economic growth, the PRC's implementation of its commitments

to World Trade Organisation accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system, will affect the PRC's banking industry. In addition, the banking industry in the PRC may be affected by systemic risks. Consequently, there can be no assurance that the growth and development of the PRC's banking industry will be sustainable.

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

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

## **RISKS RELATING TO THE PRC**

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

A substantial part of the Bank's revenue is derived from the PRC. The Bank relies, to a significant degree, on its domestic operations to achieve revenue growth. Domestic demand for banking services is materially affected by growth of private consumption and overall economic growth in the PRC. The global crisis in financial services and credit markets in 2008 caused a slowdown in the economic growth in many countries, including the PRC. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally, the trade war between the United States and PRC and global pandemic. In 2023, the PRC Government reported a GDP of RMB126.06 trillion, representing year-on-year growth of 5.2 per cent. Although the PRC Government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. There are uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact on the Bank's business, prospects, financial conditions and results of operations. See also "*Risk Factors - Risks Relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations*".

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

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

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

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

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

The PRC Government has the power to implement macroeconomic controls affecting the PRC's economy. The government has implemented various measures in an effort to control the growth rate of certain industries and indebtedness levels. However, the PRC may not be able to sustain current growth rates and levels of economic activities. If the PRC's economy experiences a decrease in growth rate or a significant slowdown, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's business, financial condition and results of operations may be materially and adversely affected.

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

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

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

In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainties. The interpretation of PRC laws may be subject to domestic political and policy changes.

For example, the NDRC issued 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)) (the "NDRC Circular") on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities or medium to long term loans with a term not less than one year issued or incurred outside the PRC with the NDRC prior to the issue of the securities or drawings under the loans and notify the particulars of the relevant issues or drawings within ten PRC working days after the completion of the relevant issue or drawing.

The NDRC Measures superseded the NDRC Circular. Under the NDRC Measures, the Issuer shall, (i) file or cause to be filed with the NDRC the requisite information and documents within ten PRC business days after each foreign debt issuance and the expiration of the Certificate with respect to the relevant Notes in accordance with the NDRC Measures, (ii) file or cause to be filed with the NDRC the requisite information and documents within five PRC business days before the end of January and the end of July each year, and (iii) file or cause to be filed the requisite information and documents upon the occurrence of any material event that may affect the enterprise's due performance of its debt obligations. The NDRC Measures mentions some legal consequences of non-compliance with the pre-issuance registration requirement. For example, if the enterprise borrows foreign debt in violation of the NDRC Measures, the examination and registration authority shall take disciplinary actions such as holding an interview and giving a public warning against the relevant enterprise and its principal person-in-charge according to the seriousness of the circumstances, and if any intermediary agency knows or should have known that an enterprise is borrowing foreign debt in violation of the relevant provision of the NDRC Measures but still provides the relevant intermediary services to the enterprise, the examination and registration authority shall circulate a notification of violation of regulations, and consult the relevant department on punishing the relevant intermediary agency and relevant liable persons in accordance with the applicable laws and regulations. In the worst-case scenario, if pre-issuance registration is required but not complied with, it might become unlawful for the Issuer to perform or comply with any of its obligations under the relevant Notes and the relevant Notes might be subject to enforcement as provided in Condition 15 (Events of Default). Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

Similarly, the NDRC Measures mentions some legal consequences of non-compliance with the post-issue reporting requirement. Failure to comply with the NDRC post-issue and continuing filing obligations (such as post-issue filing, pre-issuance approval expiration filing, periodical filing and major event filing, etc.) under Articles 24 and 26 of the NDRC Measures may result in the relevant entities being ordered to make corrections within a time limit, and in the case of aggravating circumstances or in the case that such corrections are not made within the prescribed time limit, relevant entities and their main person-in-charge will be warned. The aforesaid regulatory violations committed by enterprises shall be publicised on the "Credit China" website and the national enterprise credit information publicity system, among others.

The Issuer undertakes to (i) file or cause to be filed with the NDRC the requisite information and documents within the relevant prescribed timeframes from time to time after the Issue Date in accordance with the NDRC Measures; and (ii) comply with the NDRC Measures and other obligations required by the NDRC as it applies to the Notes. However, the NDRC Measures is new and its implementation may involve uncertainty. While the NDRC Measures has set out the legal consequences for debtors and involved professional parties in cases of non-compliance of the NDRC Measures, the NDRC Measures is silent on whether any such non-compliance would affect the validity and enforceability of the Notes. There is no assurance that the failure to comply with the NDRC Measures would not result in adverse consequences on the Issuer's or the Bank's ability to perform in accordance with the Terms and Conditions of the Notes or the enforceability of the Notes.

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

The 2016 Macro-prudential Management Circular was replaced by the Circular on Matters Concerning Macro-prudential Management on Overall Cross-border Financing (中國人民銀行關於全口徑跨境融資宏

觀審慎管理有關事宜的通知) (the “**2017 Macro-prudential Management Circular**”), promulgated by PBOC on 12 January 2017, and the 2017 Macro-prudential Management Circular does not change the filing, reporting and other requirements on PRC domestic enterprises and financial institutions that engage in cross-border financing activities.

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

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

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

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

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

Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. According to the Civil Procedure Law of the PRC (as amended in 2023), the PRC courts can recognise and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law and other applicable laws, regulations and interpretations based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions.. According to the Civil Procedure Law of the PRC, the PRC courts will not enforce a foreign judgment if (1) the court finds that the foreign court has no jurisdiction over the case; (2) the respondent has not been legitimately summoned or the respondent has been legitimately summoned but has not been given a reasonable opportunity to make a representation and debate, or the litigant without litigation capacity has not been assigned appropriate agent; (3) the judgment or ruling is obtained by fraud; (4) the people's court has made a judgment or ruling on the same dispute, or has recognised the judgment or ruling made by a court of a third country for the same dispute; (5) the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interests. In

addition, pursuant to the Arrangement of the Supreme People’s Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (hereinafter “**Consensual Arrangement**”), if the parties have expressly agreed in writing that the Hong Kong Court has sole jurisdiction over civil and commercial cases, the Chinese courts may recognise and enforce final judgments made by specific courts in Hong Kong (including the Court of Final Appeal, Court of Appeal, Court of First Instance and District Court) in relation to payments if such judgments have come into effect without fraud or any other procedural problems and the enforcement of which is not considered to be contrary to the social and public interest of the PRC. On 18 January 2019, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters between 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**”), which came into operation on 29 January 2024 and terminated the Consensual Arrangement. The 2019 Arrangement establishes a bilateral legal mechanism with greater clarity and certainty for recognition and enforcement of judgments in a wider range of civil and commercial matters between the courts of Hong Kong and the PRC. Other than that, judgments made by courts in the United States and other courts in Hong Kong may not be recognised or enforced in the PRC.

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

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

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

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

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

As a result of the implementation of these and any future rules and regulations designed to enhance the standard for labour protection, the Group’s labour costs may continue to increase. If the costs of labour increase significantly, and the Group cannot offset such increase by reducing other costs or cannot pass on



such increase to for example, the buyers or tenants of its commercial properties in the PRC, its business, the Group's results of operations and financial position may be materially and adversely affected.

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

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

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

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

***There is foreign exchange control in the PRC.***

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

The Group has PRC subsidiaries that are FIEs and the ability of these subsidiaries to pay dividends or make other distributions to the Group may be restricted by, among other things, the availability of funds, and

statutory and other legal restrictions including PRC foreign exchange control restrictions. To the extent that the ability of the Group's subsidiaries to distribute to the Group is restricted, it may have an adverse effect on the Group's cash flows.

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

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

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

Any occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, Severe Acute Respiratory Syndrome ("SARS"), Ebola virus disease ("Ebola"), Middle East Respiratory Syndrome corona virus ("MERS"), H5N1 influenza, H1N1 influenza, H7N9 influenza or COVID-19, may adversely affect the Bank's business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business, financial condition and results of operations.

In particular, the COVID-19 pandemic has been one of the most significant global health crises in recent times. COVID-19 and the administrative actions taken by governments have caused substantial disruptions in the PRC and international economies and markets as well as additional uncertainties in the Group's operating environment. The prices of certain financial assets have been artificially supported through the COVID-19 pandemic following multi-trillion dollar central bank asset purchases and record low interest rates. Beginning in the second half of 2022, governments began to withdraw fiscal and monetary support and raise interest rates. As a result, price corrections and volatility occurred in 2022. Furthermore, the impact of COVID-19, including changes in customer behaviour and pandemic fears and restrictions on business and individual activities, has led to significant volatility in global and PRC financial markets and a significant decrease in global and PRC economic activity. While the WHO has in May 2023 declared that COVID-19 is no longer a global health emergency and there has been a gradual recovery in economic activity due to governments gradually loosening up the COVID-19 pandemic restrictions including lockdowns and social distancing measures and the roll out of vaccination programmes, regional resurgence of COVID-19 may occur in the future and it is difficult to predict the extent to which the Bank may be affected. In addition, while a number of vaccine candidates have announced high efficacy rates, raising hopes of widespread immunisation from COVID-19, the rollout of vaccination programmes is uneven across markets, which hampers the global pace of recovery to pre-pandemic levels. Depending on the time taken for economic activity to return to previous levels, there could be further adverse impacts on the Bank income due to lower lending and transaction volumes, and it may also adversely affect the level of non-performing loans. Furthermore, the emergence of new COVID-19 variants could lead to resurgence in infection rates. Should the Group's operations be disrupted again by any resurgence of COVID-19 or its variants and such disruption become extended, it may materially and adversely affect the Group's results of operations and financial condition. In addition, any further disruption to the Group's business activities may negatively affect its liquidity and access to capital.

Moreover, the PRC has experienced natural disasters such as earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in

turn the Bank's business, financial condition and results of operations. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, Ebola, SARS, MERS, H5N1 influenza, H1N1 influenza, H7N9 influenza, COVID-19 or other epidemics, or the measures taken by the PRC Government or other countries in response to a future outbreak of these epidemics, will not seriously interrupt the Bank's operations or those of the Bank's customers, which may have a material adverse effect on the Bank's business, financial condition and results of operations.

## **RISKS RELATING TO FINANCIAL INFORMATION**

***Potential investors should not place undue reliance on the unaudited and unreviewed financial information included elsewhere in the Offering Circular and the financial information incorporated by reference that is not audited nor reviewed.***

The Offering Circular also incorporates the most recently published audited annual consolidated financial statements and any interim, semi-annual or quarterly consolidated financial statements (whether audited or unaudited and reviewed or unreviewed) of the Bank published from time to time after the date of the Offering Circular in each case together with any reports prepared in connection therewith. The Bank publishes its consolidated quarterly interim reports in respect of periods ended 31 March and 30 September of each financial year on the official websites of the Shanghai Stock Exchange and HKSE.

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

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

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

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

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2022 and 2023 were prepared in accordance with IFRS and have been audited by Ernst & Young. The Bank has applied several new and revised standards and amendments for the first time starting from 1 January 2023, including IFRS 17 and Amendments - Insurance Contracts, Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies, Amendments to IAS 8 - Definition of Accounting Estimates, Amendments to IAS 12 - Deferred tax related to Assets and Liabilities arising from a Single Transaction and Amendments to IAS 12 - International Tax Reform – Pillar Two Model Rules. The adoption of the above standards and amendments did not have any significant impact on the operating results, financial position and comprehensive income of the Group.

*For the "Risks Relating to the Notes Issued under the Programme", "Risks Relating to the Structure of a Particular Issue of Notes", "Risks Relating to the Market Generally", "Risks Relating to Renminbi-Denominated Notes", please refer to the Original Offering Circular. The*

*below additional risk factor shall be included in the section entitled “Risks Relating to the Notes Issued under the Programme” in the Original Offering Circular in respect of the Notes only.*

***The ratings of the Notes may be downgraded or withdrawn.***

The Notes is rated “BBB+” by Fitch. The rating is only correct as at the date of this Supplemental Offering Circular. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer and the Bank to perform their respective obligations under the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. 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 rating is not a recommendation to buy, sell or hold securities. There is no assurance that Fitch will not subsequently lower the credit rating and/or outlook of the Bank or the Notes. On 10 April 2024, Fitch updated its sovereign credit rating for China, maintaining an A+ rating while lowering its outlook to negative, which may affect the outlook or rating of the Notes in the future. 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.

## **USE OF PROCEEDS**

The net proceeds from the issue of the Notes will be used by the Issuer for repayment of offshore debts and general funding purposes.

## PRICING SUPPLEMENT FOR THE USD NOTES

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

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”)) (“**Professional Investors**”) only.

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

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

This document together with the Offering Circular (as defined below) and the Supplemental Offering Circular (as defined below) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Bank, the Group, the Programme and the Notes. 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.

**Paragraph 21 of the Hong Kong SFC Code of Conduct** – As paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission applies to this offering of Notes, prospective investors should refer to the section on “*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors*” appearing on pages iii to iv of the Offering Circular, and CMIs (as defined in the Offering Circular) should refer to the section on “*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMIs (including private banks)*” appearing on pages 268 to 270 of the Offering Circular.

**Pricing Supplement dated 7 May 2024**

**China Everbright Bank Co., Ltd., Hong Kong Branch**

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

**Issue of U.S.\$550,000,000 Floating Rate Notes due 2027 (the “Notes”)  
under the U.S.\$5,000,000,000 Medium Term Note Programme (the “Programme”)**

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated 4 September 2023 relating to the Programme (the “**Offering Circular**”). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 4 September 2023 and the documents incorporated by reference thereto and the Supplemental Offering Circular dated 7 May 2024 (the “**Supplemental Offering Circular**”).

1	Issuer:	China Everbright Bank Co., Ltd., Hong Kong Branch
2	(i) Series Number:	16
	(ii) Tranche Number:	1
	(iii) Date on which the Notes become fungible:	Not Applicable
3	Specified Currency or Currencies:	U.S. dollar (“ <b>U.S.\$</b> ”)
4	Aggregate Nominal Amount:	
	(i) Series:	U.S.\$550,000,000
	(ii) Tranche:	U.S.\$550,000,000
5	(i) Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	U.S.\$549,340,000
6	(i) Specified Denominations:	U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof
	(ii) Calculation Amount:	U.S.\$1,000
7	(i) Issue Date:	14 May 2024
	(ii) Interest Commencement Date:	14 May 2024
8	Maturity Date:	The Specified Interest Payment Date falling on or nearest to 14 May 2027
9	Interest Basis:	SOFR Compounded Index + 0.52 per cent. per annum Floating Rate ( <i>further particulars specified below</i> )
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Not Applicable
13	Date of the Board approval for issuance of Notes obtained:	The issue of the Notes thereunder was authorised by Authorisation (2014) No. 851, Authorisation (2015) No. 338, Authorisation (2016) No. 390, Authorisation (2017) No. 640 and Authorisation (2023) No. 535 of the Bank passed on 29 December 2014, 18 June 2015, 16 June 2016, 1 November 2017 and 18 July 2023, respectively.
14	Date of the Relevant NDRC quota granted for issuance of Notes:	Examination and Registration Certificate of Issuance of Foreign Debts (企业借用外债审核登记证明) (发改办外债[2023]133号) dated 5 June 2023 from the NDRC.
15	Listing:	Application will be made to the Hong Kong Stock Exchange (expected effective listing date: 16 May 2024).

16 Status of the Notes: Senior

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

17	<b>Fixed Rate Note Provisions:</b>	Not Applicable
18	<b>Floating Rate Note Provisions:</b>	Applicable
	(i) Specified Period:	Not Applicable
	(ii) Specified Interest Payment Dates:	14 February, 14 May, 14 August and 14 November in each year, commencing on the First Interest Payment Date and ending on the Maturity Date, in each case adjusted in accordance with the Modified Following Business Day Convention set out in paragraph (iv) below
	(iii) First Interest Payment Date:	The Specified Interest Payment Date falling on or nearest to 14 August 2024
	(iv) Business Day Convention:	Modified Following Business Day Convention
	(v) Additional Business Centre(s):	Hong Kong
	(vi) Manner in which the Rate(s) of Interest is/are to be determined:	Screen Rate Determination
	(vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s):	Citibank, N.A., London Branch, as appointed under the Agency Agreement
	(viii) Screen Rate Determination:	Applicable
	• Reference Rate:	SOFR Compounded Index
	• Observation Method:	Not Applicable
	○ Lag Period:	Not Applicable
	○ Observation Shift Period:	Not Applicable
	○ D:	360
	○ SOFR Compounded Index Determination:	Applicable
	○ Relevant Decimal Place:	5 (subject to the rounding provisions in the Conditions)
	○ Relevant Number of Index Days:	5
	• Interest Determination Date(s):	In respect of any Interest Period, the date falling five U.S. Government Securities Business Days prior to the Interest Payment Date for such Interest Period (or the date falling five U.S. Government Securities Business Days prior to the Interest Payment Date prior to such earlier date, if any, on which the Notes are due and payable)
	• Relevant Screen Page:	Not Applicable
	• Relevant Time:	Not Applicable
	• Relevant Financial Centre:	Not Applicable
	(ix) ISDA Determination:	Not Applicable
	(x) Margin(s):	+0.52 per cent. per annum
	(xi) Minimum Rate of Interest:	Not Applicable



(xii) Maximum Rate of Interest:	Not Applicable
(xiii) Day Count Fraction:	Actual/360
(xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	As set out in the Conditions
19 <b>Zero Coupon Note Provisions:</b>	Not Applicable
20 <b>Index-Linked Interest Note/other variable-linked interest Note Provisions:</b>	Not Applicable
21 <b>Dual Currency Note Provisions:</b>	Not Applicable
<b>PROVISIONS RELATING TO REDEMPTION</b>	
22 <b>Call Option:</b>	Not Applicable
23 <b>Put Option:</b>	Not Applicable
24 Final Redemption Amount of each Note:	U.S.\$1,000 per Calculation Amount
25 Early Redemption Amount (Tax):	U.S.\$1,000 per Calculation Amount
<b>GENERAL PROVISIONS APPLICABLE TO THE NOTES</b>	
26 <b>Form of Notes:</b>	<b>Registered Notes:</b> Global Note Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Note Certificate
27 Additional Financial Centre(s) or other special provisions relating to payment dates:	Hong Kong
28 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
29 Redenomination, renominalisation and reconventioning provisions:	Not Applicable
30 Consolidation provisions:	The provisions in Condition 20 ( <i>Further Issues</i> ) apply
31 Any applicable currency disruption/fallback provisions:	Not Applicable
32 Other terms or special conditions:	Not Applicable
33 Credit Linked Provisions:	Not Applicable
<b>DISTRIBUTION</b>	
34 (i) Method of Distribution:	Syndicated
(ii) If syndicated, names of Managers:	<b>Joint Global Coordinators:</b> 1. China Everbright Bank Co., Ltd., Hong Kong Branch 2. Citigroup Global Markets Limited 3. Agricultural Bank of China Limited Hong Kong Branch

4. Bank of China Limited
5. Bank of Communications Co., Ltd. Hong Kong Branch
6. China Construction Bank (Asia) Corporation Limited
7. Industrial and Commercial Bank of China (Asia) Limited

**Joint Bookrunners:**

8. ABCI Capital Limited
9. Agricultural Bank of China Limited Macao Branch
10. Agricultural Bank of China Limited, Singapore Branch
11. Bank of China (Hong Kong) Limited
12. CCB International Capital Limited
13. CEB International Capital Corporation Limited
14. China CITIC Bank International Limited
15. China Everbright Securities (HK) Limited
16. China Galaxy International Securities (Hong Kong) Co., Limited
17. China Industrial Securities International Brokerage Limited
18. China International Capital Corporation Hong Kong Securities Limited
19. China Minsheng Banking Corp., Ltd., Hong Kong Branch
20. China Securities (International) Corporate Finance Company Limited
21. China Zheshang Bank Co., Ltd. (Hong Kong Branch)
22. Chiyu Banking Corporation Limited
23. CMB Wing Lung Bank Limited
24. CMBC Securities Company Limited
25. CNCB (Hong Kong) Capital Limited
26. Crédit Agricole Corporate and Investment Bank
27. Guotai Junan Securities (Hong Kong) Limited
28. Hua Xia Bank Co., Limited Hong Kong Branch
29. ICBC International Securities Limited
30. Industrial and Commercial Bank of China (Macau) Limited
31. Industrial and Commercial Bank of China Limited, Singapore Branch
32. Industrial Bank Co., Ltd. Hong Kong Branch
33. Nanyang Commercial Bank, Limited
34. Natixis
35. Orient Securities (Hong Kong) Limited
36. Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch
37. SPDB International Capital Limited
38. The Bank of East Asia, Limited

	(together, the “ <b>Managers</b> ”)
(iii) Stabilisation Manager(s) (if any):	Citigroup Global Markets Limited
35 If non-syndicated, name and address of Dealer:	Not Applicable
36 Total commission and concession:	The Issuer has agreed to pay the Managers a management commission based on the gross subscription moneys of the Notes
37 U.S. Selling Restrictions:	Reg. S Category 1; TEFRA not applicable
38 Prohibition of Sales to EEA Retail Investors:	Not Applicable
39 Prohibition of Sales to UK Retail Investors:	Not Applicable
40 Additional selling restrictions:	As set out in the Supplemental Offering Circular

#### **OPERATIONAL INFORMATION**

41 ISIN Code:	XS2801983078
42 Common Code:	280198307
43 CMU Instrument Number:	Not Applicable
44 LEI:	The Legal Entity Identifier number of the Issuer is 549300WVNR4RWTGIV379
45 Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	Not Applicable
46 Delivery:	Delivery against payment
47 Additional Paying Agent(s) (if any):	Not Applicable
48 Registrar (if other than Citibank, N.A., London Branch):	Not Applicable

#### **GENERAL**

49 Private Bank Rebate/Commission:	Not Applicable
50 The aggregate principal amount of the Notes issued has been translated into United States dollars at the rate of [●], producing a sum of (for Notes not denominated in United States dollars):	Not Applicable
51 Ratings:	The Notes to be issued are expected to be rated: Fitch: BBB+ (the “ <b>Rating Agency</b> ”).

#### **HONG KONG SFC CODE OF CONDUCT**

52 Rebates:	Not Applicable
53 Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	dcm.cebhk@cebbank.com.hk; dcmomnibus@citi.com; abchk.dcm@abchina.com; andyching@abchina.com.hk; ling.chen@icbcasia.com; jackie.jq.chen@icbcasia.com; tiantian.li@icbcasia.com; Emily.my.zheng@icbcasia.com;

harry.h.huang@asia.ccb.com; ccba\_dcm@asia.ccb.com;  
dcm@bankcomm.com.hk; toshing@bankcomm.com.hk;  
dcmhk@bocgroup.com

54 Marketing and Investor Targeting  
Strategy:

Includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals

#### **USE OF PROCEEDS**

The net proceeds from the issue of Notes will be used for repayment of offshore debts and general funding purposes.

#### **FINANCIAL/TRADING POSITION**

Since 31 December 2023, there has been no material adverse change in the financial position or prospects, nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

#### **STABILISATION**

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

#### **PURPOSE OF PRICING SUPPLEMENT**

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.\$5,000,000,000 Medium Term Note Programme.

#### **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**RESPONSIBILITY**

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

Signed on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch:

By: .....

*Duly authorised*

By: .....

*Duly authorised*

## PRICING SUPPLEMENT FOR THE CNY NOTES

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

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”)) (“**Professional Investors**”) only.

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

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

This document together with the Offering Circular (as defined below) and the Supplemental Offering Circular (as defined below) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Bank, the Group, the Programme and the Notes. 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.

**Paragraph 21 of the Hong Kong SFC Code of Conduct** – As paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission applies to this offering of Notes, prospective investors should refer to the section on “*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors*” appearing on pages iii to iv of the Offering Circular, and CMIs (as defined in the Offering Circular) should refer to the section on “*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMIs (including private banks)*” appearing on pages 268 to 270 of the Offering Circular.

**Pricing Supplement dated 7 May 2024**

**China Everbright Bank Co., Ltd., Hong Kong Branch**

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

**Issue of CNY1,500,000,000 3.00 per cent. Notes due 2026 (the “Notes”)  
under the U.S.\$5,000,000,000 Medium Term Note Programme (the “Programme”)**

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated 4 September 2023 relating to the Programme (the “**Offering Circular**”). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 4 September 2023 and the documents incorporated by reference thereto and the Supplemental Offering Circular dated 7 May 2024 (the “**Supplemental Offering Circular**”).

1	Issuer:	China Everbright Bank Co., Ltd., Hong Kong Branch
2	(i) Series Number:	17
	(ii) Tranche Number:	1
	(iii) Date on which the Notes become fungible:	Not Applicable
3	Specified Currency or Currencies:	Chinese Yuan (“ <b>CNY</b> ”)
4	Aggregate Nominal Amount:	
	(i) Series:	CNY1,500,000,000
	(ii) Tranche:	CNY1,500,000,000
5	(i) Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	CNY1,498,200,000
6	(i) Specified Denominations:	CNY1,000,000 and integral multiples of CNY10,000 in excess thereof
	(ii) Calculation Amount:	CNY10,000
7	(i) Issue Date:	14 May 2024
	(ii) Interest Commencement Date:	14 May 2024
8	Maturity Date:	Interest Payment Date falling on, or nearest to, 14 May 2026
9	Interest Basis:	3.00 per cent. Fixed Rate <i>(further particulars specified below)</i>
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Not Applicable
13	Date of the Board approval for issuance of Notes obtained:	The issue of the Notes thereunder was authorised by Authorisation (2014) No. 851, Authorisation (2015) No. 338, Authorisation (2016) No. 390, Authorisation (2017) No. 640 and Authorisation (2023) No. 535 of the Bank passed on 29 December 2014, 18 June 2015, 16 June 2016, 1 November 2017 and 18 July 2023, respectively.
14	Date of the Relevant NDRC quota granted for issuance of Notes:	Examination and Registration Certificate of Issuance of Foreign Debts (企业借用外债审核登记证明) (发改办外债[2023]133号) dated 5 June 2023 from the NDRC.
15	Listing:	Application will be made to the Hong Kong Stock Exchange (expected effective listing date: 16 May 2024).
16	Status of the Notes:	Senior

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	<b>Fixed Rate Note Provisions:</b>	Applicable
	(i) Rate of Interest:	3.00 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Date(s):	14 May and 14 November in each year, adjusted in accordance with the Modified Following Business Day Convention
	(iii) Fixed Coupon Amount:	As set out in Condition 6(d)
	(iv) Fixed Coupon Amount for a short or long Interest Period (“Broken Amount(s)”):	Not Applicable
	(v) Day Count Fraction:	Actual/365 (Fixed)
	(vi) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18	<b>Floating Rate Note Provisions:</b>	Not Applicable
19	<b>Zero Coupon Note Provisions:</b>	Not Applicable
20	<b>Index-Linked Interest Note/other variable-linked interest Note Provisions:</b>	Not Applicable
21	<b>Dual Currency Note Provisions:</b>	Not Applicable

## PROVISIONS RELATING TO REDEMPTION

22	<b>Call Option:</b>	Not Applicable
23	<b>Put Option:</b>	Not Applicable
24	Final Redemption Amount of each Note:	CNY10,000 per Calculation Amount
25	Early Redemption Amount (Tax):	CNY10,000 per Calculation Amount

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	<b>Form of Notes:</b>	<b>Registered Notes:</b> Global Note Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Note Certificate
27	Additional Financial Centre(s) or other special provisions relating to payment dates:	Hong Kong
28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
29	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
30	Consolidation provisions:	The provisions in Condition 20 ( <i>Further Issues</i> ) apply
31	Any applicable currency disruption/fallback provisions:	Not Applicable
32	Other terms or special conditions:	Not Applicable



33 Credit Linked Provisions: Not Applicable

**DISTRIBUTION**

34 (i) Method of Distribution: Syndicated

(ii) If syndicated, names of Managers:

**Joint Global Coordinators:**

1. China Everbright Bank Co., Ltd., Hong Kong Branch
2. Citigroup Global Markets Limited
3. Agricultural Bank of China Limited Hong Kong Branch
4. Bank of China Limited
5. Bank of Communications Co., Ltd. Hong Kong Branch
6. China Construction Bank (Asia) Corporation Limited
7. Industrial and Commercial Bank of China (Asia) Limited

**Joint Bookrunners:**

8. ABCI Capital Limited
9. Agricultural Bank of China Limited Macao Branch
10. Agricultural Bank of China Limited, Singapore Branch
11. Bank of China (Hong Kong) Limited
12. CCB International Capital Limited
13. CEB International Capital Corporation Limited
14. China CITIC Bank International Limited
15. China Everbright Securities (HK) Limited
16. China Galaxy International Securities (Hong Kong) Co., Limited
17. China Industrial Securities International Brokerage Limited
18. China International Capital Corporation Hong Kong Securities Limited
19. China Minsheng Banking Corp., Ltd., Hong Kong Branch
20. China Securities (International) Corporate Finance Company Limited
21. China Zheshang Bank Co., Ltd. (Hong Kong Branch)
22. Chiyu Banking Corporation Limited
23. CMB Wing Lung Bank Limited
24. CMBC Securities Company Limited
25. CNCB (Hong Kong) Capital Limited
26. Crédit Agricole Corporate and Investment Bank
27. Guotai Junan Securities (Hong Kong) Limited
28. Hua Xia Bank Co., Limited Hong Kong Branch
29. ICBC International Securities Limited
30. Industrial and Commercial Bank of China (Macau) Limited
31. Industrial and Commercial Bank of China Limited, Singapore Branch

- 32. Industrial Bank Co., Ltd. Hong Kong Branch
- 33. Nanyang Commercial Bank, Limited
- 34. Natixis
- 35. Orient Securities (Hong Kong) Limited
- 36. Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch
- 37. SPDB International Capital Limited
- 38. The Bank of East Asia, Limited

(together, the “**Managers**”)

- (iii) Stabilisation Manager(s) (if any): Citigroup Global Markets Limited
- 35 If non-syndicated, name and address of Dealer: Not Applicable
- 36 Total commission and concession: The Issuer has agreed to pay the Managers a management commission based on the gross subscription moneys of the Notes
- 37 U.S. Selling Restrictions: Reg. S Category 1; TEFRA not applicable
- 38 Prohibition of Sales to EEA Retail Investors: Not Applicable
- 39 Prohibition of Sales to UK Retail Investors: Not Applicable
- 40 Additional selling restrictions: As set out in the Supplemental Offering Circular

**OPERATIONAL INFORMATION**

- 41 ISIN Code: HK0001007316
- 42 Common Code: 280197955
- 43 CMU Instrument Number: EVERFN24002
- 44 LEI: The Legal Entity Identifier number of the Issuer is 549300WVNR4RWTGIV379
- 45 Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s): Not Applicable
- 46 Delivery: Delivery against payment
- 47 Additional Paying Agent(s) (if any): Not Applicable
- 48 Registrar (if other than Citibank, N.A., London Branch): Not Applicable

**GENERAL**

- 49 Private Bank Rebate/Commission: Not Applicable
- 50 The aggregate principal amount of the Notes issued has been translated into United States dollars at the rate of CNY1= U.S.\$0.1385, producing a sum of (for Notes not denominated in United States dollars): U.S.\$207,750,000

- 51 Ratings: The Notes to be issued are expected to be rated:  
Fitch: BBB+  
(the “**Rating Agency**”).

#### **HONG KONG SFC CODE OF CONDUCT**

- 52 Rebates: Not Applicable
- 53 Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: dcm.cebhk@cebbank.com.hk; dcmomnibus@citi.com; abchk.dcm@abchina.com; andyching@abchina.com.hk; ling.chen@icbcasia.com; jackie.jq.chen@icbcasia.com; tiantian.li@icbcasia.com; Emily.my.zheng@icbcasia.com; harry.h.huang@asia.ccb.com; ccba\_dcm@asia.ccb.com; dcm@bankcomm.com.hk; toshing@bankcomm.com.hk; dcmhk@bocgroup.com
- 54 Marketing and Investor Targeting Strategy: Includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals

#### **USE OF PROCEEDS**

The net proceeds from the issue of Notes will be used for repayment of offshore debts and general funding purposes.

#### **FINANCIAL/TRADING POSITION**

Since 31 December 2023, there has been no material adverse change in the financial position or prospects, nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

#### **STABILISATION**

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

#### **PURPOSE OF PRICING SUPPLEMENT**

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.\$5,000,000,000 Medium Term Note Programme.

#### **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**RESPONSIBILITY**

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

Signed on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch:

By: .....

*Duly authorised*

By: .....

*Duly authorised*

## CAPITALISATION AND INDEBTEDNESS

*The section entitled “Capitalisation and Indebtedness” in the Original Offering Circulars shall be deleted in its entirety and replaced with the following:*

As at 31 December 2023, the Bank had an issued share capital of RMB59,086 million divided into approximately 12,679 million H shares of RMB1.00 each and approximately 46,407 million A shares of RMB1.00 each.

The following table sets out the Bank’s consolidated capitalisation and indebtedness as at 31 December 2023 and as adjusted to give effect to the issuance of the Notes prior to deducting the commissions and other estimated expenses payable by the Group in connection with this offering.

This table should be read in conjunction with the audited consolidated financial statements of the Bank and related notes thereto included elsewhere in this Supplemental Offering Circular:

	As at 31 December 2023			
	Actual		As adjusted	
	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>	<i>(RMB in millions)</i>	<i>(U.S.\$ in millions)<sup>(1)</sup></i>
<b>Debt</b>				
Debt securities issued .....	1,099,326	154,837	1,099,326	154,837
Notes to be issued hereby .....	-	-	5,405	761
<b>Shareholders’ Equity</b>	-	-	-	-
Share capital .....	59,086	8,322	59,086	8,322
Other equity instruments .....	104,899	14,775	104,899	14,775
Capital reserve .....	74,473	10,489	74,473	10,489
Other comprehensive income .....	2,245	316	2,245	316
Surplus reserve .....	26,245	3,697	26,245	3,697
General reserve .....	86,161	12,136	86,161	12,136
Retained earnings .....	199,282	28,068	199,282	28,068
Total equity attributable to equity shareholders of the Bank .....	552,391	77,803	552,391	77,803
Non-controlling interests .....	2,394	337	2,394	337
<b>Total equity</b> .....	<b>554,785</b>	<b>78,140</b>	<b>554,785</b>	<b>78,140</b>
<b>Total capitalisation<sup>(2)</sup></b> .....	<b>1,654,111</b>	<b>232,977</b>	<b>1,659,516</b>	<b>233,738</b>

Notes:

- (1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB7.0999 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 29 December 2023.
- (2) Total capitalisation equals the sum of debt and total equity.

Unless otherwise disclosed in this Supplemental Offering Circular, there has not been any material change in the Bank’s capitalisation and indebtedness since 31 December 2023.

## DESCRIPTION OF THE BANK

*The section entitled “Description of the Bank” on pages 199 to 218 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### OVERVIEW

The Bank is a national joint stock commercial bank committed to establishing itself as one of the most innovative commercial banks in the PRC. The A shares of the Bank have been listed on the Shanghai Stock Exchange (Stock Code: 601818) since August 2010 and the H shares of the Bank have been listed on the HKSE (Stock Code: 6818) since December 2013. Since its operations commenced on 18 August 1992, the Bank has provided comprehensive and competitive financial products and services to a wide range of customers primarily in the PRC, including retail customers, corporate customers, government agencies and financial institutions, and has conducted a proprietary trading business and other trading operations for the Bank’s clients. As a result of its outstanding performance in business, the Bank has won many awards and was ranked 28<sup>th</sup> in “Top 1000 World Banks” in 2023. To adapt to changing market trends and the development of the macro-economy and the banking sector in the PRC, the Bank will continue to intensify its business transformation efforts, diligently develop its capital-efficient operations, build a diversified financial services platform, support the development of the PRC economy and promote technological innovation. The Bank believes that these core initiatives will facilitate the growth of its business.

The Bank’s principal business segments are corporate banking, retail banking and financial market business. The Bank’s corporate banking business consists primarily of corporate deposits and loans, inclusive finance, investment banking and transaction banking. The Bank’s retail banking business consists primarily of retail customers and asset under management (the “AUM”), retail deposits, retail loans, wealth management, private banking, credit card business, as well as digital banking and cloud fee payment. The Bank’s financial market business primarily covers treasury business, interbank business, asset management business and asset custody business.

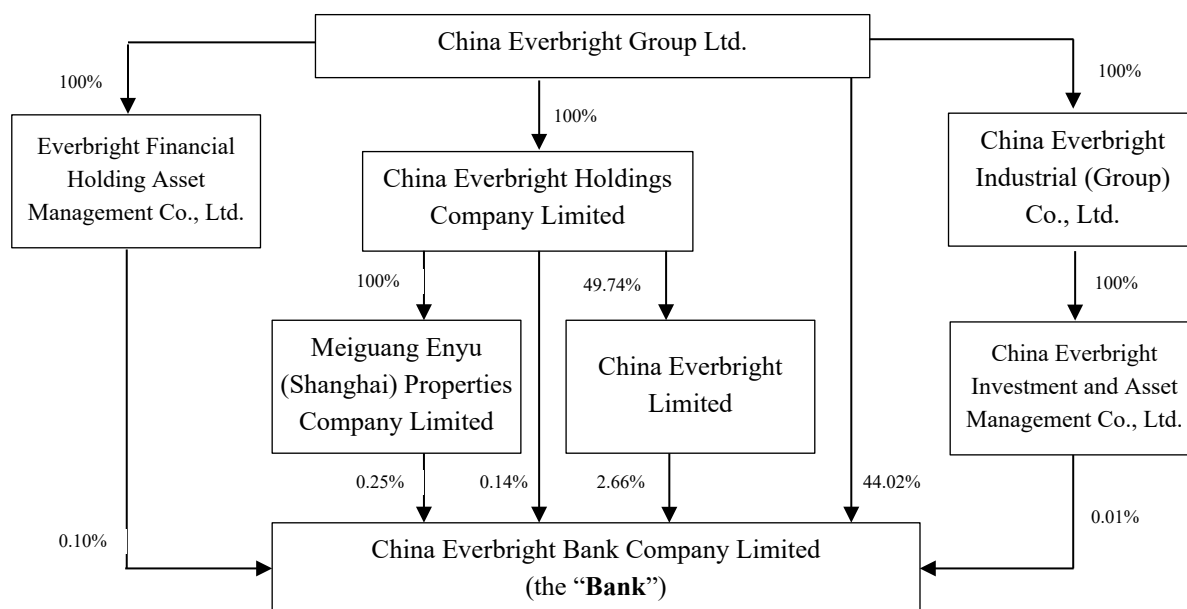
In recent years, the Bank’s business scale and customer base have continued to expand. The Bank’s total assets, net loans and advances to customers and total deposits from customers grew from RMB5,902,069 million, RMB3,239,396 million and RMB3,675,743 million, respectively, as at 31 December 2021, to RMB6,300,510 million, RMB3,499,351 million and RMB3,917,168 million, respectively, as at 31 December 2022 and further grew to RMB6,772,796 million, RMB3,712,925 million and RMB4,094,528 million, respectively, as at 31 December 2023. The Bank’s net profit grew from RMB43,639 million for the year ended 31 December 2021 to RMB45,040 million for the year ended 31 December 2022. For the year ended 31 December 2023, the Bank’s net profit amounted to RMB41,076 million.

The Bank also strives to provide comprehensive financial services to its customers, which further enhances the Bank’s net fee and commission income and net profit. The Bank’s net fee and commission income continues to grow from RMB24,409 million for the year ended 31 December 2020, to RMB27,314 million for the year ended 31 December 2021 and decreased to RMB26,744 million for the year ended 31 December 2022. For the year ended 31 December 2023, the Bank’s net fee and commission income was RMB23,698 million. The Bank’s impairment losses on assets decreased from RMB54,795 million for the year ended 31 December 2021 to RMB50,609 million for the year ended 31 December 2022 and increased to RMB52,105 million for the year ended 31 December 2023, while the NPL remained stable at 1.25 per cent., 1.25 per cent. and 1.25 per cent., respectively. As at 31 December 2023, the Bank’s liquidity coverage ratio was 149.17 per cent.

The Bank’s head office is located in Beijing and the Bank has a nationwide branch network. The Bank’s branch network further expanded to the international market by establishing its first overseas branch in Hong Kong in December 2012 and later in Seoul, Luxembourg, Sydney, Macau and Tokyo. The Bank has a strategic focus on

the PRC’s more economically developed regions, such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta and has supported the Belt and Road Initiative and free trade zones in the PRC.

The following chart sets out a simplified corporate structure of the Bank which shows, among other things, the direct shareholding in the Bank of certain shareholders as at 31 December 2023<sup>1</sup>:



## RECENT DEVELOPMENTS OF THE BANK

### 2024 First Quarter Report

On 29 April 2024, the 2024 First Quarter Report was published on the website of the HKSE, which included the consolidated financial information as at and for the three months ended 31 March 2023 and 2024, was prepared in accordance with IFRS and has neither been audited nor reviewed by a certified public accountant.

For the three months ended 31 March 2024, the Bank, as a resolute implementer of national strategies, proactively served and integrated into China’s new development pattern, expanded key business areas with a focus on three North Star Metrics including FPA (Finance Product Aggregate) for corporate banking, AUM (Assets under Management) for retail banking and GMV (Gross Merchandise Volume) for financial institution business, strengthened capacity building and made efforts to promote high-quality and sustainable development.

As at 31 March 2024, the Group’s total assets amounted to RMB6,897,528 million, representing an increase of 1.84 per cent. as compared with that as at 31 December 2023. The Group’s total liabilities registered at RMB6,329,733 million, representing an increase of 1.80 per cent. as compared with that as at 31 December 2023. The Group’s balance of deposits was RMB4,124,619 million, representing an increase of 0.73 per cent. as compared with that as at 31 December 2023. The Group’s total loans and advances was RMB3,906,197 million, representing an increase of 3.15 per cent. as compared with that as at 31 December 2023.

For the three months ended 31 March 2024, the Group realised a net profit of RMB12,495 million, representing an increase of 0.33 per cent. as compared with the three-month period ended 31 March 2023. For the three

<sup>1</sup> As at 29 March 2024, China Everbright Group Ltd. directly and indirectly held 26,081,426,867 A shares and 1,866,595,000 H shares of the Bank, together representing approximately 47.30 per cent. of the Bank’s total issued ordinary shares. Please refer to “Substantial Shareholders” for details.

months ended 31 March 2024, the Group's operating income was RMB34,494 million, representing a decrease of 9.61 per cent. as compared with the three-month period ended 31 March 2023.

For the three months ended 31 March 2024, the Group realised a net interest income of RMB24,192 million, representing a decrease of 11.72 per cent. as compared with the three-month period ended 31 March 2023. For the three months ended 31 March 2024, the Group's net fee and commission income was RMB5,498 million, representing a decrease of 24.80 per cent. as compared with the three-month period ended 31 March 2023.

For the three months ended 31 March 2024, the Group incurred operating expenses of RMB9,451 million, representing a decrease of 5.48 per cent. as compared with the three-month period ended 31 March 2023. For the three months ended 31 March 2024, the Group's impairment losses on credit assets was RMB10,060 million, representing a decrease of 21.46 per cent. as compared with the three-month period ended 31 March 2023.

As at 31 March 2024, the balance of non-performing loans of the Group amounted to RMB48,680 million, representing an increase of RMB1,204 million compared with that as at 31 December 2023. As at 31 March 2024, the Group's non-performing loan ratio was 1.25 per cent., which was the same as compared with that as at 31 December 2023. As at 31 March 2024, the provision coverage ratio of the Group was 185.10 per cent., representing an increase of 3.83 percentage points as compared with that as at 31 December 2023. As at 31 March 2024, the Group recorded a liquidity coverage ratio of 132.34 per cent., against a liquidity coverage ratio of 149.17 per cent. as at 31 December 2023.

As at 31 March 2024, the Group's consolidated capital adequacy ratio, consolidated tier-1 capital adequacy ratio and consolidated common equity tier-1 capital adequacy ratio reached 13.70 per cent., 11.54 per cent. and 9.38 per cent., respectively, all of which met the regulatory requirements. As at 31 March 2024, the leverage ratio of the Group was 7.19 per cent., representing an increase of 0.09 percentage point as compared with that as at 31 December 2023.

None of the Issuer, the Bank, the Group, the Joint Lead Managers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2023 and 2024 for an assessment of the Bank's financial condition and results of operations. Such unaudited and unreviewed quarterly consolidated financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2024 should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2024.

## COMPETITIVE STRENGTHS

The Bank's principal competitive strengths include:

### **Distinguished shareholders engaged in diversified financial fields**

The shareholders of the Bank are distinguished financial institutions engaged in diversified operation and coordinated development of both finance and industry with a full range of financial licences. China Everbright Group Ltd. is a large financial holding conglomerate sponsored by the Ministry of Finance of the People's Republic of China and Central Huijin Investment Ltd., and has been one of the Fortune Global 500 companies for eight consecutive years from 2015 to 2022. Its business scope encompasses financial services with a full range of financial licenses and featured real industry businesses such as environmental protection, tourism and healthcare. China Everbright Group Ltd.'s advantages in comprehensive finance, collaboration between finance and industry, and coordination between Chinese mainland and Hong Kong SAR, provide the Bank with a solid



platform for offering comprehensive finance and implementing industry-finance collaboration. In 2023, the Bank acted as the leading underwriter for China Everbright Group Ltd. to underwrite seven issues of inter-bank debt financing instrument and has raised RMB16.5 billion for China Everbright Group Ltd.

### **Outstanding innovative gene**

The Bank has an outstanding innovative gene. The Bank was established during the period of PRC's reform and opening-up and rapid economic development, and grew stronger through years of financial innovations, thus possessing strong innovation awareness. Inspired by innovation awareness, it became the first bank that launched the RMB wealth management products, the first one to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks that obtained dual qualifications as both custodian and account manager of enterprise annuity fund in China. Besides, it has forged China's largest open-ended payment platform, Cloud Fee Payment. All these demonstrate that the Bank has a strong innovation-driven development philosophy.

Giving full play to the advantages of special funds for fintech innovation, the Bank improved the innovation management mechanism and enhanced innovation guidance and incentives to amplify innovation-oriented momentum. At the same time, it reinforced the incubation effect of innovation funds to cultivate and incubate more projects. As at 31 December 2023, the Bank initiated 89 innovation projects, providing strong support for the development of various sectors such as corporate banking, retail banking, financial market and back-office support. The Bank granted the Annual Innovation Development Awards in five main categories to a total of 42 projects and 147 creative plans, so as to encourage more outstanding innovation achievements and facilitate financial product innovation through integration.

Great achievements were made in digital transformation with CEB characteristics, which was highly recognised in the industry. The Bank was awarded the "2022 Consumer Favorite Credit Card Brand Award" and "Best Scenario Innovation Award for Digital Banking" by China Financial Certification Authority (CFCA). CEB Mobile Banking won the "Outstanding Digital Technology Innovation Award" by JRJ.com and "Outstanding Mobile Banking for 2022" by Hexun.com. "Social Security Cloud Fee Payment" won the Gold Award at the 5th Digital Finance Innovation Competition. Cloud Fee Payment, Sunshine Receivables Express (Guang Xin Tong) and Sunshine Payment Express (Guang Fu Tong) were awarded "Excellent Cases of Digital Transformation in Chinese Banking Industry", and Cloud Fee Payment and Sunshine Logistics Express (Wu Liu Tong) were awarded "Digital Inclusive Finance Innovation Achievements of China".

### **Leading roles and strategic transformation in wealth management businesses and other businesses**

Committed to building a first-class wealth management bank, the Bank has obtained certain competitive advantages in some businesses.

In wealth management, the Bank has seized development opportunities in a precise manner by staying at the forefront in initiating strategic transformation in wealth management, which has led to continuous market share expansion, well-received wealth management capabilities, and strong advantages in wealth management and asset management. The fee-based businesses not occupying the Bank's risk assets have gained growth momentum with its proportion growing continuously, becoming a key driver of the Bank's operating income.

In investment banking, the Bank has built first-mover advantages as the pioneer in the industry is able to provide corporate customers with comprehensive investment banking services. In digital banking, the Bank has built an open service system by opening its platforms based on its open-ended platforms, which has also become an industry-leading business model. In financial market business, the Bank has maintained stable and compliant operation with its trading strategies highly recognised in the market. In retail banking, the Bank has improved its capabilities of value creation and high-quality development continuously, providing new drivers for the sustainable development of the Bank.

### **Prudent risk management**

The Bank proactively implements comprehensive and effective risk management measures. Based on the Basel III framework, the Bank established a comprehensive risk management system covering various aspects of its businesses, adopted an internal ratings system with high sensitivity, improved risk assessment and risk-adjusted pricing ability and increased capital efficiency of its operations. The Bank's comprehensive risk management methods and techniques have become increasingly diversified to ensure effective control of asset quality. The Bank's operation management system has been continuously improved to make risk management more proactive, forward-looking and predictable, laying a solid foundation for long-term and sustainable development.

The continued improvement of the Bank's risk management capability has enabled the Bank to effectively handle the challenges brought by the recent economic downturn and manage its overall risks. The Bank had firmly safeguarded the Bank's risk management bottom-line across the board and strengthened the credit risk management. As at 31 December 2023, the Bank's NPL ratio was 1.25 per cent.

### **Advanced IT platform and industry-leading digital banking innovation**

The Bank has advantages in technology-driven innovation. The Bank has continuously advanced in-depth integration between business and technology, and build the "123+N" digital Everbright development system, namely a combination of "one smart brain, two technological platforms, three service capabilities and N digital hit products." The Bank has continuously increased technological inputs, improved technological governance, and enhanced basic technological capabilities to empower business development. The Bank strove hard to build a technology-led and data-driven technology development system with CEB characteristics, to accelerate tech empowerment and promote bank-wide digital transformation. The "Wealth +" open platform with CEB Mobile Banking and Cloud Fee Payment apps at the core has attracted more users, and the scale of traffic, customer conversion and value contribution have all been on continuous improvement.

The Bank's hit products such as Sunshine Inclusive Finance Cloud, Sunshine E-financing Chain, Sunshine Receivables Express (Guang Xin Tong), Sunshine Logistics Express (Wu Liu Tong), Sunshine Fast Loan (Guang Su Dai), Sunshine Housing Express (An Ju Tong) and Sunshine Flexible Employment Express (Ling Gong Tong) have gained good market recognition. As the investment in technology increases, the technology governance system has been further optimised, and the technology foundation and the ability to empower business development have been consolidated.

### **Experienced management team**

The Bank's senior management team has extensive experience in the banking and financial industry in the PRC. The key members of the Bank's senior management have an average of more than 20 years of management experience related to the financial industry. The Bank's chairman and president have held various major leadership positions in the financial industry. Under the leadership of its management team, the Bank has significantly improved its operations and financial results, and is moving toward its goal of becoming a world-class commercial bank.

## **STRATEGIES**

The Bank will adhere to reform and the Bank is committed to creating greater value for shareholders, customers, employees and the society, and the Bank regards "building itself into a first-class wealth management bank" as its strategic vision. Ensuring that the financial work is politically oriented and can better represent the people, the Bank, as a resolute implementer of national strategies, proactively serves and integrates into China's new development pattern. Leveraging China Everbright Group Ltd.'s advantages including a complete range of financial licenses, collaboration between finance and industry, and coordination between Chinese mainland and Hong Kong SAR, the Bank upholds a customer-centered business philosophy and shifts focus from managing its own balance sheet to helping customers improve their financial statements based on customers' changing needs, promotes the building of a comprehensive financial ecosystem featuring "one customer, one Everbright,

and one package of comprehensive services”, so as to build competitive advantages in wealth management, so as to achieve high-quality development and create greater value for the society, shareholders, customers and employees.

### **Implement the strategy of “building a first-class wealth management bank” and transformation of wealth management**

Upholding the strategic vision of “building a first-class wealth management bank”, the Bank focuses on the main task of high-quality development and regards digital operation as the path. The Bank determines three North Star Metrics (NSMs) — AUM (Assets Under Management), FPA (Finance Product Aggregate) and GMV (Gross Merchandise Volume), leads its three main business segments to provide customers with comprehensive financial services, works on key business areas such as wealth management, comprehensive finance and transaction banking, enhances capabilities in customer base management, intelligent risk control, product innovation and middle-office construction as well as professional capabilities of the whole team, and strives to achieve high-quality development.

The Bank firmly upheld a customer-centered business philosophy, accelerated digital transformation, and expanded key businesses such as wealth management, comprehensive finance and transaction banking, to improve the quality and efficiency of financial services for the real economy. Targeted support was given to key areas including major national projects, manufacturing industry, technological innovation, inclusive finance, green finance, rural revitalization, private enterprises, SMEs and household consumption, thus effectively controlling operational risks, strengthening value creation capabilities, continuously promoting high-quality development and contributing CEB’s strengths to Chinese modernization. Inspired by innovative spirit, the Bank became the first bank that launched RMB wealth management products, the first to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks obtaining dual qualifications as both enterprise annuity fund custodian and account manager in China. Besides that, it has forged China’s largest open-ended payment platform Cloud Fee Payment, launched and developed Wealth E-SBU, and achieved remarkable innovation results.

### **Support the real economy and enhance sustainability of development**

The Bank gave priority to the real economy in economic development. The Bank actively implemented incentive and restrictive measures such as devising separate credit plans for key areas, making preferential policies for differentiated internal funds transfer pricing, and strengthening balanced scorecard evaluation. The Bank continued to increase targeted support for key areas and weak links in the national economy, such as manufacturing, green credit, sci-tech innovation, private enterprises, and strategic emerging industries. As at 31 December 2023, the Bank’s RMB corporate loans increased by 12.14 per cent., the loans to manufacturing and strategic emerging industries increased by 24.74 per cent. and 46.71 per cent., respectively over the end of the previous year; and the loans to sci-tech enterprises and green credit increased by 50.64 per cent. and 57.44 per cent., respectively. By responding to the complex and fast-changing external environment, the Bank, rooted in the real economy, improved profitability steadily registering a net profit of RMB41,076 million for the year ended 31 December 2023, which increased by 69.60 per cent. year on year.

### **Promote business structural adjustment with the three NSMs as indicators**

In corporate banking, the Bank, with FPA as the engine for transformation, launched a toolkit of full range full-life-cycle financing products to serve customers, and accelerated the integrated development of commercial banking, investment banking, and private banking, giving full play to the function of corporate banking as the “ballast stone” of business. The total FPA was RMB5.09 trillion. In retail banking, the Bank took AUM as its North Star Metric, highlighted two features - “wealth management” and “fintech”, focused on four core businesses - “wealth management, retail deposit, retail credit and credit card”, strengthened capacity building in “customer management, dual-curve mode, scenario empowerment, technological empowerment and multi-party collaboration”, and built a mega wealth management eco-chain with “wealth management, asset management and asset custody” at the core. As at 31 December 2023, the total AUM reached RMB2.73 trillion,

an increase of 12.42 per cent. over the end of the previous year. In financial market business, guided by GMV, a North Star Metric, the Bank built the “Integrated Digital Service Platform for Interbank Institutions” to provide interbank customers with four main services including agency sales, matchmaking & quoting, tech output and information sharing, and promoted the construction of interbank business ecosystem. The total GMV reached RMB3.94 trillion, an increase of 18.14 per cent. year on year.

### **Improve risk governance system and heighten risk resistibility**

The Bank adhered to a sound and prudent risk management strategy, implemented various regulatory requirements, improved risk management system, and enhanced the ability to cope with various risks. The Bank established a “1+4” credit policy system integrating investment, industry, region, product and portfolio to strengthen the commercialization of industry research achievements and optimise asset structure. The Bank implemented the pre-review and consultation mechanism, strengthened customer concentration management, enhanced penetration risk monitoring and compulsory risk response for large-value credit customers, and intensified risk-cost evaluation. The Bank implemented the Measures for the Risk Classification of Financial Assets of Commercial Banks, and formulated an implementation plan for the transition period of the new rule on risk classification to optimise the risk classification management system of financial assets. The Bank expanded the channels for the disposal of non-performing assets, stepped up efforts to dispose and recover non-performing assets, and promoted prompt and precise identification for responsibility and accountability with respect to non-performing assets.

### **Continued to advance technological empowerment by accelerating digital transformation**

The Bank deepened the integration of business and technology, advanced the implementation of new strategic plans for technological development, and concentrated on the building of business middle office, data middle office and technology middle office. The Bank made all-out efforts to launch Transaction Banking Products “Yi” Series 2.0, build a comprehensive intelligent marketing system for retail banking, increase service items and output channels for the Cloud Fee Payment platform, and accelerate the expansion of key business scenarios such as logistics industry, housing transactions, off-campus education, flexible employment, and medical healthcare. The Bank formulated digital transformation plans to build an open digital ecosystem.

## **THE BANK’S PRINCIPAL BUSINESSES**

The Bank’s principal business segments are corporate banking, retail banking and financial market. The following table sets forth, for the periods indicated, the Bank’s operating income by business segments:

	<b>For the year ended 31 December</b>					
	<b>2021 (restated)</b>		<b>2022</b>		<b>2023</b>	
	<i>Amount</i>	<i>% of total</i>	<i>Amount</i>	<i>% of total</i>	<i>Amount</i>	<i>% of total</i>
Corporate banking .....	59,693	38.92	57,619	37.94	53,948	37.01
Retail banking.....	63,380	41.33	65,998	43.46	64,956	44.57
Financial market business.....	29,953	19.53	28,051	18.47	27,872	19.13
Other business.....	340	0.22	197	0.13	(1,041)	(0.71)
Total.....	<u>153,366</u>	<u>100.00</u>	<u>151,865</u>	<u>100.00</u>	<u>145,735</u>	<u>100.00</u>

### **Corporate Banking Business**

The Bank provides a broad range of financial products and services to government agencies, financial institutions and corporations. Corporate banking constitutes the Bank’s primary source of income and consists primarily of corporate deposits and loans, inclusive finance, investment banking and transaction banking.

The corporate banking line of the Bank gave full play to its strengths, concentrated on serving five target areas (technology finance, green finance, inclusive finance, pension finance and digital finance) with a special focus on three new development tracks (technology finance, green finance and advanced manufacturing), innovated products and services, launched a series of campaigns such as “Deepening Cooperation with Industrial Clusters”, “Growth Plan for Thousands of Micro and Small Businesses” and “Into Shenzhen Stock Exchange”, and continuously increased efforts to serve key fields of the real economy. The Bank gave full play to the guiding role of FPA (Finance Product Aggregate), a North Star Metric, made all-out efforts to accelerate the transformation towards a combination of commercial banking, investment banking and private banking, and continued to increase the total aggregate of corporate financing. Following the customer management philosophy of “value stratification, demand grouping, service tiering and ecosphere integration”, the Bank built a new stratified, tiered and grouped customer management model with serving strategic customers, potential customers and basic customers at the core. The Bank continuously pressed ahead with digital transformation, strengthened efforts in scenario clustering and ecosphere building, and gradually constructed its “financial + non-financial” one-stop digital comprehensive service system. For the year ended 31 December 2023, the Bank’s corporate banking registered an operating income of RMB53,948 million, a year-on-year decrease of RMB3,671 million or 6.37 per cent., accounting for 37.01 per cent. of the Bank’s total operating income. As at 31 December 2023, the Bank’s total FPA was RMB5.09 trillion, an increase of RMB244,816 million or 5.06 per cent. over the end of the previous year. The Bank had 980,300 corporate banking customers, an increase of 16,400 or 1.70 per cent. over the end of the previous year.

### ***Customer Base***

The Bank has extensive customer relationships with many large Chinese business groups and leading companies, government agencies, financial institutions and SMEs which the Bank believes have strong growth potential. The Bank has provided banking services to a large number of state-owned enterprises under the direct administration of the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”), as well as to a large number of enterprises included in the Top 500 Enterprises of the PRC List jointly published by the PRC Enterprise Confederation and the PRC Enterprise Directors Association (中國企業聯合會及中國企業家協會). The Bank has developed relationships with more than 1,000 large business groups and leading companies in their respective industries in the PRC. The Bank believes that it is one of the few PRC commercial banks approved by MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of MOF, (ii) the authorised payment of expenditures on behalf of MOF and (iii) the non-tax revenue collection on behalf of MOF. The Bank is a leading domestic underwriter of short-term commercial paper and medium-term notes in the PRC. In addition to expanding the Bank’s customer base, the Bank has also focused on optimising the Bank’s customer mix.

SMEs are strategically important to the Bank’s development and growth. The Bank mainly focuses on the following three types of SMEs: (i) supply chain participants who have advanced production facilities and equipment as well as advanced technologies to provide long term supporting services or supplies to large state-owned enterprises, leading companies, government agencies and other core clients; (ii) SMEs clustered in certain regions or industries who have brands with sound reputations and high market shares in these regions or industries; and (iii) high-tech SMEs which have been included in the national SME administration and service system, including technological SMEs within national-level high-tech industrial parks, software parks, industrial bases for the Torch Programme (a national programme to develop high and new technologies) and national university technology parks.

The Bank also focuses on developing long-term relationships with customers in regions in the PRC that are more economically developed such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, as well as in those industries which are strategically important to the PRC economy. The Bank also continued to adjust its loan portfolios. As at 31 December 2023, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) leasing and commercial services, (iv) wholesale and retail trade and (v) real estate, which represented 20.55 per cent., 15.57

per cent., 15.48 per cent., 8.19 per cent. and 7.65 per cent. of the Bank's total loans and advances, respectively, and together represented 67.44 per cent. of the balance of the Bank's total loans and advances as at the same date.

### ***Major Products and Services***

#### *Corporate Deposits and Loans*

The Bank adhered to the philosophy of high-quality development, continuously provided more credit support for major strategies, key fields and weak links, and strove to realise both reasonable quantitative growth and effective qualitative improvement. The Bank advanced four new major drivers to increase deposits including institutional expansion, entrusted payment, chain-based customer expansion and cash management with a focus on wealth management transformation, and expanded cash management products such as Cloud Treasury, Interbank Pass and Tendering Pass with a focus on payment, agency payment and other scenario-based services. The Bank accelerated digitalization by promoting convenient online business processing to empower customer marketing, product innovation and business expansion. The Bank safeguarded the risk management bottom-line, operated in accordance with laws and regulations, and maintained stable asset quality. As at 31 December 2023, corporate deposits (including the corporate business-related portion in pledged deposits) amounted to RMB2,823,064 million, representing an increase of RMB42,707 million or 1.54 per cent. over the end of the previous year. Among these, the balance of core corporate deposits increased by RMB87,602 million or 3.62 per cent., and the balance of corporate loans (excluding discount loans) was RMB2,165,840 million, an increase of RMB234,390 million or 12.14 per cent. over the end of the previous year.

#### *Inclusive Finance*

The Bank fulfilled its social responsibilities of serving MSEs and people's well-being, and better served MSEs by promoting long-effect mechanisms to boost branches' confidence, willingness, capability and expertise in lending loans to MSE businesses. Focusing on core enterprises, the Bank facilitated the optimization and upgrading of industrial chains and supply chains. Focusing on serving sci-tech innovation enterprises and growth MSEs, the Bank released the Exclusive Financial Solutions for Growth MSEs to provide them with whole-process, cross-market and full-life-cycle "financial + non-financial" comprehensive financial services. The Bank successively held two "Into Shenzhen Stock Exchange" events for specialized, refinement, differential, innovation (the "SRDI") enterprises and enterprises intending to initiate publicly-offered real estate investment trusts (the "REITs") respectively to participate in roadshows, so as to help high-quality MSEs enter capital market. The Bank continuously expanded its financial service ecosystem, and held "Entering the SRDI Enterprises" events in Wuhan and many other cities to interact with hundreds of enterprises. The Bank actively carried out the policy of postponing principal and interest repayments on loans for MSEs, allowing MSEs to apply for repayment extension through various channels, and supported their requests for renewal or extension of maturity based on market principles. As at the 31 December 2023, the Bank fulfilled the regulatory objectives for "Two Increases and Two Controls". As at 31 December 2023, the balance of inclusive loans for MSEs amounted to RMB379,133 million, an increase of RMB73,816 million or 24.18 per cent. over the end of the previous year, which was higher than the average loan growth rate across the whole Bank. There were 429,700 inclusive customers, registering a steady increase over the previous year. The weighted average interest rate of newly-granted loans was 3.97 per cent. with a year-on-year decrease of 47 bps, and the NPL ratio was 0.85 per cent.

#### *Investment Banking*

The Bank provides investment banking services and financial advisory services to its corporate customers. The Bank proactively implemented the business philosophy of "integration of commercial banking, investment banking and private banking", continuously optimised the investment banking product spectrum, and improved its capabilities to meet the diversified financing needs of customers and serve market entities through multi-dimensional driving forces including bond financing, M&A financing, structured financing, equity financing and business matchmaking. For the year ended 31 December 2023, the Bank underwrote 818 debt financing

instruments of non-financial enterprises in the interbank bond market, with an underwriting amount of RMB481,418 million, including different innovative debt financing instruments such as sci-tech innovation notes, green debt financing instruments, rural revitalization notes, Panda bonds and energy supply special bonds, covering various key national strategic areas including green development, advanced manufacturing, technological innovation and rural revitalization. The Bank strengthened its capabilities in integrating M&A financing resources, supported the M&A of the real economy and industrial upgrading projects, and conducted project marketing especially for listed companies and other key customer groups under key transaction scenarios. The Bank's domestic and overseas newly-added M&A loans reached RMB27,383 million. The Bank issued five credit asset securitization projects with an asset scale of RMB12,724 million.

### *Transaction Banking*

The Bank's Transaction Banking Department provides customers with comprehensive transaction banking services covering international settlement, trade finance, supply chain finance and cash management. The Bank kept enriching the transaction banking product spectrum, launched the "Yi" (Easy) series 2.0 of transaction banking products, and provided financial solutions with "all-scenario, full-category and omni-channel" features to meet the comprehensive financial needs of customers. The Bank accelerated digital transformation, successfully put into operation the phase I of the New Trade Finance System (NTFS), and constantly enhanced online, mobile and automatic service capabilities of transaction banking products. The Bank continuously upgraded Sunshine Supply Chain CloudPlatform and Treasury Management Platform to provide customers with open-ended transaction banking services integrating settlement and financing products. The Bank constantly expanded scenario-based application of transaction banking products, and promoted the rapid development of scenarios of Auto Full Pass, Cash Management Payment Settlement Pass, Electronic L/G (letter of guarantee), Sunshine Electricity Bill Pass and other new business formats in cross-border trade. The Bank's "Sunshine Wages" financial services constantly gave full play to its value in benefiting both enterprises and the people to help safeguard the legitimate rights and interests of rural migrant workers. As at 31 December 2023, the Bank provided wage payment guarantee with its L/G products for rural migrant workers with a cumulative amount of RMB11,631 million, up RMB2,594 million over the year. The Bank served 1,479 corporate customers, an increase of 37 customers over the year. The Bank facilitated import and export enterprises in cross-border payment and settlement, and advanced the development of international settlement and cross-border RMB businesses. As at 31 December 2023, the balance of the on- and off-balance-sheet trade financing registered RMB453,952 million.

### **Retail Banking Business**

The Bank offers its retail banking customers a wide range of products and services, including retail deposits, wealth management, private banking, retail loans, credit card business, digital banking and Cloud Fee payment. Focusing on building digital retail banking and adhering to the customer-centered business philosophy, the Bank formulated a "dual-curve" development model for retail banking. The Bank deeply engaged in the "first curve" by giving play to the advantages of business outlets and professional customer managers to boost offline operation capacity. The Bank expanded the "second curve" to establish a more intensive, scenario-based and platform-based business model, and accelerated service transformation and upgrading. Meanwhile, the Bank strengthened digital-driven development and deepened the stratified and grouped operation of retail customers, with the total number of retail customers increased and customer base structure improved. The Bank accelerated structural adjustments on the liability side, leading to scale expansion, structure optimization and cost reduction in retail deposits. The Bank advanced business transformation on the asset side, strengthened intensive operation, supported the development of inclusive finance, and cultivated hit "Sunshine" retail loans, leading to rapid scale growth and stable asset quality of retail loans. The Bank continued to deepen wealth management transformation, optimised product spectrum, enhanced asset allocation capabilities, and adapted to customers' diversified investment needs. For the year ended 31 December 2023, operating income stood at RMB64,956 million, a year-on-year decrease of RMB1,042 million or 1.58 per cent., accounting for 44.57 per cent. of the total operating income of the Bank. Specifically, net interest income from retail banking was RMB48,762

million, a year-on-year increase of 2.67 per cent., accounting for 45.37 per cent. of the total net interest income of the Bank. Net non-interest income from retail banking was RMB16,194 million, a year-on-year decrease of 12.47 per cent., accounting for 42.33 per cent. of the total net non-interest income of the Bank.

### ***Major Products and Services***

#### *Retail Customers and AUM*

The Bank gave full play to the role of retail customer management committee to ensure that relevant mechanisms and systems fully perform their duties, and adopted retail customer management strategies featuring “stratified and grouped management, data-driven operation, channel coordination and conversion from transaction to contribution”. Relying on Customer Operation Centre of the Head Office, the Bank optimised the quality and efficiency of collaborative operation between the Head Office and branches, and gradually realised intensive management for all basic customer groups. The Bank improved centralised management for medium- and high-end customer groups mainly via offline channels. The Bank consolidated the core competencies of the middle offices for retail banking, and established a digital customer management model covering all products, all channels and the entire chain with data elements as the driving force and platform tools as the means, so as to improve the comprehensive contributions of customers. As at 31 December 2023, the Bank had 152,237,300 retail customers (including holders of debit and credit cards). Medium- and high-end customers with at least RMB500,000 of daily average assets per month grew by 8.86 per cent. from the end of the previous year. There were a total of 306,486,000 users for the three apps — CEB Mobile Banking, Sunshine Life and Cloud Fee Payment, up 19.89 per cent. year on year. Among these, the number of monthly active users (MAU) was 68,784,900, up 17.77 per cent. year on year, and the balance of AUM totaled RMB2,725,090 million, up 12.42 per cent. over the end of the previous year.

#### *Retail Deposits*

Adhering to the philosophy of “improvement in both quality and scale”, the Bank deepened integrated management for deposit businesses to realise scale expansion, structure optimization and cost reduction in retail deposits. In order to acquire customers in batches, the Bank actively expanded customer acquisition channels and scenarios such as social security & livelihood service, preferential treatment for the military and their families, pension finance, health and medical care, business district operation, community property management, transportation, culture & education, tourism and consumption payment. Furthermore, the Bank enhanced its capacity to bring in source-based funds, strengthened the coordination between corporate banking and retail banking to develop its payroll agency business, promoted the Enterprise Administrative Management Service Platform (“**Xin Yue Tong**”), continued to carry out exclusive activities such as “Premium Pay” and “Payday Afternoon Tea”, and conducted characteristic customer group management in payroll agency services. In addition, the Bank stepped up channel coordination, actively expanding quick payment business by linking CEB cards to third parties, and increased transaction volume via online platforms, thus retaining settlement funds. The Bank strengthened “debit card + credit card” linkage, and created a powerful synergy of debit card and credit card businesses for customer acquisition and activation, which effectively improved customer loyalty and service experience. As at 31 December 2023, the balance of retail deposits (including the retail portion in pledged deposits) of the Bank amounted to RMB1,200,789 million, representing an increase of RMB134,330 million or 12.60 per cent. over the end of the previous year.

#### *Retail Loans*

The Bank proactively fulfilled its social responsibilities, vigorously developed retail inclusive finance, increased the credit supply to MSEs, and actively eased the difficulties of customers affected by natural disasters. The Bank facilitated rural revitalization and fostered various characteristic agriculture-related loan projects. The Bank met people’s rigid demand for housing and improved demand for housing, and successfully adjusted the interest rate for the stock of first homes. The Bank enriched online consumption product supply, and provided convenient and diversified financing services for customers. The Bank served new citizens by completing customer labeling and developing exclusive credit products for all of them. The Bank deepened



transformation and development, and continuously advanced the project construction featuring intensive management, product standardization, online process and integrated operation to enhance inherent development momentum. The Bank built a proprietary online lending (joint) operation team to deepen the integrated operation of business, risk and technology. The Bank strengthened risk and compliance management, continuously improved the comprehensive risk management system, and facilitated the construction of debt collection system, anti-fraud system and decision-making engine. The Bank implemented regulatory rectification for internet platform loans, further reduced the scale of bankinsurance credit enhancement loans and customer costs, and promoted the high-quality development of retail credit. As at 31 December 2023, the balance of retail loans (excluding credit card business) posted RMB1,079,069 million, an increase of RMB23,679 million or 2.24 per cent. over the end of the previous year.

### *Wealth Management*

With AUM as a North Star Metric, the Bank accelerated the transformation of wealth management, actively coped with market volatility, and improved customer experience by optimizing strategies, products and services. Through “dual-curve” integrated development, the Bank improved the value of retail banking channels and injected new vitality into retail banking. Through cultivating tiered professional wealth manager teams and continuously promoting a new management mode featuring “integrated lobby marketing management” at outlets, the Bank improved the service efficiency of outlets. The Bank developed an open-ended online wealth management ecosystem, enhanced cooperation with external partners, expanded the scope of “financial + non-financial” services, and established a whole-journey and full-life-cycle customer companion system. Moreover, the Bank strengthened asset allocation capability, improved the investment -research-consultation system, and enriched the wealth management and agency product spectrum to adapt to customers’ diversified investment needs. For the year ended 31 December 2023, net fee income from personal wealth management stood at RMB7,420 million, accounting for 31.31 per cent. of the net fee income of the Bank. Specifically, income from agency insurance business grew by 43.66 per cent. year on year.

### *Private Banking*

The Bank deepened the private banking customer group management model featuring “Data Insight” (Data) + “Scene Fission” (Scene) + “Whole Journey Companion” (Companion), which has strengthened the whole-journal operational capabilities for private banking customers, and continuously improved the four major operation systems including online operation, scenario-based operation, event-driven operation and equity-centered operation. As at 31 December 2023, the Bank iterated and upgraded special versions for private banking customers, with 67,200 active customers, up 70.56 per cent. over the end of the previous year. The Bank optimised the A-coin equity points platform, serving a total of 120,000 customers. Additionally, the Bank continuously built six key scenarios covering finance, culture, family, healthcare, sports and travel, and served over 200,000 high-net-worth customers. The Bank promoted the integration of commercial banking, investment banking and private banking for sci-tech innovation enterprises, serving 6,912 entrepreneurs with AUM amounting to nearly RMB100 billion. The Bank promoted supply-side reform for agency products. The inclusive, prudential and guarantee-oriented agency products for public placement, private placement and insurance accounted for 84.19 per cent. in the total of agency products issued. The number of customers of Cloud Fee Payment funds and insurance surpassed 420,000. Meanwhile, the number of newly-opened wealth wallet accounts exceeded 1.47 million, marking a growth of 43.56 per cent. over the end of the previous year. The Bank continuously enriched comprehensive pension products, including personal pension insurance, funds and commercial pension products, upgraded the exclusive zone for “Enjoy Sunshine Pension”, and the exclusive zone for pension finance served 1.45 million customers online. The Bank iterated and optimised the construction of the open-ended mobile banking wealth platform, and the three major product channels (CEB Mobile Banking, Sunshine Life and Cloud Fee Payment) had 125,600 monthly active users, up 28.83 per cent. over the end of the previous year. As at 31 December 2023, the Bank registered RMB2,444 million fee-based income from agency retail banking. The sales volume of agency business reached RMB166,056 million, up 34.92 per cent. year on year, and the agency AUM stood at RMB296,880 million, up 6.51 per cent. over the

end of the previous year. The Bank strengthened the digital construction of investment, research and investment advisory, and launched the enterprise-level investment research, investment advisory and asset allocation platform to enhance capabilities of allocating broad-category assets and serving customers. As at 31 December 2023, the Bank had 63,502 private banking customers, an increase of 6,976 customers or 12.34 per cent. over the end of the previous year. The AUM of private banking customers amounted to RMB637,808 million, representing an increase of RMB69,623 million or 12.25 per cent. over the end of the previous year.

#### *Credit Card Business*

The Bank was committed to stabilizing the quality of new customers, comprehensively promoting synchro-marketing for both debit cards and credit cards, exploring the Bank's customer group resources, and increasing the success rate of marketing. The Bank deepened customer life-cycle management by strengthening the integration of customer acquisition and card binding at the introduction stage, focusing on accurate marketing at the growth stage, and optimizing the processes for dormant card activation, expired card renewal, account cancellation and customer retention at the retention stage. The Bank refined the operation of installment products, strengthened the conversion from transactions to installments, and optimised combination of preferential policies in customer group, maturity and interest rate for installment customers, so as to facilitate channel construction and increase the proportion of interest-bearing assets. The Bank further strengthened risk control. During the pre-loan process, the Bank strictly controlled risks from new customers, and implemented precise and prudent credit approval strategies. During the loan granting process, the Bank strengthened active management, and implemented risk exposure reduction strategies for high-risk customers. During the post-loan process, the Bank increased debt collection and disposal efficiency, advanced the integrated operation of debt collection, litigation response and dispute mediation, and expanded diversified disposal channels for non-performing assets such as asset securitization and batch transfer. The Bank further deepened digital transformation, advanced upgrading and reconstruction for over 40 systems, including customer intelligent operation, comprehensive business expansion, installment management, outbound marketing and consumer complaint handling, and released the 8.0 version of Sunshine Life app. As at 31 December 2023, there were 15,461,700 monthly active users, an increase of 10.63 per cent. over the end of the previous year. The Bank continuously improved the system on the protection of consumers' rights and interests, and optimised the whole-process working mechanism and customer complaint handling process to improve the efficiency of complaint and dispute resolution, and enhance customer service capabilities. As at 31 December 2023, the Bank had a total of 50,926,900 credit card customers, among which 3,280,300 were newly added during the year. The transaction volume was RMB2,374,581 million, the overdraft balance as at 31 December 2023 recorded RMB434,719 million (excluding payment adjustments to transitional accounts), and the business income posted RMB43,060 million.

#### *Digital Banking and Cloud Fee Payment*

Adhering to the customer-centered business philosophy, the Bank focused on main areas including Cloud Fee Payment, scenario-based finance, CEB Mobile Banking app, Cloud Fee Payment app, enterprise-level platform so as to improve open-ended, digital and intelligent service capabilities. Everbright Cloud Fee Payment continued to maintain its leading advantages as China's largest open-ended convenient payment platform, promoted convenient livelihood services and inclusive finance, and held steadfast to its blueprint. The daily-life convenient payment services expanded from provinces to cities, counties, townships and villages, and the government affairs and social security payment can be processed at a quicker pace via the "one-stop online service". Meanwhile, the Bank continued to expand output to the large and medium-sized cooperation platforms, and further enhanced its brand influence by releasing the Convenient Fee Payment Industry Report of China for nine consecutive years. As at 31 December 2023, the platform offered 16,240 fee payment service items cumulatively, an increase of 1,749 items or 12.07 per cent. throughout the year. The payment service items were exported to 815 platforms cumulatively, an increase of 72 platforms or 9.69 per cent. throughout the year. The Bank processed 2,879 million transactions, up 12.07 per cent. year on year, with the total amount of payment reaching RMB832,138 million, up 23.05 per cent. year on year. The Bank constantly expanded

scenario-based finance, and key businesses such as Sunshine Logistics Express (Wu Liu Tong) and Sunshine Housing Express (An Ju Tong). Sunshine Logistics Express (Wu Liu Tong) took a deep root in the logistics industry chain, and the Bank cooperated with over 80 leading enterprises and served over 9.8 million cargo owners and drivers. The transaction amount reached RMB218,004 million for the year ended 31 December 2023, up 13.63 per cent. year on year. Sunshine Housing Express (An Ju Tong) deeply engaged in housing transaction scenarios, and the Bank established in-depth cooperation with 21 leading enterprises in the industry, and the transaction amount stood at RMB390,845 million for the year ended 31 December 2023, up 30.25 per cent. year on year. CEB Mobile Banking 11.0 was launched, with its five main pages upgraded. The first “Wealth Illumination Festival” was held. The Cloud Fee Payment app completed its upgrading to the 4.0 version, and innovatively launched the wealth wallet balance investment product called Fee Payment Wallet (“**Jiao Fei Bao**”). As at 31 December 2023, CEB Mobile Banking app had 61,915,700 registered users and 27,128,500 monthly active users, up 17.81 per cent. over the end of the previous year. The total number of directly linked users of Cloud Fee Payment was 195 million, an increase of 27.45 per cent. over the end of the previous year, and the number of directly-linked monthly active users reached 26,194,700, an increase of 22.38 per cent. over the end of the previous year. For the year ended 31 December 2023, the Bank innovatively launched the Enterprise Administrative Management Platform (“**Xin Yue Tong**”) to provide comprehensive digital services for enterprises, and assist medium, small and micro enterprises in digital transformation.

### **Financial Market Business**

The Bank’s financial market business primarily covers treasury business, inter-bank business, asset management business and asset custody business. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank’s overall liquidity position, including the issuance of debts. The Bank also trades in debt securities, derivatives and foreign currency trading for its own accounts.

In financial market business, focusing on serving national strategies, the Bank constantly enhanced its business operation level and investment & trading capabilities, and continuously improved the quality and efficiency in serving the real economy. Focusing on high-quality development of interbank business and GMV growth of interbank customer groups, the Bank launched the “Integrated Digital Service Platform for Financial Institutions” to facilitate the construction of the interbank ecosystem. The Bank deepened the role of “Sunshine Wealth Management” in wealth management and strengthened the allocation of broad-category assets. Meanwhile, the Bank optimised the investment layout of public REITs, and facilitated the implementation of stock option business. The Bank gave full play to the role of the custody platform, and linked asset management institutions in the whole market. Meanwhile, the Bank established connections between the asset-end and the liability-end of the Bank, and integrated wealth management financing matchmaking scenarios to meet customers’ investment and financing needs and increase their value contributions continuously.

For the years ended 31 December 2021, 2022 and 2023, operating income from the Bank’s financial market business amounted to RMB29,953 million, RMB28,051 million, and RMB27,872 million, respectively, representing 19.53 per cent., 18.47 per cent., and 19.13 per cent. of the Bank’s total operating income, respectively.

### **Treasury Business**

The Bank strengthened the level of refined treasury management, and gave full play to online financing to ensure liquidity safety for both RMB and foreign currencies. The Bank strengthened capabilities in macro economy research and analysis, and enhanced capabilities in making market timing transactions and capturing market trends to seize market opportunities. Meanwhile, the Bank focused on the allocation of central government bonds, local government bonds, policy financial bonds and high-rating debentures to optimise the bond portfolio management. Focusing on the development of agency business and adhering to the risk neutrality theory, the Bank facilitated the real economy to do exchange rate and interest rate hedging by means of expanding business scale and coverage, improving quality and reducing costs. The Bank stayed at the forefront among joint-stock banks in terms of government bond underwriting. The Bank improved overall profitability

by utilising collaborative mechanisms such as investment and underwriting coordination, and investment and custody coordination. As at 31 December 2023, the balance of bonds in proprietary accounts amounted to RMB1,364,530 million, accounting for 20.20 per cent. of the Bank's total assets, 57.52 per cent. of which were central treasury bonds and local government bonds.

### ***Interbank Business***

Leveraging digital transformation as a key driver, the Bank accelerated its pace of operation transformation, launched the Digital Integrated Service Platform for Financial Institutions to provide interbank customers with four major service areas: agency product sale, matchmaking quotation, technology output and market information, built new value growth points for interbank customers, and facilitated the steady growth of GMV, a North Star Metric. Focusing on national key areas and the development needs of the real economy, the Bank supported the direct financing of enterprises in green, inclusive and technological innovation fields, so as to provide targeted financial services to serve the real economy. Through forward-looking market research and analysis, the Bank constantly refined asset structure to improve the quality and efficiency of interbank business. The Bank strengthened business portfolio management by coordinating liquidity, risk management and performance indicators, and dynamically optimised asset and liability portfolio strategies. In addition, the Bank continued to pay attention to liquidity safety and facilitated liquidity management across the whole Bank. Adhering to the bottom line of compliance, the Bank kept business risks under strict control, enhanced monitoring and early warning for credit risks, and maintained stable asset quality. For the year ended 31 December 2023, the Bank conducted business cooperation with nearly 4,000 interbank customers, and the balance of interbank deposits stood at RMB552,326 million.

### ***Asset Management Business***

The Bank continued to deepen the important role of “Sunshine Wealth Management” in wealth management, satisfied customers' diversified wealth management needs, and supported the development of the real economy and the implementation of national strategies. Centering on the customer needs, the Bank strove to excel in product innovation and design, improved investment scenarios, shortened the fund redemption time for financing products, and enriched low-volatility products. The Bank continuously promoted the implementation of the production-research investment systematic investment structure with value exploration as the goal, and consolidated the synergy between production and research. Meanwhile, the Bank strengthened the allocation of broad category assets, and comprehensively utilised strategies such as fund transaction and qualitative investment, leading to stable net product values. The Bank delved deeper into serving the investment and financing needs of real economy enterprises, enriched the characteristic development of capital market business, and optimised investment in publicly-offered REITs to successfully facilitate the implementation of stock option business, and support the healthy development of SRDI enterprises. The Bank adhered to compliant operation and risk prevention & control, and conducted whitelist analysis and risk factor assessment. Meanwhile, the Bank strengthened risk monitoring and post investment management, and maintained industry-leading risk control effectiveness. As at 31 December 2023, the Bank's non-principal-guaranteed wealth management products under the scope of consolidated management marked a balance of RMB1,312,263 million. Among these, the balance of net asset value wealth management products stood at RMB1,279,386 million, accounting for 97.49 per cent. For the year ended 31 December 2023, the Bank cumulatively issued RMB2.67 trillion of non-principal-guaranteed wealth management products, and created value of RMB33,533 million for investors.

### ***Asset Custody Business***

The Bank's asset custody business changed in response to the times and in line with the trend, proactively adjusted marketing strategy and product layout, and utilised the synergy of collaboration to continue to expand its custody scale, increase its custody income and promote the “Everbright Custody” brand. The Bank facilitated digital transformation, strengthened the service capabilities of custody systems, and optimised customer experience to solidify customer base. Seizing the development opportunities of pension finance, the Bank made great strides in pension finance, and fully expanded pension finance business to support the coordinated

development of the first, second and third pension pillars, and build the pension finance ecosystem. The Bank improved the level of refined management, and deepened cost reduction and efficiency enhancement to achieve the safe, continuous and stable operation throughout the year. For the year ended 31 December 2023, the Bank's income after tax from custody business amounted to RMB1,698 million.

## **ENVIRONMENTAL, SOCIAL AND GOVERNANCE**

### ***Environmental Accountability***

The Bank brought various ESG-themed insurance asset management products under its custody, with steady growth in both AUM and FPA, promoted carbon emission right mortgage loan and forest right mortgage loan, launched the model of "Carbon Trading Scenario-based Finance", and landed projects of Sustainability-linked Loan. As at 31 December 2023, the balance of green loans amounted to RMB313,762 million, an increase of RMB114,472 million or 57.44 per cent. over the previous year. Specifically, loans to the clean energy sector stood at RMB62,945 million, an increase of RMB31,787 million or 102.02 per cent., faster than the Bank's average loan growth rate, over the previous year. The Bank actively underwrote green bonds to support eco-friendly and low-carbon enterprises in gaining access to direct financing, supported 14 market entities to issue 21 green bonds with a cumulative underwriting volume of RMB8,127 million, and helped enterprises in the industries of new energy vehicles, clean energy power generation, and green livestock farming to obtain direct financing of RMB36,960 million.

### ***Social Value***

The Bank consistently paid close attention to societal needs, actively fulfilling its social responsibilities with tangible actions to contribute to people's well-being and social harmony. The Bank focused on key areas and explored the new mode of "public welfare + finance" cooperation, initiated the "Water Cellar for Mothers - Green Villages" public welfare donation program, cared about rural education, and launched a series of courses titled "A Lesson for Rural Children". The Bank broadened the scope of its public welfare services, conducting various charity activities in terms of targeted assistance, education, flood relief and elderly care. For the year ended 31 December 2023, the Bank made external donations of RMB17.45 million.

The Bank remained committed to ensure that poverty relief responsibilities, policies, support and oversight continue even after a county is removed from the poverty list, continuously promoted effective alignment between the consolidation of poverty alleviation outcomes and rural revitalisation, maintained stable credit support policies for poverty-alleviated areas, enhanced differentiated support for counties identified as national priorities for assistance, and persisted in assistance through donations, assistance through consumption, and assistance by sending cadres to villages. The Bank has participated in and supported paired assistance and rural revitalisation projects with donations totalling RMB14.71 million, assisted 264 rural enterprises in 215 counties (including those receiving paired assistance) of 29 provinces to sell 1,258 agricultural products online, and realised a total sale of 2.62 million items or RMB172 million, including RMB15.08 million for the year ended 31 December 2023. The Bank's Everbright Cloud Fee Payment, an online convenient platform with a focus on people's livelihood services and financial scenarios, has served hundreds of millions of people.

### ***Effective Governance***

The Bank has consistently performed compliance with dual listing regulations of Shanghai Stock Exchange and Hong Kong Exchanges and Clearing Limited. Adhering to a "risk-based" AML working goal, and focusing on the business reality, the Bank conducted risk investigation and control for high-risk customers and areas prone to money laundering. It established a three-line defense system consisting of business departments, the AML management department, and the internal audit departments, integrating money laundering risk management into daily business operation. Regular training and publicity of financial knowledge, risk prevention and control to consumers have been conducted as well. Throughout the years 2021 to 2023, the entire composition of Board of Directors, Senior Management, and employees consistently participated in anti-corruption training maintaining a 100 per cent. participation rate.

## **PRODUCTS AND SERVICES PRICING POLICY**

The interest rates the Bank charges on its RMB-denominated loans are generally regulated by PBOC. For RMB-denominated corporate loans and personal loans (other than personal residential housing mortgage loans), there has been no lower limit on the interest rate since 20 July 2013 and no upper limit since 29 October 2004. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates with customers on such loans.

Interest rates for the Bank's RMB-denominated demand and time deposits cannot be higher than 150 per cent. of the applicable PBOC benchmark interest rate. However, the Bank is permitted to provide negotiated time deposits to insurance companies and the National Council for Social Security Fund of the PRC under certain circumstances. The Bank is also permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.\$3 million or the equivalent.

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by NAFR and the National Development and Reform Commission of the PRC.

In compliance with applicable regulatory requirements, the Bank prices its products based on criteria including the risk profile of the Bank's assets, an individual customer's contribution to the Bank's business, the Bank's costs, the expected risk- and cost-adjusted returns and the Bank's internal fund pricing benchmarks. In addition, the Bank considers general market conditions and market prices for similar products as well as services offered by its competitors.

## **DISTRIBUTION CHANNELS**

The Bank provides its customers with services through its multi-channel distribution network. The Bank's branch network covers a large portion of the more economically developed areas in the PRC. As at 31 December 2023, the Bank had 39 tier-one branches, 115 tier-two branches, 1,158 business outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking departments of branches) and 438 community banks in the PRC. As at 31 December 2023, the Bank had 6 overseas institutions outside Mainland China, with branches in Hong Kong, Seoul, Luxembourg, Sydney and a representative office in Tokyo. The application for establishing the Bank's Macau Branch was approved by CBIRC in November 2020 (and the preparations for the establishment of the Macau Branch were in progress), and the application to overseas regulators and other preparations were in progress. The Bank's distribution network is complemented by various digital banking channels. For more information on the Bank's digital banking channels, see "*The Bank's Principal Businesses – Digital banking*". The Bank's head office is responsible for the overall decision-making and management of the Bank. The Bank's tier-one branches are generally located in the capital cities of provinces, autonomous regions or municipalities and certain other strategically important cities, while its tier-two branches are located in other cities within the PRC's provinces and autonomous regions. The tier-two branches report to the tier-one branches in their respective region and are able to establish lower-tier network outlets in the same city.

## **INFORMATION TECHNOLOGY**

The Bank considers information technology to be one of the driving forces of the Bank's development. The Bank has constructed a multi-level structure of information technology systems covering all aspects of its business operations, including channel management, customer management, product management, transaction processing, financial management, risk management, decision-making support and sharing support. Substantially all of the Bank's business transactions are processed and maintained by its information technology system. The Bank believes that the Bank's advanced information technology system has greatly improved, and

will continue to improve, the Bank's efficiency, the quality of the Bank's customer service and the Bank's risk and financial management capabilities.

The Bank established a three-in-one digital Everbright strategic framework integrating "Bank-wide strategic planning, digital transformation planning and technological strategic planning", and furthered the building of the "123+N" digital banking development system. For the year ended 31 December 2023, the core indicators continued to grow. Continuously empowered by "one smart brain", the Bank developed over 1,100 training algorithm models, up 6 per cent. from the previous year, and realised the cross application of multi-modal biometrics identification covering over 680 scenarios, up 12 per cent. from the previous year. The "two technological platforms", namely cloud computing platform and big data platform, were further consolidated. The cloud computing platform 3.0 (i.e. "Full Stack Cloud" or "Quan Zhan Yun") realised automatic and controllable operation. The practice of resilient disaster recovery of the Full Stack Cloud was successfully selected into the "Excellent Cases of Cloud System Disaster Recovery". Nearly 90 per cent. of the Bank's application systems were uploaded to the cloud. The big data platform supported efficient computing, and the total amount of data on the platform exceeded 13 PB, an increase of 7 per cent. over the previous year. "Three service capabilities" were steadily improved with a focus on mobilised, open-ended and ecosystem-based development, and the new digital operation model based on the customer-centered business philosophy was created. The "N (numerous) digital hit products" provided customers with convenient online financial services such as Cloud Fee Payment, Cloud Payment, Sunshine Digital Loans, Sunshine Logistics Express, Overseas Finance Cloud and Sunshine E-financing Chain.

The Bank optimised the technology innovation mechanism, launched the "Golden Idea" incubation program, and achieved encouraging results in technology innovation projects. 599 technology projects obtained patents or software copyrights, including "IT-based Alarm Device" and "Stabilizing Frame for Network IT Switchboards". 39 technological projects won recognition and awards in the industry, including "Construction of Digital Infrastructure System Based on Full Stack Cloud" and "Construction of New-generation Data Warehouse Platform System".

The Bank continued to improve the technological input-output effect, and strengthened the building of talent teams. For the year ended 31 December 2023, the Bank invested RMB5,815 million in technology development, a decrease of RMB312 million or 5.09 per cent. over the previous year, accounting for 3.99 per cent. of the operating income. As at 31 December 2023, the number of IT personnel across the Bank was 3,685, an increase of 473 over the previous year, accounting for 7.74 per cent. of the personnel of the Bank. By educational background, 37 employees held a junior college degree or below, accounting for 1.00 per cent., 1,592 employees held a bachelor's degree, accounting for 43.20 per cent., 2,056 employees held a master's degree or above, accounting for 55.80 per cent. By age, 1,019 employees were under the age of 30, accounting for 27.65 per cent., 2,577 were aged 31 to 50, accounting for 69.93 per cent., 89 were over the age of 51, accounting for 2.42 per cent.

The Bank strengthened efforts to ensure safety during major festivals and critical periods of time. The Bank organised unified routine drills, network security drills, data security inspections, disaster recovery switching drills and other activities to enhance the safe operation capability of information systems. For the year ended 31 December 2023, the Bank's information systems operated steadily, with no major security incident occurred.

## **COMPETITION**

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in the PRC. The Bank currently competes primarily with large commercial banks and other national joint stock commercial banks. The Bank also faces increasing competition from other financial institutions, including commercial banks and foreign banks operating in the PRC. The Bank's competition with other commercial banks and financial institutions in the PRC primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, coverage of distribution network and brand

recognition, as well as information technology capabilities. Furthermore, the Bank faces competition in the provision of financial services to its customers from non-banking institutions such as securities firms and insurance companies.

The Bank's competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its World Trade Organisation commitment, the PRC Government eliminated measures restricting the geographical presence, customer base and operational licences of foreign-invested banks operating in the PRC. In addition, the PRC's Closer Economic Partnership Arrangement with Hong Kong and Macau and the subsequent supplemental agreements, as well as the Cross-Straits Economic Cooperation Framework Agreement, allow banks from Hong Kong, Macau and Taiwan to conduct certain business in the PRC, which has also increased competition in the PRC banking industry. In addition, further policies and regulations such as the Opinion on Providing Financial Supports to Guangdong-Hong Kong-Macau Greater Bay Area issued by PBOC, CBIRC, CSRC and SAFE (中國人民銀行、中國銀行保險監督管理委員會、中國證券監督管理委員會、國家外匯局關於金融支持粵港澳大灣區建設的意見) on 24 April 2020 may provide further supports for the open-up of the banking, insurance and securities industry.

See *“Risk Factors – Risks Relating to the PRC Banking Industry – The Bank faces increasingly intense competition in the PRC's banking industry and competition from other investment and financing channels”*.

In response to this competitive environment, the Bank intends to continue to implement its strategies to differentiate the Bank from its competitors and to enable the Bank to continue to compete effectively in the PRC commercial banking industry.

## **EMPLOYEES**

As at 31 December 2023, the Bank had 47,582 employees, including 926 employees of subsidiaries.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank has established a performance-based compensation system whereby an employee's compensation is determined based on his/her position and performance review. In addition, the Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank provides its employees with training sessions in various areas, such as the international economic environment, globalisation of and competition in the finance industry, environmental-friendly finance, low-carbon economics, sustainable development, high-performance team building, banking industry innovation and service, detailed management, model-based operations, project management, corporate culture, bank development strategy, legal compliance, risk management, retail banking business, corporate banking business, financial compliance, information disclosure, electronic banking business and human resources management.

The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. The Bank has not experienced any strikes or other material labour disputes that have interfered with the Bank's operations, and the Bank believes that the relationship between the Bank's management and the labour union has been, and remains to be, good.

As at 31 December 2023, the Bank had also engaged a number of independent contract workers by signing contracting agreements with third-party human resources agencies. In accordance with the temporary supplemental or replaceable employment policy stipulated under the PRC Labour Contract Law (中華人民共和國勞動合同法), these independent contract workers generally do not hold important positions with the Bank. Such independent contract workers enter into labour contracts with the relevant third-party human resources agencies instead of with the Bank. According to the contracting agreements with the third-party human resources agencies, the Bank is obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies



in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. Although the Bank is under no statutory obligation to make social insurance contributions in relation to these independent contract workers under PRC law, if the third-party human resources agencies fail to do so, the Bank may be jointly liable for any claims brought by them. However, in such case the Bank would be entitled to seek indemnification from the third-party human resources agencies.

## **PROPERTIES**

The Bank is headquartered in Beijing, PRC.

For some of the properties it holds and occupies in the PRC, the Bank has not obtained title certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant valid title certificates as soon as practicable. The Bank has been unable to obtain certain of these title certificates due to various title defects or for other reasons. While there may be legal impediments to its obtaining certain of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial as compared to all of the properties it owns. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing the ability to use all of such properties at one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole.

For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly served for commercial uses including outlets, offices and ATM. As the owner of the properties, the lessors are responsible for applying relevant valid title certificates or providing the Bank the consent to lease properties. In respect of this, the Bank has pro-actively procured these lessors to apply for the relevant valid title certificates or provide the Bank the consent to lease properties. The Bank is of the view that most of these leased properties occupied can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on its operations.

*See “Risk Factors – Risks Relating to the Bank’s Business – The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and the Bank may be required to seek alternative premises for some of the Bank’s offices or business premises due to the Bank’s landlords’ lack of relevant title certificates for some leased properties”.*

## **INTELLECTUAL PROPERTY**

The Bank’s intellectual property primarily includes trademarks, patents, domain names and copyrights. The Bank conducts business under the “China Everbright Bank,” “CEB” and “中國光大銀行” brand names.

## **INSURANCE**

The Bank maintains insurance coverage that is typical in the banking industry in the PRC and to cover amounts that the Bank believes to be adequate to its operations and circumstances.

## **LEGAL AND REGULATORY**

### **Legal Proceedings**

The Bank has been involved in some litigation and arbitration cases during its ordinary and usual course of business, most of which are initiated by the Bank for the purpose of recovering NPLs. As at the date of this

Supplemental Offering Circular, the Bank was not involved in any major litigation and arbitration cases. As at 31 December 2023, the Bank was involved in 370 sued litigation and arbitration cases pending final adjudication, which involved about RMB665 million. The above litigation and arbitration cases would not have any significant adverse impact on the financial position or operating performance of the Bank.

### **Regulatory Reviews and Proceedings**

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including PBOC, NAFR, MOF, CSRC, SAMR, SAFE, NAO and SAT, as well as their respective local offices. These audits and examinations have previously resulted in findings of non-compliance issues and the incurrence of certain penalties. Although these issues and penalties did not have any material adverse effect on the Bank's business, financial condition and result of operations, the Bank has implemented remedial and preventative measures to protect against the recurrence of such incidents. The Bank believes that, save as disclosed in this Supplemental Offering Circular, there were no other material breaches and material incidents of regulatory non-compliance.

## DESCRIPTION OF THE ISSUER

*The section entitled “Description of the Issuer” on pages 219 to 221 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### **BACKGROUND**

The Issuer was established in December 2012 as the first branch of the Bank outside Mainland China. The Issuer is positioned to leverage on the advantages brought along by the cross-border business linkage, tapping into Hong Kong’s open market regime as well as its unique position as an offshore Renminbi centre.

As at the date of this Supplemental Offering Circular, the Chief Executive Officer and Chief Risk Officer of the Issuer were Mr. CAI Mingjie and Mr. WU Yik Tin, Desmond, respectively. As at 31 December 2023, the Issuer had 230 employees.

### **BUSINESS ACTIVITIES**

The Issuer is a licensed bank in Hong Kong, with its office at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong, and is currently focusing on its wholesale banking business. It also provides featured banking services through its cross-border business collaboration with the Bank, with a focus on developing international settlement business, corporate business, trade financing business, treasury business and other businesses.

The Issuer primarily focuses on the Hong Kong, Macau and Taiwan markets, as well as the Greater China region, and targets corporate clients ranging from blue-chip companies, large-scale or medium-scale red-chip companies in these regions as well as multinational corporations.

The Issuer provides a comprehensive range of tailor-made products and services to its corporate clients, such as foreign exchange trading, deposits and remittance, trade financing, treasury products, various Renminbi banking services, syndicated loans, project loans and joint cross-border financing. In addition, the Issuer collaborates with local and overseas financial institutions to provide a financial services platform for its clients.

### **Major Products and Services**

#### ***Corporate Deposits***

The Issuer provides deposit services denominated in Hong Kong dollars and various foreign currencies with deposit term and rates that are competitive in the market to satisfy different financial demands in the daily operations of its corporate clients.

#### ***Remittance***

Leveraging on the Bank’s network throughout Hong Kong, Mainland China and overseas markets, the Issuer provides remittance services for its clients to facilitate their money transfer and allocation and trade settlement.

#### ***Trade Finance***

The Issuer offers international settlement and trade financing services and solutions to its clients.

#### ***Loan***

The Issuer provides tailor-made professional advice and solutions for its clients based on their business development and financial requirements, ranging from overdrafts to loans.

#### ***Treasury Products***

The Issuer formulates plans catering for the market and provides trade services for its clients to timely seize opportunities in the global market.

### ***Renminbi Business***

The Issuer provides its clients with a wide range of Renminbi banking services by tapping into the Bank's nationwide branch network.

### ***Financial Institution Business***

Through its close collaboration with local and overseas financial peers and partners, the Issuer establishes a strong one-stop integrated financial services platform for its clients.

### ***Global Markets Business***

The Issuer is licensed for Type 1 and Type 4 regulated activities under the SFO and is able to advise and deal in securities for its clients.

## **HONG KONG REGULATORY GUIDELINES**

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

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

- each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches and the HKMA has the right to allow returns to be made at less frequent intervals;
- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interest of depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by the licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;
- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;
- licensed banks are obliged to report to the HKMA immediately if there is a likelihood of becoming unable to meet their obligations;
- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the licensed bank's systems of control of the licensed bank or other matters as the HKMA may reasonably require; and
- the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch,

overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by the HKMA on a regular basis.

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

## RISK MANAGEMENT

*The section entitled “Risk Management” on pages 222 to 244 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### OVERVIEW

As a commercial bank, the Bank is subject to a number of risks, primarily including credit risk, market risk, operational risk, liquidity risk and compliance risk. In order to manage these risks, the Bank is committed to establishing a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting and control of such risks. The Bank has been dedicated to strengthening its risk management, with the NPL ratio of the Bank’s total loans and advances to customers being 1.25 per cent., 1.25 per cent. and 1.25 per cent. as at 31 December 2021, 2022 and 2023, respectively.

The Bank’s principles for risk management are to steer the optimisation of business portfolios by using the Bank’s economic capital management framework and risk pricing mechanism to facilitate the match between the returns and the risks assumed, and to maintain the Bank’s risk exposure within acceptable risk levels in coordination with the implementation of the Bank’s overall business strategies and comprehensive risk management system. On this basis, the Bank ultimately aims to maximise returns to its shareholders by maintaining capital adequacy levels that balance the Bank’s risk exposure with its strategic objectives while striving to comply with the relevant regulatory requirements.

The Bank’s risk management principles are as follows:

- (i) Comprehensive risk management: to establish and refine the Bank’s comprehensive risk management covering various major risks;
- (ii) Independent risk management: the Bank’s risk management system is kept independent from the Bank’s business operational system; and
- (iii) “Creating value through effective risk management”: the Bank creates business value by achieving a balance between risk and return and a balance between control and efficiency.

The Bank’s risk management objectives are as follows:

- (1) To cultivate a proactive risk management culture of “creating value through effective risk management” by:
  - improving the Bank’s policies and procedures, strengthening the Bank’s training and implementing a position certification system to improve the quality of the Bank’s business and risk management personnel;
  - senior management setting an example for the Bank’s staff and increasing accountability in order to raise staff’s awareness of risk; and
  - including risk management performance as an evaluation criterion for staff appraisal, branches, sub-branches and various departments.
- (2) To formulate and adhere to proactive and prudent risk management policies by:
  - applying differentiated policies at different levels, standardising the policy and management procedure through expert participation, regular reviews, and implementing the Bank’s principles of fully identifying risks, accurately assessing risks, and taking reasonable risks;
  - establishing regular review mechanisms and continuous optimisation of the relevant mechanisms in order to better balance the relationship between principles and flexibility, the relationship

between differentiation and consistency and the relationship between economic interests and social responsibility; and

- enhancing the Bank's policy execution system.
- (3) To build up a risk management organisational matrix by:
- building up the Bank's risk management organisational structure and system in accordance with the principles of vertical management for credit risk, centralised management for market risk and hierarchical management for operational and compliance risks in order to reflect the risk management needs of the Bank's business development;
  - improving the Bank's risk management organisational matrix and extending such structure to tier-two branches, cross-city and county-level sub-branches;
  - defining a clear allocation of functions and responsibilities among the Bank's various committees, departments, units and personnel to prevent any gap or overlap of duties and authorities, and to increase the Bank's risk management efficiency; and
  - ensuring the independence and professionalism of the Bank's Risk Management Department and aligning its functions closer to market conditions and the Bank's business objectives.
- (4) To ensure prudent and effective risk management processes by:
- focusing on the different characteristics of credit risk, market risk, operational risk, liquidity risk and compliance risk and building corresponding risk management processes;
  - implementing a system of comprehensive early warnings, prompt risk reporting and a swift response to risks; and
  - ensuring that the Board of Directors, its Risk Management Committee and senior management promptly monitor various risks and adopt effective measures to prevent and resolve such risks.
- (5) To set up an appropriate and active advanced technology support system for proactive risk management by:
- following the core principles of Basel III and adopting the best practices of banks both within and outside the PRC;
  - setting up a technology support system that covers effective measurement, analysis and management of credit risk, market risk, operational risk, liquidity risk and compliance risk; and
  - utilising advanced technology to support more specialised and targeted risk management processes.

## **KEY RECENT IMPROVEMENTS IN RISK MANAGEMENT**

The key risk management improvements the Bank has made in recent years are as follows:

- During 2019, the Bank continued to improve its comprehensive risk management system, improved the credit structure, held a prudent and sound liquidity risk management policy, improved its market risk management system, actively established an organisational structure and management system for large exposures management, incorporated country risk into its comprehensive risk management system, continuously emphasised responsibilities of the "first line of defence" in operational risk management, strengthen the compliance risk management, established a reputational risk management mechanism applicable to the whole bank, formulated money laundering risk management policies and revised the AML internal control rules, upheld the business strategy of "aggregate management, prudent

implementation, differential credit extension and strict risk control” in the real estate sector and firmly conducted the supply-side structural reform.

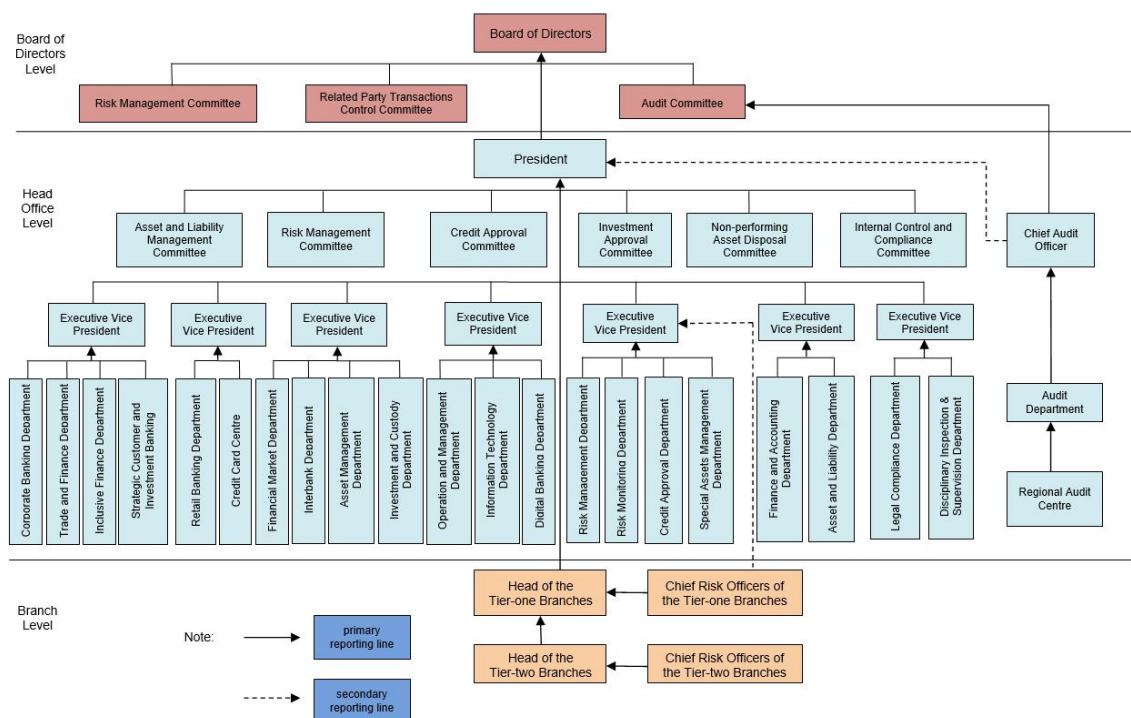
- The ability to manage the Bank’s liquidity needs for its day-to-day operations is one of the key priorities for the Bank. In response to concerns about the tightening of liquidity in the PRC banking industry from time to time which resulted in significant temporary fluctuations in the inter-bank lending rate during certain periods, the Bank has emphasised amongst its departments the overriding importance of sound liquidity, increased its reserve level, and arranged for stronger short-term liquidity commitments, as well as implemented further upgrades to its internal controls to mitigate potential operational risk, including: (i) centralising liquidity gap solutions through inter-bank financing under the Bank’s head office; (ii) enhancing the daily critical point calibration mechanism; (iii) re-evaluating the operational and liquidity risk management system and the reporting mechanism; (iv) strengthening the Bank’s procedures in emergency management; and (v) controlling the scale of the Bank’s inter-bank business and executing improved matching of inter-bank assets and liabilities.
- During 2022, the Bank formulated the Management Measures for Liability Quality (Trial) in accordance with relevant regulatory requirements, established its own liability quality management system, improved the organizational structure for liability quality management, clarified the responsibilities of the Board of Directors, senior management, relevant departments and operating institutions in liability quality management, and specified the liability quality management strategy, management procedure, reporting system, information disclosure and emergency plan. The Bank strictly implemented the requirements for liability quality management, and closely monitored relevant limit indicators. Through these efforts, the Bank recorded a steady growth in total liabilities and a steady decrease in liability cost with a diversified and reasonable structure, the overall liability quality condition was good, and the six major elements of liability quality management was implemented well in general.
- During 2023, the Bank formulated the Management Measures for Liability Quality in accordance with relevant regulatory requirements, established its own liability quality management system, improved the organizational structure for liability quality management, clarified the responsibilities of the Board of Directors, Senior Management, relevant departments and operating institutions in liability quality management, and specified the liability quality management strategies, management procedure, reporting system, information disclosure and emergency response plans. The Bank strictly implemented the requirements for liability quality management, and closely monitored relevant limit indicators. Through these efforts, the Bank recorded a steady growth in total liabilities and a decrease amid stability in liability cost with a diversified and reasonable structure, the overall liability quality condition was good, and the six major elements of liability quality management was implemented well during the whole year.
- During 2023, the Bank also attached great importance to risk prevention in the real estate sector, adapted to the new situation that significant changes in the supply-demand relation happened in China’s real estate market, and implemented city-specific policies. The Bank granted stable loans to the real estate development sector, and provided financial services to help “ensure timely delivery of pre-sold homes and stabilise people’s livelihoods”. Meanwhile, the Bank maintained reasonable and moderate financing for the real estate industry, accelerated risk resolution for key projects, and facilitated the virtuous cycle and healthy development of the real estate industry. In corporate banking, the Bank adhered to list-based customer management, and highlighted the selection of “high-quality real estate enterprises” in credit granting. Meanwhile, the Bank strictly implemented project compliance management, and followed the regulatory requirements on closed fund management. In retail banking, the Bank granted personal mortgage loans to core regions and projects, and actively met people’s demand for buying their first homes or improving their housing situation. Meanwhile, the Bank implemented differentiated mortgage/pledge ratio management for different regions and projects, and properly carried out access management for real estate projects.



- The Bank highly valued ESG risk management, formulated the Environmental, Social and Governance Risk Management Policy, incorporated ESG risk into the comprehensive risk management system, and adhered to basic principles of full coverage, category-specific management and whole-process management. The Bank proactively built a framework for ESG risk management, and defined organizational structure and responsibilities for risk management. The Bank established category-specific management standards, and strictly implemented the “one-vote veto system” for customers with major ESG risks. The Bank standardised the management process, incorporated ESG risk management requirements into all links in credit business such as due diligence, review& approval and post-lending management, and strictly exerted whole-process control. The Bank strengthened the review of environmental and climate risks, and carefully managed credit access for green projects to prevent problems such as capital idling and “green washing”. The Bank strengthened whole-process management for customers’ ESG risks, launched ESG risk modules in the management system, and added ESG risk identification, assessment and management to business links including pre-lending examination, review & approval, contract management, loan granting review and post-lending management. The Bank resolutely implemented the policy of reducing excess industrial capacity by enhancing management of industries with serious overcapacity, heavy energy consumption and emission, and persisted in total amount management and structural adjustment. The Bank actively supported resolving “zombie firms”, and adopted credit limit management for industries with serious overcapacity and four-category management for existing customers (supporting, maintaining, reducing and eliminating). The Bank actively put in place a work mechanism for environmental protection and pushed forward the implementation of various environmental protection measures. The Bank was not on the list of key pollutant discharging units announced by the environmental protection authority and was not imposed any administrative penalties due to environment-related issues.

## RISK MANAGEMENT STRUCTURE

The chart below illustrates the Bank’s risk management structure:



## **Board of Directors and Board Committees**

The Board of Directors is the highest decision-making authority within the Bank in terms of risk management and is responsible for determining the overall risk management strategies and making important decisions for the Bank. It is also responsible for: determining the Bank's risk tolerance; examining the risk precaution measures formulated by the Bank's senior management; deciding on the fundamental management system and the establishment of the Bank's internal management organisation; appointing senior management; examining the internal control assessment reports provided by management, audit and regulatory authorities; reviewing and commenting on the effectiveness of the Bank's internal control system; and supervising senior management's continuous improvement of the Bank's internal control system. The Board of Directors performs its risk management functions through the Risk Management Committee, the Audit Committee and the Related Party Transaction Control Committee.

The Risk Management Committee is responsible for formulating the Bank's risk management strategies and overall risk tolerance, and implementing such strategies and risk tolerance upon approval of the Board of Directors. It is also responsible for: supervising senior management in their management of credit, market, operational, liquidity, compliance and reputational risks; evaluating the risk policy, management situation and risk tolerance of the Bank; assessing the Bank's risk management system and making recommendations to the Board of Directors; preparing periodical risk management reports for submission to the Board of Directors; developing management targets with respect to the Bank's capital adequacy ratio and monitoring the same; reviewing and approving matters related to the implementation of Basel III; supervising Senior Management's performance of anti-money laundering (AML) duties, and enhancing the effectiveness of data governance; and advising on related information disclosure.

The Audit Committee is responsible for supervising and evaluating the Bank's internal control function; overseeing the Bank's risks, compliance status, accounting policies, financial reporting procedures and financial position; reviewing the Bank's financial information and its disclosure, and taking charge of the annual audit; supervising and guiding the internal audit, examining important policies and reports such as internal audit charter, and reviewing medium- and long-term audit plans and annual audit plan; supervising and evaluating external auditors; coordinating internal and external audits; and reviewing and supervising the mechanisms for employees of the Bank to report misconducts related to financial report, internal control, etc.

The Related Party Transaction Control Committee is responsible for the implementation of policies and guidelines relating to the review, approval, management and supervision of the Bank's related party transaction; assessment of the potential risks they may give rise to; preparation of reports to the Board of Directors on the overall status, risk level and structural distribution of related party transaction conducted in the year; and formulation of the related party transaction management measures for approval by the Board of Directors.

For further details of the respective responsibilities of the Bank's Board of Directors, as well as the Risk Management Committee, the Audit Committee and the Related Party Transaction Control Committee, see "*Directors, Supervisors and Senior Management – Board of Directors Committees*".

## **Senior Management and Special Committees**

Based on the risk management strategies reviewed and approved by the Board of Directors, the senior management formulates, implements and manages various policies, systems, rules and limits covering a wide range of risks during the course of their day-to-day operations and management functions in order to ensure that all types of risks are effectively managed and controlled. The Bank's senior management has established the following special committees: the Asset and Liability Management Committee, the Risk Management Committee, the Credit Approval Committee, the Non-performing Asset Disposal Committee and the Internal Control and Compliance Early Warning Committee, which coordinate, organise and supervise their respective risk management functions.

### ***President***

The Bank's President is responsible for the operation and management of the Bank, including overall risk management and implementation of decisions made by the Board of Directors. The Bank's President submits business plans to and implements such plans upon approval by, the Board of Directors. The Bank's President also formulates the Bank's internal management organisational structure, core management policies and specific rules and procedures. The President may undertake other functions and exercise other powers as conferred upon him under the articles of association or by the Board of Directors.

### ***Executive Vice President in Charge of Risk Management***

The Bank's Executive Vice President in charge of risk management reports to the Board of Directors' Risk Management Committee and the President on bank-wide risk exposure, material matters relating to risk and corresponding solutions, as well as the organisation and operation of the Bank's risk management system. The Bank's Executive Vice President in charge of risk management is also responsible for formulating and, upon obtaining the relevant approval, implementing the Bank's risk management framework, principles and strategies based on the Bank's overall development strategies. Furthermore, based on his authority, the Bank's Executive Vice President in charge of risk management: approves and supervises the implementation of risk management indicators for various business activities, bank-wide risk management policies and reporting processes; carries out assessments of the risk management system; examines and approves the detailed rules on risk management; and is responsible for tailoring the Bank's risk management system to achieve its risk management objectives. The Chief Risk Officers of tier-one branches report to the Bank's Executive Vice President in charge of risk management.

### ***Special Committees under Senior Management***

- **Risk Management Committee.** By taking into consideration the external economic environment and the Bank's business development and risk management, the Risk Management Committee reviews the Bank's risk management strategies and provides suggestions on amendments to such strategies to the Bank's President at the executive meetings. It is also responsible for: the review of the Bank's risk management policies, procedures and rules and regulations, as well as their implementation upon submission and approval in accordance with the management procedure; the review of reports on the bank-wide risk profile, material matters relating to risk and risk management, and the organisation and operation of the Bank's risk management functions; and the review of risk management issues raised by relevant departments of the Bank's head office and by the Bank's branches.
- **Asset and Liability Management Committee.** The Asset and Liability Management Committee is responsible for reviewing and providing guidance for the Bank's business development plans. It is also responsible for reviewing and determining annual targets and plans for the allocation of assets, liabilities and off-balance sheet items and making adjustments to such targets and plans in accordance with specific circumstances. Further, it regularly reviews reports on the bank-wide asset and liability status. It is also responsible for the management of bank-wide liquidity risk and the interest rate risk of banking books.
- **Credit Approval Committee.** The Credit Approval Committee is responsible for the examination and approval of credit applications that are beyond the limits of authority of the Credit Approval Department of the Bank's head office and for providing guidance on matters relating to credit examination and approval throughout the Bank.
- **Non-performing Asset Disposal Committee.** The Non-performing Asset Disposal Committee reviews and approves procedures, incentive measures and relevant policies for the disposal and recovery of non-performing assets as well as examines and approves asset disposal proposals, the repayment of debts by assets, loan foreclosure on repossessed assets, loan write offs and litigation relating to non-performing assets and risk agency matters.

- **Internal Control and Compliance Early Warning Committee.** The Internal Control and Compliance Early Warning Committee reviews early warning signal reports, approves proposals for handling early warning signals, instructs relevant departments to conduct special investigations, implements action plans in relation to early warning signals and performs other compliance functions with respect to the management of early warning signals.

## **Head Office Risk Management Departments**

### ***Risk Management Department***

The Risk Management Department coordinates and puts in place comprehensive risk management for credit, market and operational risk. It is responsible for: formulating policies and procedures for risk management; regular review and modification according to actual circumstances, and setting out relevant implementation rules; formulating, tracking and improving the Bank's credit policies, risk management system and methods and the rules and processes of making credit-related decisions; compiling and collating various types of risk management reports and reporting to senior management, the Asset and Liability Management Committee and the Risk Management Committee of the Bank and the Risk Management Committee of the Board of Directors in a timely manner; formulating strategic plans for the Bank's credit portfolios composition; analysing the performance of the Bank's credit portfolios; and organising, developing and maintaining risk management systems and models.

### ***Credit Approval Department***

In accordance with the Bank's credit policies and procedures, the Credit Approval Department is responsible for: examining, considering and approving various types of credit business applications within their limit of authority; administering the specific delegation of credit approval authority in the Bank's credit business; formulating plans for credit approval authority delegation in the Bank's credit business; organising, monitoring, administering and appraising the bank-wide implementation of credit approval authority delegation; and periodically reviewing the credit examination and approval activities of lower-level credit approval functions.

### ***Credit Management Department***

The Credit Management Department performs three core functions: (i) data analysis and model building at the portfolio level, (ii) post-credit-granting review and management and risk warning at the business level, and (iii) key operating procedure control at the process level. The Credit Management Department is responsible for coordinating credit risk monitoring and portfolio management for large, medium, small and micro-sized credit granting operations at the Bank. Additionally, the Credit Management Department conducts industry and credit asset portfolio data analysis, formulates and maintains the Bank's post-credit-granting management system, reviews and examines credit and loans granted to corporate and retail customers, monitors and administers key credit business procedures, and monitors events associated with material risks.

### ***Legal and Compliance Department***

The Legal and Compliance Department is responsible for: coordinating and organising the management of internal control, compliance risk and legal risk within the Bank; developing the relevant compliance risk management policies and systems; providing guidance for implementing bank-wide compliance tasks; organising legal and compliance inspections for the Bank's businesses and communicating with external regulatory authorities in connection with compliance matters.

### ***Special Loan Administration Department***

The Special Loan Administration Department is responsible for: formulating implementation rules on the management of non-performing assets; managing NPL; filing claims against borrowers who become bankrupt or insolvent, or handling follow-up work against borrowers who are liquidated or dissolved; handling debt restructuring in relation to non-performing assets; assessing the rating, interest suspension, waivers of interest and other issues relating to non-performing assets and reporting to the Non-performing Asset Disposal

Committee for approval; and preparing application materials relating to debt write-offs for submission to the Non-performing Asset Disposal Committee for examination and approval.

### ***Other Departments***

In addition to those set forth above, certain other departments also implement risk management policies and procedures and perform certain management functions within their scope of operation.

## **Risk Management Structure at the Branch and Sub-branch Levels**

### ***Tier-one Branches***

The Bank has implemented a programme to assign Chief Risk Officers to tier-one branches. While Chief Risk Officers at the branch level are directly under the leadership of the Bank's head office, they also report to the local branch heads and are subject to the guidance of the Risk Management Department, Credit Approval Department, Credit Management Department, Special Loan Administration Department and Legal and Compliance Department in the Bank's head office in relation to business matters so as to maintain the independence of the risk management of tier-one branches. Chief Risk officers at the branch level supervise the Risk Management Department, Special Loan Administration Department and Legal and Compliance Department of their respective branches and are responsible for managing the credit risk of such branches and examining and approving loans within their limit of authority. They also assist the branch heads in managing operational and compliance risks.

The Head of Tier-one Branches are ultimately responsible for tier-one branch-level operational and management matters. They are in charge of the overall risk management tasks of their local branches and are responsible for creating a favourable atmosphere for risk management and for establishing an effective risk management system. Based on the principle of the hierarchical management of operational and compliance risks, branch heads are responsible for establishing branch-level operational risk and compliance risk management systems at the request of the Bank's head office and have primary responsibility for the management of such risks at the branch level. In accordance with the principle of vertical management of credit risk, branch heads support their respective branch's Chief Risk Officers in managing credit risk by examining the branch/regional marketing guidelines and by exercising the "veto right" in the dual approval process for corporate credit applications.

### ***Tier-two Branches, Cross-city and County-level Sub-branches***

In order to standardise the risk management of tier-two branches, cross-city sub-branches and county-level sub-branches and to promote the healthy and orderly development of the Bank's businesses, the Bank has begun to apply the risk management system of tier-one branches to its tier-two branches, cross-city sub-branches and county-level sub-branches.

## **CREDIT RISK MANAGEMENT**

Credit risk is the risk of loss that the Bank may suffer from default by an obligor or counterparty of his/her obligations or commitments under a contract. The Bank continued to strengthen loan concentration management and established a tiered risk monitoring mechanism for large-value credit customers. The Bank is exposed to credit risk mainly in the form of loan portfolios, investment portfolios, guarantees and balance sheet and off-balance sheet credit risk exposure. To address the Bank's off-balance sheet credit risk, the Bank spent more efforts to strengthen management by optimizing structure and risk management system of off-balance sheet business. Furthermore, the Bank intensified efforts in industry research with remarkable achievements in commercialization of industry research results. The Bank also applied big data and artificial intelligence (AI) to upgrade traditional risk control technologies so as to facilitate digital transformation of management system and centralised its credit risk management.

The Bank classified assets in a strict manner so as to reveal risk profile dynamically and objectively. Sticking to a prudent and sound provision policy, the Bank conducted impairment testing and provisioning strictly in line with the new accounting standards for financial instruments. Besides, the Bank refined the whole-process asset quality management mechanisms, strengthened portfolio monitoring and penetration risk monitoring for large-value credit customers, and stepped up risk prevention in key areas. It also intensified the disposal of existing non-performing loans, and broadened disposal channels.

The Bank manages credit risk by adopting normalised and unified processes and standards for its credit business. The Risk Management Department of the Bank's head office, in conjunction with other relevant departments, regularly reviews and modifies the workflow and standards adopted for the Bank's credit business. Credit risk management includes corporate credit, retail credit and financial institution credit management and may be broadly divided into three segments, namely: (i) acceptance of credit applications and credit investigations; (ii) credit examination and approval; and (iii) opening of credit lines and post-disbursement management.

### **Management of Credit Risk Associated with Corporate Credit Business**

#### ***Acceptance of Credit Applications and Credit Investigation***

All applications made to the Bank for corporate credit are handled by the Bank's customer relationship managers. The Bank adheres to the "two-person investigation" principle in carrying out its credit investigations. The primary customer relationship managers and supporting customer relationship managers conduct comprehensive investigations on applicants or target customers, collect relevant information and data and thoroughly assess the credit applicant's eligibility for credit, the customer's solvency, business compliance by which the credit will be utilised and the reasonableness of credit plans. The credit investigation consists mainly of on-site investigation, which is supplemented by indirect investigations. Visits are made to the applicant's financial department, production and operation premises, key managers, clients and creditors with a view to obtaining first-hand data and gaining a comprehensive understanding of the production and operation, management, financial affairs, credit status, and industry information relating to the applicant. If necessary, the Bank may verify the authenticity of the information provided by customers through third party credit investigation agencies, relevant governmental departments, social intermediaries and other commercial banks and file such information for the Bank's records. If a customer relationship manager determines that an applicant meets the requirements of the Bank's credit policies and the basic criteria for credit, the customer relationship manager will request that the applicant submits their credit application and the relevant documents required in connection with the credit application.

The risk managers work in parallel with the customer relationship managers during the credit investigation process to uncover and assess credit risk and provide their opinions on the appropriateness of credit extension. The analysis and assessment of credit business usually include: (i) risk rating; (ii) assessment of credit business; and (iii) assessment of collateral.

#### **(i) *Risk rating***

The Bank's rating of risks associated with the corporate loan business generally consists of borrower rating and facility rating. In general, the Bank carries out both borrower rating and facility rating for the Bank's normal risk corporate loan business and, if the loan is guaranteed, the Bank carries out guarantor rating. Borrower rating is an assessment of a borrower's willingness and ability to repay its debts in the future, based on a comprehensive analysis of the quantitative and qualitative risk factors of a borrower (or a guarantor), and the rating results are shown by credit ratings. The Bank's borrower rating system is composed of 24 different grades, with each individual grade corresponding to a probability of default (PD) in a one-year horizon. Facility rating is an assessment of the expected loss rate (ER) of specific transactions. A comprehensive consideration of borrower rating and default loss rate is shown as the product of the PD and loss given default (LGD). The assessment results are classified into 12 grades.

The Bank uses an internal rating system to rate the risks associated with the Bank's corporate credit business. The Bank's internal rating system, which was developed under the guidance of Basel II, was introduced on a bank-wide basis in 2004. On the basis of business performance indicators and data on the financial status of customers and through customer assessment models, the system measures the probability of default of customers, and, on that basis, computes the preliminary results of customer rating. The customer relationship managers are responsible for the preliminary assessment of borrower rating and risk managers are responsible for review and approval of the borrower rating. The Bank treats credit risk rating results as an important basis for decision-making for its credit business, and have established clear guidelines on thresholds based on risk ratings.

(ii) *Assessment of credit business*

The investigation and assessment of the first source of repayment is the primary part of the credit investigation. Customer relationship managers are responsible for credit analysis and assessment.

The analysis and assessment of credit risk mainly include investigation of: (i) the integrity of a borrower; (ii) authority for a borrower to borrow funds; (iii) use of loans; (iv) profitability of the borrower and the professional management capability for the operation of such borrower; (v) professional knowledge of the borrower; (vi) prospects of the industry in which the borrower operates; (vii) repayment terms; (viii) sources of repayment funds; (ix) forecast of cash flow in various business cycles; (x) current credit and financial information of the borrower and relevant members of its group company; and (xi) valuation of collateral (or pledge) and its validity as well as the ability of guarantors to repay for borrowers and the validity of the guarantee.

(iii) *Assessment of collateral*

For loans with collateral, the value of collateral is usually required to be evaluated by independent appraisers. While different loan-to-value ratios will apply to loans secured by collateral based on the type and the specific condition of such collateral, the ratio should not generally exceed the maximum loan-to-value ratio for such type of collateral. Set out below are the loan-to-value ratios for major types of collateral:

<b>Major types of collateral</b>	<b>Maximum loan-to-value ratio</b>
Land use right mortgage (assignment) .....	70%
Real estate.....	40%-60%
Machinery and equipment .....	30%-40%
Certificates of deposits, treasury bonds, financial bonds .....	80%-90%
Warehouse receipts, bill of lading .....	70%
Other rights <sup>(1)</sup> .....	40%-80%
Other movable assets .....	50%

Note:

- (1) Mainly include other property rights that may be pledged pursuant to the laws and administrative regulations of the PRC, such as receivables, transferable fund shares and shareholder rights.

Where loans are to be guaranteed by a third party with joint and several liability, the Bank conducts an assessment of the guarantor's financial status, credit records and ability to repay for borrowers.

## ***Credit Examination and Approval***

### *Approval Authority*

The Bank's Credit Approval Departments are independent from the Bank's business operation units. The examination and approval of credit follow the principles of objectivity and impartiality and opinions as to decision-making are given independently without any interference from internal or external factors. All credit projects are handled in conformity with the stipulations set by the Bank with respect to the investigation and granting of credit and the processes for examination and approval.

The Bank's normal-risk corporate loans are examined and approved by the Bank's authorised approval authorities and personnel, including the Bank's head office's Credit Approval Committee and Credit Approval Department, the Chief Risk Officer of the SME Business Department of the Bank's head office, the Chief Risk Officers of the branches, the general manager of the Risk Management Department of the branches as well as the heads of branch-level SME credit management centres and other authorised personnel, in each case according to the particular authorities granted to them. The Bank's low-risk corporate loans are examined and approved by authorised examination and approval officers in various business lines.

### *Examination and Approval Process*

#### (i) Normal-risk corporate credit business

Generally, the credit approval process includes the following stages of review and approval:

- (1) the customer relationship manager completes a credit investigation report and, upon approval from the persons in charge of the relevant operational units, submits the report to the branch risk manager for review and issuance of a review report;
- (2) upon review by the branch-level risk manager, any matter within the authority of the general manager of the branch-level Risk Management Department will be sent to him/her for review and approval. The general manager of the branch-level Risk Management Department directly issues rejections of credit applications and sends accepted applications to the head of the branch-level corporate banking business, who holds veto power, for review and as part of the dual approval process. The head of the branch-level corporate banking business then signs his or her opinion and issues the decision;
- (3) upon review by the branch-level risk manager, any matter that exceeds the authority of the general manager of the branch-level Risk Management Department must be submitted as a separate review report to the branch-level Credit Review Committee for comments (certain applications are not subject to this review process and can be directly submitted to branch-level risk officer). Credit applications not approved by the Credit Review Committee are submitted to the Chief Risk Officer, who then issues the rejections. Credit applications that have been reviewed and approved by the Credit Review Committee are submitted to the branch's Chief Risk Officer for approval within the limits of his authority as part of the dual approval process, and then submitted to the branch head, who holds veto power, for review and approval; and
- (4) credit applications accepted by the Chief Risk Officer but that exceed the Chief Risk Officer's approval authority may only be submitted to the Bank's head office if the branch head signs a written consent. All credit applications submitted to the head office by the branches and relevant departments of the head office are initially examined for preliminary approval by a junior examination officer of the Credit Approval Department, and then submitted to the competent higher-level review officer or institution for final approval. In accordance with the different features of credit applications, such applications may be approved by meetings or by authorised officers of the Credit Approval Department of the Bank's head office.

#### (ii) Examination and approval of credit applications from SMEs



For the Bank's SME customers, the approval process generally follows the above process for credit applications. However, an SME applicant of a tier-one branch shall also undergo credit investigation by the SME credit management centre of the Risk Management Department of that branch, followed by a report issued on the investigation. Any applications approved at this stage will then be examined for approval by the head of the branch-level SME credit management centre, unless such approval would exceed his authority, in which case the application will be referred to the general manager of the branch-level Risk Management Department or the branch-level Chief Risk Officer for examination and approval within the limits of his authority. An application which has been approved by the head of the branch-level SME credit management centre within the limits of his authority will then require the issuance of a signed opinion from the general manager of the SME Business Department, who holds a veto right.

For tier-two branches, cross-city sub-branches and county-level sub-branches that have a Chief Risk Officer, an application by an SME customer must be investigated by the risk manager of the branch or sub-branch and then submitted to the Chief Risk Officer of the branch or sub-branch for examination and approval within the limits of his authority. Where the approval of an application requires higher authority, the application will be referred to the tier-one branch Chief Risk Officer for examination and approval within the limits of his authority.

Since 2012, the Bank has implemented various measures in order to proactively address potential risks in connection with the downturn in macroeconomic conditions, as well as strengthen the Bank's risk management and improve asset quality. First, the Bank implemented improved business modelling and improved risk mitigation functions. Second, the Bank strengthened its risk monitoring system and conducted real-time surveillance and on-site examinations. Third, the Bank maintained monitoring of risks associated with SMEs, enhanced monitoring of customers with NPL and increased the Bank's clearing and recovery efforts.

(iii) LGFV credit business

For the Bank's LGFV credit business, the Bank has implemented a risk management system that governs the whole process of the extension of such credit by adhering to commercial principles and by standardising the Bank's operations. In conducting risk assessments to ensure that the borrowers (particularly with respect to new loans) meet the Bank's credit standards, the Bank takes into account the overall solvency of the LGFVs and their debt servicing ability so as to prudently evaluate the risks associated with granting loans to such entities, including collateral risk and maturity risk. In the post-disbursement stage, the Bank continuously monitors factors that may affect repayment and the Bank uses a comprehensive early warning system to identify, categorise, report and address maturity risk. The Bank has developed rating tools that classify the underlying risks of loans to such entities in a more accurate and objective manner and analytical tools to strengthen maturity risk analysis and monitoring.

CBRC requires PRC banks to classify LGFV loans in accordance with the level of cash flow coverage, which refers to a borrower's cash flow divided by the total loan principal and the interest incurred. As at 31 December 2017, the cash flow of the majority of the Bank's LGFV borrowers was sufficient to cover 100 per cent. (or above) of the principal and the interest incurred. The remaining loans were secured by valid guarantees or collaterals or those originated from economically developed regions equivalent to or above the prefectural level.

(iv) Corporate real estate loan business

The Bank requires the implementation of credit life cycle process management for the Bank's corporate real estate loan business, which means that the Bank focuses on mid-to high-end customers and have put in place a specialised and centralised management system for the Bank's entire corporate real estate loan business. The Bank has established the real estate finance centre under the Corporate Banking Department of the Bank's head office, which is responsible for coordinating the Bank's corporate real estate loan operations and reviewing relevant project proposals. The Credit Approval Committee of the

Bank's head office, the real estate credit approval centre of the Credit Approval Department and the Chief Risk Officers at the branch level are authorised to carry out the examination and approval of loan applications. After credit extension, the Bank requires that the utilisation of credit match the construction progress of a real estate development project. During the post-disbursement stage, the Bank requires that management, control and risk investigation for loans be strengthened by strictly monitoring the source of funds for repayment and conducting regular reappraisals of the value of collateral and pledged assets. Since 2008, the Bank has been conducting special stress tests on real estate loans and loans granted to industries related to real estate and developing risk measurement tools for loans granted to industries related to real estate.

(v) Low-risk corporate credit business

The Bank's low-risk corporate credit business is conducted through a special credit approval process, and applications are examined and approved by authorised approval officers from the corporate banking business line within the limits of their authority. Low-risk corporate credit applicants are required to fulfil the following conditions: (1) the collateral and pledged assets are cash-equivalent assets or guarantees provided by financial institutions recognised by the Bank; (2) the security provided can discharge in full the obligations relating to the Bank's creditor's rights (including principal, interest and service fees); and (3) the security is not legally defective and there is no associated policy risk.

### ***Opening of Credit Lines and Post-disbursement Management***

#### *Opening of Credit Lines*

The opening of credit lines involves fulfilling prerequisites for the granting of credit, entering into relevant contracts, loan reviews and making necessary accounting entries. After a credit application is approved, a credit line can be opened only after a disbursement approval centre at the branch level has determined upon examination that the prerequisites for the granting of credit have been fulfilled, the credit contract has been signed by an authorised person, the relevant legal procedures have been completed and the validity of any security has been confirmed. Substantially all of the Bank's credit contracts are in the standard form prescribed by the Bank's Legal and Compliance Department, and those that are not are subject to approval by the Bank's Legal and Compliance Department.

#### *Post-disbursement Management*

The Bank has established a post-disbursement management system with defined responsibilities and standardised methods to continuously monitor factors that may affect repayment. The Bank conducts off-site and on-site inspections and applies risk modelling techniques on the basis of the Bank's experience in order to detect the potential risks associated with a specific borrower, issue early warnings and adopt remedial measures. Customer relationship managers are responsible for the day-to-day credit check on the operating conditions and use of credit by their respective borrowers, so as to detect any signs of potential credit default and to adopt risk mitigation measures as soon as possible. Risk monitoring centres of the Risk Management/Credit Management Departments at the branch level are responsible for post-disbursement organisation, supervision, guidance, inspection and reporting. The Bank emphasises monitoring factors that may have a negative impact on the ability of borrowers to make repayment, mainly including (i) the operating and overall credit risk status of a borrower, including its receivables and inventory, changes in operating cash flow and unusual cash outflows; (ii) the status of projects into which loans are injected; and (iii) the condition of assets collateralised or pledged as security for credit, as well as the condition of guarantors.

#### *Early Warning*

Following the principles of prompt reporting and quick response, the Bank has established a comprehensive early warning system that sets out early warning processes, including identification, categorisation, verification, reporting, handling and cancellation. The Bank has three types of early warnings based on their degree of urgency and have designed action plans to deal with different types of early warnings so that

business units are able to take the necessary measures to deal with risks promptly. The Bank's head office maintains a Risk Management Committee, and each branch has early warning committees, which coordinate the early warning work of the Bank's head office and the branches, respectively. The Bank's head office's Risk Management Committee and the branch-level early warning committees are responsible for early warning management at their respective levels and hold regular meetings to review the status of systematic risk and individual risk in order to deal with early warning signals promptly and to assess the results of response measures.

#### *Loan Classification and Provision of Reserve*

In 1999, in accordance with the requirements of regulatory authorities, the Bank started to apply a five-category loan classification system. The Bank carries out loan classification and makes provisions for losses in accordance with the relevant requirements of PRC regulations as well as the requirements of PRC and international accounting standards.

The classification of loan risks and estimation of expected losses are carried out at different levels. Customer relationship managers are responsible for the preliminary classification of risks as well as for estimating the losses of NPL, the results of both of which are then subject to review by risk managers. At the credit application stage, reports are submitted to the upper level following credit granting procedure to obtain determination from the relevant examination and approval institutions, and the scope of authority for determination is the same as the scope of authority for examination and approval. For the day-to-day management of existing credit, the Bank's head office Credit Management Departments, Chief Risk Officers at the branch level and branch risk managers make the final determination within the limits of their authority.

At the beginning of 2007, on the basis of the Bank's existing five-category classification system and internal rating-based approach, the Bank adopted a 12-category loan classification system that refined the Bank's loan classification in accordance with the default risks of a corporate borrower and facility risk arising from the loan. Based on the varying degrees of credit asset risk, the Bank's 12-category loan classification further expands the "normal" grade under the original five-category loan classification system into seven grades, which are expressed from P1 to P7. The original "special mention" class is further broken down into two grades, which are expressed by SM1 and SM2. Loans under "sub-standard", "doubtful", and "loss" classes remain unchanged and are collectively referred to as non-performing credit assets.

<b>12-Category Loan Classification</b>	<b>Names under the Five Category Classification</b>	<b>Names under the 12-Category Loan Classification</b>
1	Normal	Grade 1 Pass (P1)
2	Normal	Grade 2 Pass (P2)
3	Normal	Grade 3 Pass (P3)
4	Normal	Grade 4 Pass (P4)
5	Normal	Grade 5 Pass (P5)
6	Normal	Grade 6 Pass (P6)
7	Normal	Grade 7 Pass (P7)
8	Special Mention	Grade 1 Special Mention (SM1)
9	Special Mention	Grade 2 Special Mention (SM2)
10	Sub-standard	Sub-standard (SS)
11	Doubtful	Doubtful (DF)
12	Loss	Loss (LS)

Through this loan classification system, the Bank classifies corporate loans on the basis of both quantitative and qualitative factors by analysing the default risk of a corporate borrower and facility risk arising from the loan and considering the estimated impairment losses.

The Bank's loan classification system is designed to help the Bank to better monitor changes in the Bank's asset quality, detect potential credit risks and more effectively conduct post-disbursement management of the Bank's loan portfolio. The Bank believes that this system has helped the Bank strengthen its loan monitoring capabilities.

The Bank makes provision for losses arising from different types of its corporate credit assets in two ways: individually assessed provisions and collectively assessed provisions. Loss estimation is carried out on an individual basis for non-performing credit assets, whereas collective loss provisions are applied to credit assets classified as "normal" and "special mention".

#### *Termination of loans to potential high-risk customers*

The Bank has established an exit management mechanism for potential high-risk customers in order to optimise the Bank's portfolio of borrowers and prevent potential risks from materialising. Potential high-risk customers are those who are expected to suffer an adverse impact on their repayment ability or to experience adverse changes in their financial condition. For such customers, the Bank normally reduces credit limits, terminates credit lines, ceases the renewal of credit facilities and requests the provision of additional risk mitigation and other measures in accordance with the relevant provisions of their respective loan contracts.

#### ***NPL Management***

The Bank proactively manages NPL to reduce the associated risks to its loan portfolio, promptly write off doubtful debts and improve its recovery on disposals.

The Non-performing Asset Disposal Committees at the Bank's head office and branch level are responsible for managing and recovering the Bank's NPL. They are also responsible for approving disposal and recovery plans for non-performing assets, including asset restructuring, settlement of loans by taking collateral, write-off of loans and other related issues. Steps taken for the recovery of NPL mainly include collection, foreclosure on collateral, legal proceedings, reduction or waiver of interest, loan restructuring, write-offs and collection by third parties.

#### **Credit Risk Management for Retail Credit Business (Excluding Credit Cards)**

##### ***Acceptance of Credit Applications and Credit Investigation***

When handling a new business, a customer relationship manager of the Bank's retail credit business is required to have a face-to-face interview with the credit applicant, and all documents must be signed by the applicant in the presence of the manager. The applicant will be requested to sign an application form and provide his or her identity card, proof of income, transaction contracts, certification of ownership of assets collateralised or pledged as security, a written undertaking from the guarantor (if any) and materials proving the guarantor's creditworthiness. The Bank mainly relies on income, credit history and loan repayment ability to assess the applicant.

The Bank's retail credit business customer relationship managers are responsible for assessing retail credit applicants and completing the reporting materials required for approval. The assessment mainly focuses on the credit risk of the applicant and the valuation of the loan collateral. The Bank conducts its credit investigations through on-site investigations, telephone interview and information inquiries as well as through other channels and methods to verify the authenticity of loan-related information. For mortgage loans that are doubtful or that are particularly large, customer relationship managers may take additional verification steps by making "home visits". The appraisal of the collateral for retail loans is similar to the appraisal of the collateral for corporate loans. In the case of secured loans, the Bank usually requests an independent appraiser approved by it to appraise the security provided.

On the basis of the results of inquiries made with the personal credit database of PBOC, and in light of the results of the assessment of the applicant's risk profile and the risk mitigation factors, retail customer relationship managers will prepare reporting materials for approval.

### ***Credit Approval***

The Bank's retail credit approval is carried out by branch Chief Risk Officers or persons authorised by them within the limits of their authority, except for high-risk retail credit business applicants, which must go through panel examination and approval. The Bank's retail credit business is mainly approved by authorised individuals.

### ***Loan Disbursement and Post-disbursement Management***

After the loan applications of individual customers are approved, the authorised signatory of the Bank's business units, the borrower and the guarantor (if any), jointly enter into retail loan contracts and a disbursement will be made after the loan prerequisites are satisfied. In the Bank's retail loan monitoring, the Bank focuses on the repayment ability of the borrower and the status of assets collateralised or pledged as security and any change in their value. The Bank adopts a five-category classification for retail loans by reference to the risks associated with the loans.

Once a loan becomes overdue, the customer relationship manager or specific collectors will, in the context of the individual circumstances leading to the overdue balance and the accompanying risks, demand repayment through various actions, including the use of telephone, e-mail, letters and home visits.

Based on the actual conditions of non-performing retail loans, repayment will be demanded from the borrowers and guarantors by one or several of the following ways: collection, litigation, appointment of factoring agents or repayment of loans by assets.

## **Credit Card Risk Management**

### ***Identification of Credit Risk***

The Credit Card Centre imposes different criteria for credit cards granted to different types of customers, making full use of risk measurement methods such as application grading models, behaviour assessment models, initial credit line models and dynamic management of credit lines so as to manage credit card risk in a quantitative manner, which enables the Bank to carry out differential management of customers with differing risk profiles and income statuses. On this basis, the Bank decides whether a card should be issued and, if so, what type of card should be issued and what credit limit should be granted. The Bank's Credit Card Centre has improved risk management level by enhancing its differentiated access management and credit management, proactively controlling potential high-risk assets and applying diversified mechanisms for recovering and disposing overdue loans, thus keeping the overall risk level under control.

The Bank's Credit Card Centre has set up a specialised risk data analysis team, which pays close attention to the macroeconomic development of the PRC as well as the development of the credit card business in the banking industry. Furthermore, based on the requirements of the Bank's business, the Bank collects information relating to credit risk control measures of other banks through a number of channels and provide such information to risk policy-makers for their reference. Based on the Bank's business planning and risk management targets, the Bank adjusts its credit card policy in line with the current forecast of the credit card business in a timely manner.

The Bank investigates and identifies potential customer credit risks through a number of channels, including making full use of internal and external credit investigation means such as the Bank's credit card blacklist system, the personal credit information database of PBOC, the identity verification system of the Ministry of Public Security, China UnionPay's risk information sharing system and the industry-wide risk information sharing system.

### ***Credit Risk Control System***

The Credit Card Centre has established the Risk Management Department, Credit Approval Department, Collection Management Department, Strategy Research Department and other departments so as to strengthen the exchange and coordination of information related to risk prevention. The Bank updates guidelines for the examination and approval of credit card applications every year. The guidelines set out the Bank's risk management guiding principles, classify the clients into different types, namely supported, restricted and prohibited, and clarify the approval process for special cases. The Bank has developed its own examination and approval management system, online credit limit adjustment system, electronic debt collection system and operational risk reporting system. In addition, the Bank has carried out operational risk and control self-assessment (RCSA) for the purpose of identifying risks and refining the Bank's internal controls. The Credit Card Centre has introduced the TRIAD customer management system which aims to improve the Bank's customer satisfaction through effective allocation of resources under the Bank's customer credit line management and behaviour management, while controlling risk.

### **Credit Risk Management for Financial Institution Credit Business**

The Bank's financial institution credit business primarily includes (i) investments in domestic financial bonds and other quoted securities, financial institution placements and borrowing, and trading of derivatives and (ii) investments in overseas negotiable instruments and overseas financial institution placements. The Bank sets up credit limits with respect to countries, regions and domestic and overseas counterparties. Such limits are subject to the approval of the Credit Approval Department and the Credit Approval Committee of the Bank's head office within their respective limits of authority.

### **Credit Risk Management System**

The Bank's credit risk management systems include the Bank's corporate credit risk management system, retail credit risk management system and financial institution credit risk management system.

The Bank's corporate credit risk management system allows for the electronic handling and streamlining of the credit granting process, from credit application, review and approval to disbursement approval and post-disbursement management. The Bank pursues the continued development of its corporate loan risk management system to enhance its functions. In particular, by targeting credit extensions to micro-enterprises, the Bank has developed an electronic procedure and risk model catering to the characteristics of micro-enterprises in the Bank's risk management system, which provide systemic support for the whole procedure, including risk identification, measurement, monitoring, mitigation and control.

The Bank's retail credit risk management system is a comprehensive retail loan risk management system, which comprises an analysis modelling software, decision-making engines, process management and numerous relevant data sets, which are key to the establishment of a comprehensive risk management system for the Bank. The entire retail credit management process can be managed through this electronic system, which includes loan applications, on-line approval, loan disbursement and post-disbursement management.

The Bank's financial institution credit risk management system facilitates the process of information collection and credit applications, customer rating, credit approvals, disbursement and post-disbursement monitoring in relation to financial institutions.

## **LIQUIDITY RISK MANAGEMENT**

Liquidity risk refers to the risk where although a bank is solvent, it may be unable to obtain sufficient funds in a timely manner or at a reasonable cost, to cope with asset growth or settle due and payable debts. Most of the funds held by the Bank come from the deposits of the Bank's customers. In recent years, the Bank's customers' deposits have grown in quantity and diversified in types and term length. Based on an estimation of the Bank's future cash flow, the Bank takes action to maintain an appropriate percentage of liquid assets.

The Bank's Asset and Liability Management Committee is responsible for managing the Bank's overall liquidity. The Asset and Liability Management Committee, with the Bank's President as its chairman, is responsible for formulating policies relating to liquidity based on relevant regulatory requirements and the principle of prudence. The objectives of the Bank's liquidity policies are as follows:

- to maintain the Bank's liquidity at a stable and sufficient level and to ensure that the Bank is in a position to fulfil payment obligations in a timely manner and meet its liquidity demands relating to its assets, liabilities and off-balance sheet operations, both in the case of normal business operations and in stressed circumstances, by setting up a methodical and comprehensive liquidity risk management system; and
- to make reasonable and timely adjustments to the scale and structure of the Bank's assets and liabilities based on market changes and business development and to pursue the maximisation of profits and the minimisation of costs in order to maintain an appropriate level of liquidity with an aim to ensure the "safety, liquidity and efficiency" of the Bank's capital.

The Bank's Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the Department on a timely basis.

The Bank mainly adopts a liquidity gap analysis to measure liquidity risk and adopts different scenario analysis and stress tests to assess the impact created by the relevant liquidity risk. While the Bank reduces its liquidity risk by term matching, diversification of liabilities and other on-balance sheet business adjustments in light of internal transfer pricing and external pricing, the Bank also attempts to adjust for any liquidity shortfall by making use of monetary swaps and other financial derivatives. The Bank continuously develops effective contingency plans to respond to various possible liquidity risks.

## **MARKET RISK MANAGEMENT**

Market risk means the risk of losses to the Bank's businesses resulting from an adverse movement of market prices, including interest rates, exchange rates, commodity prices and stock prices.

The Board of Directors bears ultimate responsibility for monitoring and managing the Bank's exposure to market risk to ensure that the Bank can effectively identify, measure, monitor and control the different types of market risk to which the Bank's businesses are exposed. The Risk Management Committee of the Board of Directors is responsible for monitoring market risk management within its limit of authority delegated by the Board of Directors and reviewing the Bank's strategies, policies and procedures relating to market risk management together with relevant proposals on the acceptable market risk level put forward by senior management. Most of the market risks to which the Bank is exposed in its business operations and development are concentrated in the Bank's treasury management, including (i) money market activities, (ii) investment portfolio management and (iii) treasury transactions on behalf of customers. The Planning and Finance Department is responsible for the day-to-day monitoring and management of the underlying interest rate risk and foreign exchange risk of banking books. The Risk Management Department is responsible for establishing and improving the Bank's market risk management system, formulating market risk management policies and identifying, monitoring and reporting the Bank's market risk exposure.

In accordance with the requirements of regulatory authorities and the general practices of the banking industry, the Bank divides its on and off-balance sheet assets into two categories: trading books and banking books. Based on the nature and characteristics of the relevant accounts, the Bank adopts methods to identify, measure, monitor and control market risk. Trading books refer to the financial instruments and commodities positions that could be traded freely. Banking books represent business other than trading books. The Bank primarily measures and monitors the market risk associated with trading books through sensitivity analysis, scenario

analysis and foreign currency gap analysis. The Bank measures and monitors the market risk associated with banking books through sensitivity gap analysis, effective duration analysis and scenario simulation analysis.

The Bank aims to effectively identify, measure and monitor factors relating to market risk. In order to ensure that the market risk the Bank assumes is within its risk tolerance, the Bank has established a tiered cap system for market risk management. The first tier sets a cap on the level of overall market risk exposure deemed acceptable to the Bank. The second tier sets exposure caps on both interest rate and foreign currency risk. Third- and fourth-tier caps are business- and product-type specific. To ensure the implementation of the Bank's tiered cap system, the Bank has implemented a suite of cap management procedures, covering application, approval, monitoring, early warning, reporting and action plans with respect to such caps.

### **Interest Rate Risk Management**

The Bank's interest rate risk mainly relates to the repricing risk in the Bank's commercial banking business and the risk of the Bank's treasury position. The objectives of the Bank's interest rate risk management are to develop measures to monitor and control interest rate risk, to establish proper mechanisms to measure, analyse and follow up on changes of such risk and to take appropriate steps before escalation of interest rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of interest rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations.

The Bank's Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Bank regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value. The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

In the Bank's interest rate risk management, the Bank has taken steps in conducting active management of assets and liabilities, and applying the results of gap analysis of asset-liability management to the adjustment of portfolios and the control of liability costs so as to increase the Bank's bank-wide net interest margin.

The Bank assesses the interest rate risk relating to banking books mainly through repricing gap analysis and net profit and interest income simulation analysis. The Bank regularly monitors the position of the gap and conducts stress tests by using gap data. On this basis, the Bank adjusts repricing term structures of interest-earning assets and interest-bearing liabilities and uses derivatives to hedge against interest rate risk. At the same time, the Bank closely monitors the movement of interest rates of local and foreign currencies, and, in line with changes in market interest rates, adjusts the Bank's interest rates for deposits and loans denominated in both local and foreign currencies so as to mitigate interest rate risk.

With respect to the Bank's financial market business, the Bank adopts such techniques as duration and present value per basis point to measure interest rate risk, and applies stress tests and scenario analysis to monitor and control risks.

### **Foreign Currency Risk Management**

The Bank's foreign currency risk primarily arises from the proprietary foreign currency portfolio within the Treasury Department's proprietary investments, and other foreign currency transactions. The objectives of the Bank's foreign currency risk management are to develop measures to monitor and control foreign currency risk, to establish proper mechanisms to measure, analyse and follow up on changes in such risk and to take appropriate steps before escalation of foreign currency risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of foreign currency risk and to safeguard the safety, liquidity and profitability of the Bank's business operations. The Bank's foreign currency risk is reflected in the mismatch of the currencies in which the Bank's assets and liabilities are denominated and the possible adverse impact of foreign currency fluctuation on the Bank's profit and capital in foreign currencies.



The Bank has adopted foreign currency risk management measures across the Bank to centralise the management of exchange risks related to the Bank's account. The Bank endeavours to match relevant foreign currency assets with liabilities and controls the exchange risks by making available and utilising various currency sources. The Bank strictly controls risk exposure in foreign exchange settlement and sales and takes measures to improve the position-closing method for foreign exchange settlement and sales. The Bank also implements a "multiple price quotations per day" mechanism to reduce exchange risk. The Bank actively researches, designs and develops various derivative financial instruments and innovative financial products, aiming at managing foreign currency risk by utilising appropriate financial instruments.

## **OPERATIONAL RISK MANAGEMENT**

Operational risk represents the risk of loss associated with deficiencies and failures of internal processes, personnel and information systems, or external events. The operational risk that the Bank faces primarily includes, among others, internal and external fraud, damage to tangible property, disruptions to the Bank's operations or information technology system and problems associated with transaction settlement as well as business processes management. Operational risk also includes legal risk but does not include strategic or reputational risk.

The Bank's operational risk management aims to control operational risk within an acceptable range, to increase service efficiency and optimise work flow, to lower management costs and increase profitability, to reduce the impact of contingencies and to ensure the normal and continuous operation of the Bank's business.

The Bank has established a hierarchical operational risk management structure, operating under the guidance of the operational risk management policies formulated by the board and implemented by the Bank's senior management, with three lines of defence. The Board of Directors is ultimately responsible for operational risk management. The Bank's senior management actively leads the relevant initiatives; branch-level management teams are responsible for operational risk management at their respective branches, with branch heads having ultimate responsibility at branch level.

Business units and functional departments constitute the first line of defence to safeguard against operational risk, directly bearing and managing the operational risk of their own departments or lines and assuming primary responsibility for operational risk management. The Risk Management Department and Legal and Compliance Department constitute the second line of defence to safeguard against operational risk, and are responsible for establishing an operational risk management framework and guarding, supporting and monitoring the implementation of the Bank's operational risk management at all levels. The Internal Audit Departments and Discipline and Inspection Departments constitute the third line of defence against operational risk. The Internal Audit Departments are responsible for auditing the implementation of the Bank's operational risk management system across the Bank and reporting related issues to the senior management and the Audit Committee of the Board of Directors, and the Discipline and Inspection Departments carry out investigations and culpability verifications and ensure that the relevant individuals are held accountable for any operational issues identified.

The Bank has preliminarily established an operational risk identification and assessment system, which is based on operational risk and control self-assessment (RCSA), supplemented by an operational risk event reporting system and key operational risk indicators and supported by internal audit and compliance assessments. Under the hierarchical management of operational risk, different business lines or business departments are responsible for applying the relevant tools to identify, assess and control operational risk and adopt appropriate risk management measures.

The Bank has implemented the operational risk and control self-assessment (RCSA) process and has incorporated this into the daily work of the Bank's business lines, branches and sub-branches. The RCSA is implemented by the institute or department that assumes direct responsibility for operational risk for the purpose of internally assessing operational risks and effectiveness of control in accordance with the principles of operational risk management.

The Bank has established an operational risk reporting system whereby various business lines and various branches and sub-branches are required to report on operational risk events in accordance with the predetermined reporting scope, route and format. The operational risk reporting system helps to pinpoint weak links in operational risk control by identifying the spread of losses, and can be used to verify the results of operational risk control self-assessment so as to evaluate the quality of the RCSA.

The Bank has set up a key risk indicator (KRI) system for operational risk, which covers the Bank's main risk categories and key product groups. By continuously monitoring key risk indicators, the Bank aims to keep abreast of changes in its operational risk exposure and to enhance the Bank's adaptable supervision capabilities so as to actively manage operational risk and be able to issue early warnings prior to the occurrence of potential operational risk incidents.

## **COMPLIANCE RISK MANAGEMENT**

Compliance risk refers to the risk of legal sanctions, regulatory penalties, material financial losses, or reputational damage to a commercial bank resulting from the failure to comply with applicable laws and regulations as well as relevant industry standards. Compliance risk management is an important part of the Bank's overall risk management and the Bank has accordingly placed strong emphasis on compliance risk management throughout the Bank's internal control structure and procedures. The Board of Directors is ultimately responsible for matters relating to compliance risk and the Legal and Compliance Departments at both the Bank's head office and at the branch level take responsibility for coordinating bank-wide compliance risk management, including the implementation of an integrated and coordinated compliance risk management system and the adoption of tracking and monitoring measures. The Bank continuously provides effective guidance, monitoring, alerts, identification and assessment with respect to compliance risk, and actively promotes systematic compliance management.

## **LARGE EXPOSURE MANAGEMENT**

In line with the Measures for the Administration of Large Exposures of Commercial Banks (Decree No. 1 of CBIRC in 2018), the Bank continuously enhanced large exposures management, orderly carried out work relating to measurement, monitoring and system optimization for large exposures, and thus effectively brought customer concentration risk under control. For the year ended 31 December 2023, all limit indicators for the Bank's large exposures were controlled within the regulatory scope.

## **COUNTRY RISK MANAGEMENT**

The Bank established a country risk management system that fits in with its risk profile, set risk limits and conducted regular monitoring, carried out country risk stress tests, and formulated procedures for handling material risk events. For the year ended 31 December 2023, the Bank was granted above investment grades in national and international ratings of country risk exposures, and accrued adequate country risk provisions in accordance with regulatory requirements.

## **OPERATIONAL RISK MANAGEMENT**

The Bank strengthened dynamic identification and monitoring in operational risk management, effectively utilised the collective application of historical loss data, and improved risk prevention, problem tracking, risk disposal and rectification work. The Bank paid close attention to the trends of regulatory penalties in real time, analysed and summarised key violation cases, drew lessons from them, and took preventive measures. The Bank carried out the risk case collection event, and strengthened cautionary reporting and education training on common risks in key fields. The Bank actively implemented related provisions of the new rules on capital

management, optimised implementation plans, developed management systems, and improved systems for operational risk management and capital measurement.

## **COMPLIANCE RISK MANAGEMENT**

The Bank actively carried out the work requirements of “Regulation Implementation Year” by constantly following changes in external laws and regulations, and regularly reviewing internal rules and regulations. Focusing on key areas of regulatory concern, the Bank strengthened the effectiveness of system implementation. The Bank set internal control and compliance officers in the main business departments of the Head Office, and built a comprehensive and three-dimensional due diligence supervision system. The Bank improved the quality and efficiency of case prevention and control management, organised the special activity of “strengthening legal case prevention and promoting compliance”, and carried out screening and investigations into employees’ abnormal fund transactions. The Bank promoted strict and precise accountability, and optimised the employee behaviour management system. Meanwhile, the Bank strengthened related party transaction management, improved authorization management system, and timely conducted dynamic adjustments. The Bank strengthened early warning and reporting management for the compliance risks of consolidated institutions, and built a long-effect mechanism for internal compliance management.

## **REPUTATIONAL RISK MANAGEMENT**

The Bank regarded reputational risk stability as the overall objective, and incorporated it into the comprehensive risk management system according to the principle of full coverage of reputational risks, covering all on- and off-balance-sheet business sectors, as well as all branches and subsidiaries. It further optimised procedures and specified responsibilities to integrate reputational risk management into business development and customer service. Efforts were also put into early warning checks for hidden risks, assessment and training relating to reputation risks, thus effectively improving reputational risk response capability and management level.

## **CAPITAL MANAGEMENT UNDER COMPREHENSIVE RISK MANAGEMENT**

The Bank believes it has an established capital management system and promotes organic integration between the Bank’s capital management, risk management and assets and liabilities management units. The Bank also strengthened its valued-based portfolio management system to enhance its systematic risk management capability.

The Bank’s capital management organisational structure encompasses the board, supervisory committee and senior management. The Bank emphasises efficiency in the Bank’s capital management by using RAROC (Risk-Adjusted Return On Capital) /EVA (Economic Value Added) indicators as guidance. The Bank also utilised a number of tools in its capital management, such as (i) advanced audit mechanisms, (ii) a multi-tiered capital management and internal capital adequacy assessment programme (ICAAP) and (iii) a risk-weighted assets system at the accounting level (including standard and advanced methods for capital measurement).

### **Anti-Money Laundering**

In accordance with relevant legal and regulatory requirements on anti-money laundering, the Bank has formulated rules, regulations and policies for the monitoring, reporting and managing of money laundering risk, which are reviewed on an annual basis and revised as necessary to satisfy the Bank’s own risk management requirements and those of relevant regulators.

The Bank carries out anti-money laundering training by internal or third-party consultants to increase the awareness among the Bank’s staff of money laundering risks. The Bank has established an anti-money laundering leading team and an anti-money laundering work office. The anti-money laundering leading team is responsible for spearheading the Bank’s bank-wide anti-money laundering initiatives, formulating and overseeing the implementation of relevant laws and regulatory rules on the identification and handling of large

transactions and suspicious transactions. It is comprised of the respective heads of the Legal and Compliance Department, Operation Management Department, Transaction Banking Department, Corporate Banking Department and other related departments. Each such department bears management responsibility for anti-money laundering activities in accordance with its authority. The anti-money laundering work office is within the Legal and Compliance Department, and is responsible for the day-to-day bank-wide management of money laundering risk and coordinating the reporting of anti-money laundering work of relevant departments, and the consolidation and reporting of the data of large transactions and suspicious transactions.

## **INTERNAL CONTROL**

The Bank continues to enhance its internal control functions and its corporate governance and strives to achieve the best practice standards of the banking industry.

The Bank maintains a three-tiered internal control management system, which consists of the decision-making level, the implementation level and the supervision and evaluation level.

### **Decision-making Level**

The Board of Directors has ultimate decision-making authority and is mainly responsible for deciding the Bank's internal control strategy and making the most significant business decisions. The Board of Directors is also responsible for reviewing the internal control reports submitted by the Bank's senior management, auditors and regulators, conducting all overall assessment of the integrity and effectiveness of the bank-wide internal control system, and supervising senior management to carry out continuous improvement and refinement of the Bank's internal control system.

### **Implementation Level**

The Bank's senior management is supervised by the Board of Supervisors and is responsible for: (i) implementing the various strategies, policies, systems and procedures approved by the Board of Directors; (ii) establishing an organisational structure with specific authorisation and duties as well as clear reporting lines; (iii) setting up a procedure for identifying, measuring and managing risks; developing and implementing sound and effective internal control measures; and (iv) adopting measures to rectify any existing internal control deficiencies.

The special committees under senior management, including, among others, the Risk Management Committee, the Asset and Liability Management Committee and the Internal Control and Compliance Early Warning Committee, are responsible for internal control and risk management within their respective limits of authority.

Business departments in the Bank's head office are responsible for departmental internal control matters, including the implementation of internal control policies and procedures, identification and management of internal control deficiencies and timely reporting on their internal control efforts to senior management.

Management at the branch level is responsible for branch-level internal control matters, including, at the request of senior management or the business departments of the Bank's head office, the formulation of specific detailed implementation rules and business procedures and the establishment and enhancement of internal control mechanisms.

### **Supervision and Evaluation Level**

The Board of Supervisors is responsible for supervising the Bank's compliance with the relevant laws and regulations, as well as supervising the Board of Directors and senior management in their performance of their respective duties and inspecting and supervising the Bank in connection with matters relating to internal control. The Audit Department is responsible for carrying out audits, supervision and assessment of the Bank's business operations, internal control and risk profile across the Bank.

## INTERNAL AUDIT

Pursuant to the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) issued by CBRC, the Bank began to reform its internal audit system at the end of 2006. The Bank has put in place an independent vertical audit management system under which the Bank's audit functions are accountable to the Board of Directors and report to the Board of Directors, the Audit Committee of the Board of Directors and the Bank's senior management. The Bank has also implemented an internal audit organisational structure comprising the Audit Department of the Bank's head office and five audit centres. The Audit Department and the audit centres are independent of other business departments and branches.

They conduct their audit, supervision and assessment of matters relating to the business and operational management, internal control and risk profile across the Bank and supervise the audited authorities and departments to perform their duties by carrying out routine audits, special audits and audits into economic liabilities arising from existing and departing officers. The Audit Department is responsible for: (i) carrying out audits of the Bank's business operations, internal controls and risk profile across the Bank; (ii) making consistent efforts to improve review and supervision of the Bank's internal controls; and (iii) continuously strengthening the normalisation and standardisation of the Bank's internal control process, which has resulted in the quality and results of the Bank's audits improving continuously and promoted stable and healthy business operations across the Bank.

The Audit Department is responsible for auditing and assessing bank-wide operational activities, risk profile, internal control and corporate governance effectiveness; formulating the parameters for audit work and audit business systems across the Bank; formulating and organising the implementation of annual work plans; managing and giving guidance to the audit centres; and conducting audits of the line departments, key businesses of the Bank's head office and key branches.

Each regional audit centre is responsible for the implementation of annual work plans at the regional level and examining and assessing business operations, risk profile, internal control and corporate governance of branches within its region.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The section entitled “Directors, Supervisors and Senior Management” on pages 245 to 255 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

### DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

#### Directors

The following table sets out certain information relating to the Bank’s directors as at the date of this Supplemental Offering Circular. The business address of the Bank’s Directors is at China Everbright Center, No.25 and No.25 A Taipingqiao Avenue, Xicheng District, Beijing 100033, PRC.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Appointment Time</u>
Mr. WU Lijun.....	59	Chairman of the Board of Directors, Non-executive Director	March 2020
Mr. CUI Yong .....	54	Vice Chairman of the Board of Directors, Non-executive Director	-
Mr. WANG Zhiheng .....	50	Secretary of the Communist Party of China (“CPC”) Committee, Executive Director and President	December 2022
Mr. QU Liang.....	57	Executive Director, Executive Vice President and Member of CPC Committee	September 2018
Mr. YAO Wei.....	48	Non-executive Director	February 2021
Mr. ZHU Wenhui .....	46	Non-executive Director	August 2023
Mr. LI Wei.....	53	Non-executive Director	August 2021
Mr. SHAO Ruiqing .....	66	Independent Non-executive Director	August 2019
Mr. HONG Yongmiao.....	60	Independent Non-executive Director	September 2019
Mr. LI Yinquan .....	68	Independent Non-executive Director	June 2020
Mr. LIU Shiping.....	61	Independent Non-executive Director	January 2022
Mr. HUANG Zhiling.....	64	Independent Non-executive Director	November 2023

**Mr. WU Lijun**, aged 59, had served as Vice Chairman of the Board of Directors of the Bank since March 2020, and then has served Chairman of the Board of Directors of the Bank since January 2024. He currently serves as Secretary of the CPC Committee and Chairman of the Board of Directors of China Everbright Group Ltd. He concurrently serves as Principal of Party School of China Everbright Group Ltd. and Chairman of the Board of Directors of China Everbright Holdings Company Limited. He successively served as Deputy Director-General (Deputy Bureau Director level) of State Regulation Center of Supplies Reserve of Ministry of Domestic Trade, Head of IT Center, Deputy Director-General (Presiding) of Training Center, Director-General of Department of Personnel & Education and General Manager of Party Organization Department of China Securities Regulatory Commission (CSRC), Member of the CPC Committee and Assistant Chairman of CSRC, Chairman and Secretary of the CPC Committee (Deputy Minister level) of Shenzhen Stock Exchange, Deputy Secretary of the CPC Committee, Vice Chairman of the Board of Directors and General Manager of China Everbright Group Ltd. He holds a doctoral degree in economics and is qualified as a senior economist.

**Mr. CUI Yong**, aged 54, currently serves as Deputy Secretary of the CPC Committee, Vice Chairman of the Board of Directors and General Manager of China Everbright Group Ltd., and Vice Chairman of the Board of

Directors of the Bank. He previously worked in the Ministry of Transport, and successively served as Deputy Division Chief and Division Chief of Transport and Urban Construction Division of Corporate Banking Department, Deputy General Manager of Corporate Banking Department I of Industrial and Commercial Bank of China (ICBC) H.O., Deputy Secretary of the CPC Committee and Deputy General Manager of ICBC Qingdao Branch, Secretary of the CPC Committee and General Manager of ICBC Xiamen Branch, Member of the CPC Committee and Deputy General Manager of ICBC Beijing Branch, General Manager of Corporate Finance Department of ICBC H.O., Member of the CPC Committee and Vice President of Agricultural Bank of China, Member of the CPC Committee, Executive Director and Vice President of China Construction Bank. He holds a bachelor's degree in engineering and is qualified as a senior economist.

**Mr. WANG Zhiheng**, aged 50, had served as Deputy Secretary of the CPC Committee of the Bank since December 2022, and then has served as Executive Director and President of the Bank since March 2023, and Secretary of the CPC Committee of the Bank since December 2023. He currently serves as Member of the CPC Committee and Executive Director of China Everbright Group Ltd. He successively served as Deputy Division Chief of Corporate Planning Division of Corporate Banking Department of Bank of China (BOC) H.O., Director and Deputy General Manager of Human Resources Department of BOC H.O., Member of the CPC Committee and Deputy General Manager of BOC Guangdong Provincial Branch, Secretary of the CPC Committee and General Manager of BOC Qinghai Provincial Branch, General Manager of Organization Department of the CPC Committee and General Manager of Human Resources Department of BOC H.O., Secretary of the CPC Committee and General Manager of BOC Beijing Branch, Member of the CPC Committee and Vice President of BOC H.O. He holds a master's degree in economics and is qualified as an economist.

**Mr. QU Liang**, aged 57, has served as Member of the CPC Committee of the Bank since September 2018, Executive Vice President of the Bank since March 2020, and Executive Director of the Bank since February 2021. He is currently Senior Officer Outside Australia (SOOA) of CEB Sydney Branch. He successively served as Deputy General Manager of Corporate Banking Department of ICBC Henan Provincial Branch, Director-General of General Office, General Manager of Corporate Banking Department II, General Manager of Corporate Banking Department I of China Merchants Bank (CMB) Zhengzhou Branch, Deputy General Manager of Corporate Banking Department of CMB H.O., Secretary of the CPC Committee and General Manager of CMB Hohhot Branch, Secretary of the CPC Committee and General Manager of CMB Chongqing Branch, Commissioner of Office of Leading Group for Deepening Overall Reform (Department Head level of Group Headquarters), and Director-General of Leasing Business Management Center of China Everbright Group Ltd., and concurrently Secretary of the CPC Committee and General Manager of CEB Beijing Branch, Chairman of the Board of Directors of CEB International Investment Corporation Limited (Acting). He holds a master's degree in law and is qualified as a senior economist. He is Director of China Society for Finance and Banking.

**Mr. YAO Wei**, aged 48, has served as Non-executive Director of the Bank since February 2021. He is currently Member of Standing Committee of the CPC Committee and Chief Accountant of Overseas Chinese Town Holdings Company, and concurrently serves as Board Director of Konka Group Co., Ltd. He successively served as Deputy Head and Head of Fixed Assets Team of Assets Division, and Head of Internal Control Team of Accounting Division of Finance Department of Daya Bay Nuclear Power Operations and Management Co., Ltd. (DNMC), staff member, Budget Management Head, Tax Manager, Senior Manager, and Division Chief of General Finance Division of Finance Department of China Guangdong Nuclear Power Group Corporation, Chief Accountant of CGN Wind Energy Co., Ltd., Non-executive Director and Chief Accountant of CGN Meiya Power Holdings Co., Ltd. (later renamed as CGN New Energy Holdings Co., Ltd.), Deputy General Manager (Presiding) and General Manager of Finance Department, General Manager of Finance and Asset Management Department of China General Nuclear Power Corporation (CGN). He concurrently served as Chief Accountant of CGN Solar Energy Development Co., Ltd., Chairman of the Board of Directors of CGNPC International Limited, Executive Director of Shenzhen Nengzhihui Investment Co., Ltd., Chairman of the Board of Directors of Overseas Chinese Town (Yunnan) Investment Co., Ltd. He holds a bachelor's degree in economics and is qualified as a certified public accountant.

**Mr. ZHU Wenhui**, aged 46, has served as Non-executive Director of the Bank since August 2023. He currently serves as Member of the CPC Committee, Vice President and Chief Financial Officer of China CITIC Financial Asset Management Co., Ltd. He successively served as Project Manager of Finance Department of CITIC Group, Project Manager of CITIC Australia Pty. Ltd. and CITIC Resources Australia Pty. Ltd., Senior Project Manager, Senior Executive, Senior Director, and Division Chief of Finance Department, Division Chief and Assistant General Manager of Treasury Department, Deputy General Manager of Finance Department of CITIC Group Corporation. He concurrently served as Board Director of CITIC Industrial Investment Group Corp., Ltd., CITIC Press Group Co., Ltd, and CITIC Engineering Design & Construction Co., Ltd. He holds a master's degree in economics and an MBA degree. He is qualified as a senior economist and an Australian certified public accountant.

**Mr. LI Wei**, aged 53, has served as Non-executive Director of the Bank since August 2021. He currently serves as Secretary of the CPC Committee, Vice Chairman of the Board of Directors and General Manager of China Re Asset Management Company Ltd., and Chairman of the Board of Directors of China Re Asset Management (Hong Kong) Company Limited. He successively served as Member of the CPC Committee of Huatai Property & Casualty Insurance Co., Ltd., Business Director of Sun Life Everbright Life Insurance Co., Ltd., Member of the CPC Committee and Deputy General Manager of Sun Life Everbright Asset Management Co., Ltd., Member of the CPC Committee, Deputy General Manager of China Continent Property & Casualty Insurance Co., Ltd., and Secretary of the CPC Committee and General Manager of its Beijing Branch, General Manager of Strategic Customer Department of China Reinsurance (Group) Corporation, Member of the CPC Committee and Deputy General Manager of China Re Asset Management Company Ltd., Non-executive Director of CSSC (Hong Kong) Shipping Company Limited. He holds a doctoral degree in business administration.

**Mr. SHAO Ruiqing**, aged 66, has served as Independent Non-executive Director of the Bank since August 2019. He currently serves as Professor (National Level II) and Doctoral Tutor of accounting at Shanghai Lixin University of Accounting and Finance. He concurrently serves as Vice President of China Communications Accounting Society, Vice President and Chairman of Academic Committee of Shanghai Accounting Society, Standing Director of Shanghai Audit Society, Member of Accounting & Finance Expert Advisory Committee of Ministry of Transport, Independent Non-executive Director of Shanghai International Port (Group) Co., Ltd., COSCO Shipping Development Co., Ltd., China Enterprise Company Limited and Arcplus Group PLC. He successively served as Professor, Doctoral Tutor, Dean of Accounting Faculty, Dean of College of Economics and Management of Shanghai Maritime University, Professor, Vice Principal of Shanghai Lixin University of Commerce, Deputy to the 13th Shanghai Municipal People's Congress. He concurrently served as Independent Non-executive Director of China Eastern Airlines Co., Ltd., and External Supervisor of China Merchants Bank. He holds a bachelor's degree in economics, a master's degree and a doctoral degree in management. He is a gainer of the State Council Special Allowance and is also an Honorary Fellow Member of the Association of International Accountants.

**Mr. HONG Yongmiao**, aged 60, has served as Independent Non-executive Director of the Bank since September 2019. He currently serves as Dean and Distinguished Professor of the School of Economics and Management of University of Chinese Academy of Sciences, Distinguished Researcher of the Academy of Mathematics and Systems Science of Chinese Academy of Sciences, Fellow of the World Academy of Sciences (TWAS), Fellow of the Econometric Society, Vice Chairman of Economics Teaching Advisory Board of Colleges and Universities of Ministry of Education, Co-editor of China Journal of Econometrics, Independent Non-executive Director of BBMG Corporation. He successively served as President of the Chinese Economists Society, Independent Non-executive Director of Industrial and Commercial Bank of China, Independent Non-executive Director of Xiamen Bank Co., Ltd. He holds a bachelor's degree in science, a master's degree and a doctoral degree in economics.

**Mr. LI Yinquan**, aged 68, has served as Independent Non-executive Director of the Bank since June 2020. He currently serves as Board Director of China Merchants Capital Investment Co., Ltd. He concurrently serves as Independent Non-executive Director of Genertec Universal Medical Group Co., Ltd., Million Cities Holdings



Limited, Hong Kong Shanghai Alliance Holdings Limited and Mainland Headwear Holdings Limited. He successively served as Assistant General Manager of International Banking Department of Agricultural Bank of China(ABC) H.O., Head of Preparatory Group of ABC New York Branch, Deputy Director-General of Personnel & Education Department of ABC H.O., Deputy General Manager of ABC Hong Kong Branch, General Manager of Finance Department, Chief Financial Officer (Chief Accountant), and Vice President of China Merchants Group Limited, General Manager (CEO) and Chairman of the Board of Directors of China Merchants Capital Investment Co., Ltd. He concurrently served as Executive Director of China Merchants Holdings (International) Co., Ltd. (later renamed as China Merchants Port Holdings Company Limited), Non-executive Director of China Merchants Bank, Executive Director of China Merchants China Direct Investments Limited, Independent Non-executive Director of LIZHI INC. and Independent Nonexecutive Director of Kimou Environmental Holding Limited. He holds a master's degree in economics and a master's degree in finance development and is qualified as a senior economist.

**Mr. LIU Shiping**, aged 61, has served as Independent Non-executive Director of the Bank since January 2022. He currently serves as Chairman of the Board of Directors of Global Business Intelligence Consulting Corp. (GBICC). He concurrently serves as Professor, Doctoral Tutor, and Director of Research Center of Finance and Technology of University of Chinese Academy of Sciences, Adjunct Professor of Tongji University, Chief Scientist of the Key Special Project of the National Key Research and Development Program "Internet of Things and Smart City Key Technologies and Demonstration", Vice Chairman of XBRL China Executive Committee, Vice President of the Next Generation Internet Union (NGIU), Member of Information Technology Committee of China Association for Public Companies, Member of the Independent Non-executive Board Committee of China Association for Public Companies, Vice President of Guangdong Financial Innovation Research Association, Director and Honorary Dean of the Guangdong Jinchuang Blockchain Research Institute, Invited Advisory Member of Decision-making Committee of Guangxi Zhuang Autonomous Region, Advisor of the Technology Advisory Group of Chengdu Municipal People's Government, Advisor of the Management Committee of Jinpu New Area of Dalian City, Independent Non-executive Director of Aixin Life Insurance Co., Ltd., External Supervisor of Fujian OneBank Co., Ltd., External Director of Huizhou Industrial Investment Group Co., Ltd. He successively served as Researcher of the Institute of Economics at Iowa State University in the United States, Senior Business Analyst at Providian Financial Corporation, Chief Advisor for Business Intelligence of Global Services Department and Head of Global Team of Data Mining Application in the Financial Industry of IBM, Independent Non-executive Director of People.cn Co., Ltd., Chair Professor of Fuzhou University, Independent Non-executive Director of Industrial Bank, Independent Non-executive Director of Zhejiang Tailong Commercial Bank He holds a master's degree and a doctoral degree in economics, and a master's degree in statistic.

**Mr. HUANG Zhiling**, aged 64, has served as Independent Non-executive Director of the Bank since November 2023. He holds a doctoral degree in economics and is qualified as a researcher, risk management professional, and economist. He has engaged in macroeconomic analysis, currency policy research and market economies research at the Economic Research Center of the former State Planning Commission (now Academy of Macroeconomic Research under the National Development and Reform Commission) since 1991. He was engaged in policy research in China Construction Bank (CCB) from 1995 to 1998, and successively served as Deputy Director-General of Policy Research Office, Deputy Head of Investment Research Institute and Deputy Director-General of General Office of CCB H.O. He worked in China Cinda Asset Management Co., Ltd. from 1999 to 2006, and successively served as Director-General of President Office and Chairman of Asset Disposal Review Committee. He has served as General Manager of Risk Management Department of CCB since April 2006, and Chief Risk Officer of CCB since February 2011. He served as CCB's Chief Economist (concurrently as Secretary to the Board of Directors) from September 2013 to May 2020, mainly focusing on macroeconomic policies and bank development strategies. He has been appointed as Member of Academic Advisory Committee of China Association for Public Companies since September 2023.

## Supervisors

The following table sets out certain information relating to the Bank's supervisors as at the date of this Supplemental Offering Circular:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Appointment Time</u>
Mr. WU Junhao .....	58	Shareholder Supervisor	November 2009
Mr. LI Yinzhong .....	59	Shareholder Supervisor	December 2021
Mr. WANG Zhe <sup>(1)</sup> .....	63	External Supervisor	November 2016
Mr. QIAO Zhimin .....	71	External Supervisor	September 2019
Ms. CHEN Qing .....	63	External Supervisor	September 2022
Mr. SHANG Wencheng ..	48	Employee Supervisor	July 2019
Mr. YANG Wenhua .....	55	Employee Supervisor	September 2022
Mr. LU Jian .....	52	Employee Supervisor	September 2022

Note:

(1) The term of office of Mr. WANG Zhe as External Supervisor expired in November 2022, but Mr. WANG Zhe will continue performing his duties until the qualifications of the succeeding External Supervisor are approved by the Annual General Meeting.

**Mr. WU Junhao**, aged 58, has served as Supervisor of the Bank since November 2009. He currently serves as Supervisor of Orient Securities Co., Ltd. He successively served as Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., Deputy Director, Director and Senior Director of Asset Management Department, and Deputy Manager (Presiding) and General Manager of Financial Management Department of Shenergy (Group) Co., Ltd. He concurrently served as Board Director of Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He holds a master's degree in enterprise management.

**Mr. LI Yinzhong**, aged 59, has served as Supervisor of the Bank since December 2021. He successively served as Manager of Finance Department of Shenzhen Office of China Everbright International Trust and Investment Company, Officer of Audit Office and Deputy Division Chief of Financial Audit Division of Audit Department of China Everbright (Group) Corporation, Assistant General Manager of Finance Department, Deputy General Manager of Investment Management Department (Division chief level, Deputy Bureau Director level), Director-General of Audit Department and Board Director of China Everbright Holdings Company Limited, Director and Chairman of the Board of Directors of Shenzhen Everbright Real Estate Co., Ltd., Non-executive Director of Everbright Grand China Assets Limited, Chief Representative of Macao Representative Office of China Everbright Group Ltd. He concurrently served as General Manager of China Everbright (Macau) Company Limited. He holds a bachelor's degree in economics and is qualified as a senior accountant and a certified public accountant.

**Mr. WANG Zhe**, aged 63, has served as External Supervisor of the Bank since November 2016. He currently serves as Secretary General of Association of Shanghai Internet Financial Industry, and concurrently serves as Vice President of Shanghai Financial Association, and Independent Non-executive Director of Boill Healthcare Holdings Limited., Shanghai Rural Commercial Bank and Allinpay Network Services Co., Ltd. He successively served as staff member of Monetary Department, Deputy Division Chief of General Office of PBOC, Manager of China Gold Coin Shenzhen Center, Deputy General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Center, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman and Secretary of the CPC Committee of Shanghai Gold Exchange, Secretary of the CPC Committee of China Foreign Exchange Trade System. He holds a master's degree.

**Mr. QIAO Zhimin**, aged 71, has served as External Supervisor of the Bank since September 2019. He concurrently serves as Independent Non-executive Director of Wuhan Rural Commercial Bank. He

successively served as Deputy Division Chief of Finance and Accounting Department of BOC H.O., Deputy General Manager of BOC Luxembourg Branch, Deputy General Manager of General Planning Department of BOC H.O., Deputy Director-General of Accounting Department, Deputy Director-General of Banking Supervision Department I of PBOC, Head of Regulatory Team (Bureau Director level) for ICBC, Director-General of Finance and Accounting Department of CBRC, Vice Chairman of the 4th Session of the Board of Supervisors and Chairman of the 5th Session of the Board of Supervisors of China Minsheng Bank, Independent Non-executive Director of the Bank. He holds a master's degree and is qualified as a senior accountant.

**Ms. CHEN Qing**, aged 63, has served as External Supervisor of the Bank since September 2022. She successively served as Deputy Division Chief of Finance Department of National Audit Office, Deputy Division Chief, Division Chief and Full-time Supervisor (Division Chief level) of Bank of China, Full-time Supervisor (Division Chief level) of Agricultural Bank of China, Full-time Supervisor (Deputy Bureau Director level), Director-General of Office of the Board of Supervisors, Director-General of Audit Supervision Bureau of Bank of Communications, during which she concurrently served as Member of Discipline Inspection Committee of Bank of Communications., Member of Discipline Inspection Committee Office of Bank of Communications H.O., Chairwomen of Female Employee Committee of Labor Union, Employee Supervisor of Bank of Communications. She holds an MBA degree and was a gainer of the State Council Special Allowance in 2018. She is qualified as a senior auditor.

**Mr. SHANG Wencheng**, aged 48, has served as Employee Supervisor of the Bank since July 2019. He currently serves as General Manager of Audit Department of the Bank, and concurrently serves as Member of China Institute of Internal Audit. He joined the Bank in 2000, and successively served as Deputy Division Chief of Financial Management Division of Planning and Finance Department, Accredited Financial Director (Senior Manager level) to Credit Card Center from Planning and Finance Department, Accredited Financial Director (Senior Manager level) to Information Technology Department from Planning and Finance Department, Senior Manager of Financial Management Division, and Senior Manager of Management Accounting Division of Planning and Finance Department, Deputy Director-General of Audit Center (East) (Assistant General Manager level and Deputy General Manager level of H.O. department) and Deputy General Manager of Audit Department of the Bank. He holds a doctoral degree in finance. He is qualified as a senior economist, senior accountant and certified public accountant.

**Mr. YANG Wenhua**, aged 55, has served as Employee Supervisor of the Bank since September 2022. He currently serves as General Manager of Legal & Compliance Department of the Bank. He concurrently serves as Director-General of Office of Accountability Committee of the Bank, and Nonexecutive Director of China Everbright Bank (Europe) S.A. He joined the Bank in 2006 and successively served as Assistant General Manager and Deputy General Manager of Credit Approval Department of the Bank, General Manager of Asset Preservation Department, and General Manager of Special Assets Management Department of the Bank. He successively served as Deputy General Manager of Beijing Zhichun Road Sub-branch CITIC Industrial Bank, Secretary of Executive Vice President of CITIC Industrial Bank H.O., Deputy General Manager of General Management Subdepartment of Corporate Banking Department, and Deputy General Manager of Risk Policy Department of CITIC Industrial Bank H.O. He holds a master's degree in economics and is qualified as an economist.

**Mr. LU Jian**, aged 52, has served as Employee Supervisor of the Bank since September 2022. He currently serves as General Manager of Finance and Accounting Department of the Bank. He joined the Bank in 2000 and successively served as Deputy Division Chief and Senior Manager of Financial Management Division of Planning and Finance Department of CEB H.O., Deputy General Manager of CEB Changzhou Sub-Branch of CEB Nanjing Branch (General Manager level of a tier-1 branch department), and Accredited Financial Director (Senior Manager level) to Electronic Banking Department from Planning and Finance Department, Senior Manager of Financial Management Division and Assistant General Manager of Planning and Finance Department, Assistant General Manager, Deputy General Manager of Finance and Accounting Department,

and Director-General of Office of the Board of Supervisors of the Bank. He holds a bachelor’s degree in economics and is qualified as a senior accountant and certified public accountant.

### Senior Management Members

The following table sets out certain information relating to the Bank’s senior management members as at the date of this Supplemental Offering Circular:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mr. WANG Zhiheng.....	50	Secretary of the CPC Committee, Executive Director, President
Mr. QU Liang .....	57	Member of the CPC Committee, Executive Director, Executive Vice President
Ms. QI Ye .....	54	Member of the CPC Committee, Executive Vice President, Chairwoman of Working Committee of Labor Union
Mr. YANG Bingbing.....	53	Member of the CPC Committee, Executive Vice President, Risk Director, Secretary of the CPC Committee of the Head Office
Ms. LIU Yan.....	50	Chief Financial Officer
Mr. ZHANG Xuyang.....	51	Secretary to the Board of Directors, Chief Business Supervisor

The biographies of the senior management personnel are as follows:

**Mr. WANG Zhiheng** - please refer to “*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*”.

**Mr. QU Liang** - please refer to “*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*”.

**Ms. QI Ye**, aged 54, has served as Member of the CPC Committee of the Bank since May 2020, and Executive Vice President of the Bank since July 2020. She currently serves as Chairwoman of Working Committee of Labor Union Committee of the Bank, and concurrently serves as Director of China UnionPay Co., Ltd. She joined the Bank in 1992 and successively served as staff member of Credit Department of CEB H.O., cadre of CEB Hainan Representative Office, Assistant General Manager and Deputy General Manager of CEB Haikou Subbranch directly affiliated to CEB H.O., Deputy General Manager of Personal Banking Department of CEB H.O. (later renamed as Retail Banking Department), Risk Director of Retail Banking Department (Deputy General Manager level of H.O. department), Accredited Risk Director to Retail Banking Department (Deputy General Manager level of H.O. department) and Accredited Risk Director to Micro-finance Department (General Manager level of H.O. department) from Risk Management Department, Deputy General Manager (General Manager level of H.O. department) and General Manager of Retail Banking Department, and Chief Business Supervisor of the Bank. She holds an MBA degree and is qualified as an economist.

**Mr. YANG Bingbing**, aged 53, has served as Member of the CPC Committee of the Bank since May 2020, Executive Vice President of the Bank since July 2020, and Risk Director of the Bank since October 2021. He currently serves as Secretary of Party Committee Office of CEB H.O. He joined the Bank in 2005, and successively served as Assistant General Manager and Deputy General Manager of Risk Management Department, Deputy General Manager (Presiding) and General Manager of Information Technology Department, General Manager of Electronic Banking Department, General Manager of Digital Banking Department, and Chief Business Supervisor of the Bank. He successively served as Deputy Principal Staff

Member, Principal Staff Member of Unified Credit Management Division of Risk Management Department of BOC H.O. (during which he served as Deputy Director (Presiding) of Credit Management Division of Risk Management Department of Bank of China (Hong Kong) Limited), Senior Risk Manager (in charge of Risk Management Planning) of Risk Management Department of BOC H.O. He holds an MBA degree and is qualified as a senior economist.

**Ms. LIU Yan**, aged 50, currently serves as Chief Financial Officer of the Bank, General Manager of Asset & Liability Management Department and Financial Market Department of the Bank. She joined the Bank in 1999 and successively served as Business Executive and Deputy Business Manager of Planning and Finance Sub-department of Banking Department of CEB H.O., Deputy Business Manager, Deputy Division Chief of Expense Reimbursement Management Division, Senior Manager of Management Accounting Division of Planning and Finance Department, Deputy Director-General of Audit Center (East) (Assistant General Manager level of H.O. Department), Member of the CPC Committee and Deputy General Manager of CEB Shanghai Branch, Deputy General Manager of Asset & Liability Management Department of CEB H.O. She holds a master's degree in management and is qualified as a certified public accountant.

## **COMPANY SECRETARY**

**Mr. ZHANG Xuyang**, aged 51, has served as Secretary to the Board of Directors of the Bank since August 2022, and Joint Company Secretary of the Bank since May 2022. He currently serves as Chief Business Supervisor of the Bank. He successively served in CEB H.O. as staff member of Market Development Department and General Office, Deputy Division Chief of General Secretariat Division, Division Chief of Secretariat Division II of General Office, Senior Deputy Manager, Division Chief of Agency Banking Division of Treasury Department, Division Chief of Foreign Exchange and Structured Products Division and Assistant General Manager of Investment Banking Department, Assistant General Manager of Personal Banking Department and Director-General of Wealth Management Center, Deputy General Manager, General Manager of Retail Banking Department and concurrently Director-General of Wealth Management Center, General Manager of Asset Management Department, Head of Preparatory Group, Secretary of the CPC Committee and Chairman of the Board of Directors of Everbright Wealth Management Co., Ltd., Vice President of Baidu, Inc., and Vice President of Duxiaoman Technology (Beijing) Co., Ltd. He concurrently served as Chairman of Supervisory Committee of NetsUnion Clearing Corporation. He holds a master's degree in economics and a master's degree in science. He was Deputy to the 17th Qingdao Municipal People's Congress and Member of Financial and Economic Committee of the Qingdao Municipal People's Congress.

## **BOARD OF DIRECTORS COMMITTEES**

There are seven committees under the Board of Directors, namely the Strategy Committee, Audit Committee, Risk Management Committee, Nomination Committee, Remuneration Committee, Related Party Transaction Control Committee and Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The committees operate in accordance with the terms of reference established by the Board of Directors of the Bank.

### **Strategy Committee**

The Strategy Committee consists of five directors, namely Mr. WU Lijun, Mr. WANG Zhiheng, Mr. ZHU Wenhui, Mr. HONG Yongmiao and Mr LIU Shiping, among whom Mr. WU Lijun acts as chairman of the Strategy Committee. The primary duties and responsibilities of the Strategy Committee include (i) formulating business objectives and medium- and long-term development strategies, and advising the Board accordingly; (ii) reviewing plans on capital management objectives and replenishment, and supervising and inspecting the implementation; and (iii) developing business plan, reform plan for operation and management mechanisms, major external investment programs and capital operation schemes, supervising and inspecting the implementation, and advising the Board accordingly.

### **Audit Committee**

The Audit Committee consists of six directors, namely, Mr. SHAO Ruiqing, Mr. YAO Wei, Mr. ZHU Wenhui, Mr. LI Yinquan, Mr. LIU Shipping and Mr. HUANG Zhiling, among which Mr. SHAO Ruiqing acts as chairman of the Audit Committee. The Audit Committee has the appropriate accounting qualifications as required under Rule 3.10(2) of the Listing Rules. The primary duties and responsibilities of the Audit Committee include: (i) supervising and evaluating the Bank's internal control; (ii) inspecting the Bank's risks, compliance status, accounting policies, financial reporting procedures and financial position; (iii) reviewing the Bank's financial information and its disclosure, and taking charge of the annual audit; (iv) supervising and guiding the internal audit, examining important policies and reports such as internal audit charter, and reviewing medium- and long-term audit plans and annual audit plan; (v) supervising and evaluating external auditors, proposing the appointment or replacement of external audit firms; (vi) coordinating internal and external audits; (vii) reviewing and supervising the mechanisms for employees of the Bank to report misconducts related to financial report, internal control, etc.; (viii) proposing the appointment or dismissal of the chief financial officer; and (ix) reviewing changes in accounting policies, accounting estimates, or corrections of material accounting errors for reasons other than changes in accounting standards.

### **Risk Management Committee**

The Risk Management Committee consists of four directors, namely, Mr. HUANG Zhiling, Mr. WANG Zhiheng, Mr. LI Wei and Mr. SHAO Ruiqing, among whom Mr. HUANG Zhiling acts as chairman of the Risk Management Committee. The primary duties and responsibilities of the Risk Management Committee include: (i) determining the risk management policies of the Bank and the overall risk tolerance; (ii) supervising the duty performance of the Senior Management of the Bank in credit, market, operational, liquidity, compliance and reputational risks, etc.; (iii) evaluating the risk policy, management situation and risk tolerance of the Bank; (iv) regularly submitting risk management reports to the Board of Directors; (v) drafting the Bank's management objective of capital adequacy ratio, and monitoring capital adequacy ratios; (vi) reviewing and approving matters related to the implementation of Basel III; and (vii) supervising the Senior Management's performance of anti-money laundering (AML) duties, and enhancing the effectiveness of data governance.

### **Nomination Committee**

The Nomination Committee consists of four directors, namely, Mr. LIU Shiping, Mr. WU Lijun, Mr. HONG Yongmiao and Mr. LI Yinquan, among whom Mr. LIU Shiping acts as chairman of the Nomination Committee. The primary duties and responsibilities of the Nomination Committee include: (i) selecting qualified candidates for Directors and Senior Management; (ii) drafting the procedures and the selection criteria for Directors and Senior Management, preliminarily reviewing the appointment qualifications and conditions of candidates, and advising the Board regarding the nomination or dismissal of Directors, and appointment or dismissal of Senior Management; and (iii) regularly assessing the Board structure, the number of Board members and the Board composition, and offering recommendations on the proposed adjustment of the Board of Directors according to the Bank's strategy.

### **Remuneration Committee**

The Remuneration Committee consists of four directors, namely, Mr. HONG Yongmiao, Mr. LI Wei, Mr. SHAO Ruiqing and Mr. LI Yinquan, among whom Mr. HONG Yongmiao acts as chairman of the Remuneration Committee. The primary duties and responsibilities of the Remuneration Committee include: (i) drafting the remuneration plan for Directors and the Senior Management, making proposals to the Board and overseeing the implementation of the plan; (ii) reviewing the duty performance of Directors and the Senior Management and making suggestions to the Board on the examination and evaluation of them; and (iii) reviewing the remuneration management policies and rules of the Bank, advising the Board accordingly and supervising the implementation of these policies.

### **Related Party Transaction Control Committee**

The Related Party Transaction Control Committee consists of five members, namely Mr. LI Yinquan, Mr. SHAO Ruiqing, Mr. HONG Yongmiao, Mr. LIU Shiping and Mr. HUANG Zhiling, among whom Mr. LI Yinquan acts as the chairman of the Related Party Transaction Control Committee. The primary duties and responsibilities of the Related Party Transaction Control Committee include: (i) filing the common related party transactions; (ii) reviewing major related party transactions and submitting the results to the Board of Directors for consideration; (iii) providing detailed reports to the Board of Directors on the overall status, risk level and structural distribution of related party transaction conducted in the year; (iv) developing the related party transactions management measures and submitting the same to the Board of Directors for approval before implementation; (v) identifying the related parties of the Bank and promptly announcing the identified related parties to relevant staff; and (vi) listening to accountability reports in situations such as failing to report related parties as required and conducting related party transactions in violation of regulations.

### **Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee**

The Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee consists of four members, namely, Mr. WANG Zhiheng, Mr. QU Liang, Mr. YAO Wei and Mr. HUANG Zhiling, among whom Mr. WANG Zhiheng acts as the chairman of the Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The primary duties and responsibilities of the Social Responsibility, Inclusive Finance Development and Consumer Rights and Interests Protection Committee include: (i) promoting ESG system construction, deliberating on ESG-related strategies, plans, policies and regulations; (ii) researching, formulating and evaluating measures to improve ESG performance, and implementing ESG-related requirements proposed by regulatory bodies; (iii) reviewing the social responsibility report, regularly listening to ESG reports, and enhancing the level of ESG information disclosure; (iv) supervising and evaluating the implementation of the Bank's green finance development strategy; (v) conducting strategic planning on the development of the Bank's inclusive finance business; (vi) reviewing the Bank's general policy, evaluation measures and annual business plan for inclusive finance; (vii) guiding and supervising the Senior Management on the development of inclusive finance work; (viii) regularly reviewing the work reports of Senior Management on consumer rights and interests protection and submitting the reports to the Board of directors, discussing and deciding relevant matters according to the authorization of the Board of Directors, and studying major issues and policies on consumer rights and interests protection; (ix) guiding and urging the establishment and improvement of the Bank's management policies and mechanisms for the protection of consumer rights and interests; (x) studying relevant audit reports, regulatory circulars and internal evaluation results related to the Bank's consumer rights and interests protection work, and urging timely rectification by the Senior Management; and (xi) supervising the comprehensiveness, timeliness and effectiveness of consumer rights and interests protection work of the Senior Management.

## SUBSTANTIAL SHAREHOLDERS

*The section entitled “Substantial Shareholders” on page 256 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### **CHINA EVERBRIGHT GROUP LTD.**

As at 31 December 2023, China Everbright Group Ltd. directly held 24,227,813,441 A shares and 1,782,965,000 H shares of the Bank, together representing approximately 44.02 per cent. of the Bank’s total issued ordinary shares.

On 29 March 2024, China Everbright Group Ltd. increased its shareholding by 64,321,400 A shares of the Bank, representing 0.11 per cent. of the total issued ordinary shares (the “**Shareholding Increase**”). After the Shareholding Increase, China Everbright Group Ltd. directly and indirectly held 26,081,426,867 A shares and 1,866,595,000 H shares of the Bank, together representing approximately 47.30 per cent. of the Bank’s total issued ordinary shares.

Subject to certain market conditions, China Everbright Group Ltd. proposed to increase its shareholding in A shares of the Bank through centralised bidding on the Shanghai Stock Exchange system and other legal and compliant ways subsequently, with total amount of the shareholding increase shall be no less than RMB400 million (inclusive) and no more than RMB800 million (inclusive) (the “**Shareholding Increase Plan**”). The implementation period of the Shareholding Increase Plan shall be within 12 months from 29 March 2024.

There may be a risk that the Shareholding Increase Plan may be postponed or may not be implemented due to changes in the capital market conditions or other unpredicted risk factors. The Bank will fulfil its obligation of information disclosure in a timely manner if abovementioned risks arise during the implementation of the subsequent Shareholding Increase Plan.



## EXCHANGE RATES

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by 2 per cent. against U.S. dollar. The PRC Government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows Renminbi to fluctuate against U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in Renminbi appreciating against U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, PBOC further widened the floating band against U.S. dollar to 2.0 per cent. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by PBOC on 11 August 2015, Renminbi depreciated significantly against U.S. dollar. Since then, the Renminbi has experienced further fluctuation in value against the U.S. dollar. On 5 August 2019, PBOC set the Renminbi's daily reference rate above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC Government may adopt further reforms of its exchange rate system, including making Renminbi freely convertible in the future.

The following table sets forth information concerning exchange rates between Renminbi and U.S. dollar for the periods presented:

Period	Renminbi per U.S. dollar Noon Buying Rate <sup>(1)</sup>			
	End	Average <sup>(2)</sup>	High	Low
	<i>(RMB per U.S.\$1.00)</i>			
2011.....	6.2939	6.4475	6.6364	6.2939
2012.....	6.2301	6.2990	6.3879	6.2221
2013.....	6.0537	6.1412	6.2438	6.0537
2014.....	6.2046	6.1704	6.2591	6.0402
2015.....	6.4778	6.2869	6.4896	6.1870
2016.....	6.9430	6.6549	6.9580	6.4480
2017.....	6.5063	6.7350	6.9575	6.4773
2018.....	6.8755	6.6292	6.9737	6.2649
2019.....	6.9618	6.9014	7.1786	6.6822
2020.....	6.5250	6.8878	7.1681	6.5208
2021.....	6.3726	6.4446	6.5716	6.3435
2022.....	6.8972	6.7518	7.3048	6.3084
2023.....	7.0999	7.0896	7.3166	6.7540
2024.....				
January .....	7.1673	7.1707	7.1961	7.1426
February .....	7.1977	7.1935	7.1982	7.1799

**Renminbi per U.S. dollar Noon Buying Rate<sup>(1)</sup>**

<b>Period</b>	<b>End</b>	<b>Average<sup>(2)</sup></b>	<b>High</b>	<b>Low</b>
		<i>(RMB per U.S.\$1.00)</i>		
March .....	7.2203	7.2015	7.2289	7.1804
April (through April 26 2024).....	7.2464	7.23758	7.2464	7.2305

Notes:

- (1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.
- (2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

## SUBSCRIPTION AND SALE

*The section entitled “Subscription and Sale” from the Original Offering Circular applies except for the section entitled “Singapore” on page 273 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the 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 2001 of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

## GENERAL INFORMATION

*The section entitled “General Information” on pages 275 to 276 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:*

### 1. LISTING

Application has been made to the Hong Kong Stock Exchange for the listing of, and dealing in, the Notes by way of debt issues to Professional Investors only. The issue price of each Series of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of the Notes, commence on or about the next business day following the date of listing of the Notes.

Admission to the Hong Kong Stock Exchange and quotation of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer or the Group. The Hong Kong Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

### 2. AUTHORISATION

The establishment of the Programme and the issue of the Notes thereunder were authorised by the resolutions of the board of directors of the Bank passed on 27 March 2020 and 26 August 2022 and the shareholders’ resolutions of the Bank passed on 5 June 2020 and 29 December 2022 and approval from the office meeting of the Bank’s president which took place on 21 May 2021. Each of the Bank and the Issuer has obtained, or will obtain, all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of their respective obligations under the Notes. In connection with Notes issued by the Bank, the Bank will apply for all necessary registration with respect to the use of proceeds of Notes or the payment of principal and interest in accordance with applicable laws. The repayment of the principal and/or interest of the Notes by the Bank may be adversely affected in the event any required registration is not obtained. The Bank does not however expect that any registration would be refused.

### 3. LEGAL AND ARBITRATION PROCEEDINGS

None of the Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Supplemental Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

### 4. SIGNIFICANT/MATERIAL CHANGE

Since 31 December 2023, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

### 5. AUDITOR

The Bank’s audited consolidated financial statements as at and for the years ended 31 December 2021 and 2022, which are included in the Original Offering Circular and are incorporated by reference into this Supplemental Offering Circular have been audited by Ernst & Young, as stated in its respective reports appearing therein. The Bank’s audited consolidated financial statements as at and for the year ended 31 December 2023, which are included elsewhere in this Supplemental Offering Circular have been audited by Ernst & Young, as stated in the report appearing therein.

## 6. DOCUMENTS ON DISPLAY

So long as the Notes are outstanding, copies of the following documents may, when published, be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Issuer at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and the specified office of the Fiscal Agent at 9th Floor Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong:

- (i) the memorandum and articles of association of the Bank;
- (ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2022 and 2023 (together with the audit reports in connection therewith);
- (iii) copies of any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;
- (iv) the Pricing Supplements in relation to the Notes;
- (v) a copy of the Original Offering Circular together with this Supplemental Offering Circular and any other documents incorporated herein or therein;
- (vi) the Deed of Covenant; and
- (vii) the Agency Agreement (which contains the forms of the Notes in global and definitive form).

## 7. CLEARING OF THE NOTES

The Legal Entity Identifier of the Issuer is 549300U6PKQ4H1P34E17.

The USD Floating Rate Notes have been accepted for clearance through Euroclear and Clearstream via the following codes:

ISIN: XS2801983078

Common Code: 280198307

The CNY Notes have been accepted for clearance through the CMU via the following codes:

CMU Instrument Code: EVERFN24002

ISIN: HK0001007316

Common Code : 280197955

## 8. NATIONAL DEVELOPMENT AND REFORM COMMISSION FILINGS

Pursuant to the Examination and Registration Certificate of Issuance by Enterprises of Foreign Debt (《企業借用外債審核登記證明》) (發改辦外資備 [2023] 133 號) issued by the NDRC and the Quota granted by the NDRC on 5 June 2023, the Bank is not required to complete the pre-issuance registration in respect of the Notes with the NDRC as the Notes will be issued within the Quota, but the Bank is still required to file with the NDRC the requisite information and documents on the issuance of the Notes after the issuance of such Notes. The Bank undertakes to file or cause to be filed with the NDRC the requisite information and documents within the relevant prescribed timeframes from time to time after the Issue Date in accordance with the NDRC Measures; and comply with the NDRC Measures and other obligations required by the NDRC as it applies to the Notes.

## INDEX TO FINANCIAL STATEMENTS

*For the consolidated financial statements of the Bank as at and for the years ended 31 December 2021 and 2022, which have been audited by Ernst & Young in accordance with IFRS, please refer to the Original Offering Circular.*

### **CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2023**

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*Note:*

The Bank's consolidated financial statements set out herein are reproduced from the Bank's annual report for the year ended 31 December 2023. Page references referred to in the auditor's reports named above refer to pages set out in such annual report (as the case may be).

**China Everbright Bank Company Limited**

**Audited Consolidated Financial Statements  
31 December 2023**

**(Prepared in accordance with  
International Financial Reporting Standards)**

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## Independent Auditor's Report

**To the shareholders of China Everbright Bank Company Limited**  
(Established in the People's Republic of China with limited liability)

### Opinion

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Independent Auditor's Report (Continued)

### Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<b><i>Expected credit losses for loans and advances to customers</i></b>	
<p>The Group uses a number of models and assumptions in the measurement of expected credit losses, for example:</p> <ul style="list-style-type: none"> <li>• Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans and advances with longer remaining periods to maturity;</li> <li>• Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions;</li> <li>• Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights;</li> <li>• Whether financial assets are credit-impaired - The determination of whether a credit impairment has occurred requires consideration of a number of factors and the measurement of the expected credit loss is dependent on estimates of expected future cash flows.</li> </ul> <p>Since expected credit losses measurement involves many judgements and assumptions, and in view of the significance of the amounts (as at 31 December 2023, gross loans and advances to customers amounted to RMB3,798.296 billion, representing 56.08% of total assets, and impairment allowance for loans and advances to customers amounted to RMB86.061 billion), impairment of loans and advances is considered a key audit matter.</p> <p>Relevant disclosures are included in Note III 1, Note V 16 and Note V 50(a) to the consolidated financial statements.</p>	<p>We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems.</p> <p>We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.</p> <p>With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:</p> <ol style="list-style-type: none"> <li>1. Expected credit loss model: <ul style="list-style-type: none"> <li>• In response to the macroeconomic changes, we assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, risk grouping and whether there was a significant increase in credit risk.</li> <li>• We assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions and the weight of multiple macroeconomic scenarios; and</li> <li>• We assessed the reasonableness of management's determination of credit impairment. For credit-impaired loans and advances, we analysed the amount, timing and probability of management's estimated future cash flows, especially the recoverable cash flows from collateral.</li> </ul> </li> <li>2. Design and operating effectiveness of key controls: <ul style="list-style-type: none"> <li>• We evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, macroeconomic data, etc., and the impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and</li> <li>• We evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration.</li> </ul> </li> </ol> <p>We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and the impairment allowance.</p>

## Independent Auditor's Report (Continued)

### Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<b><i>Valuation of financial instruments</i></b>	
<p>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly.</p> <p>As at 31 December 2023, the book value of financial assets and financial liabilities measured at fair value amounted to RMB1,213.379 billion and RMB13.946 billion respectively, representing 17.92% and 0.22% of total assets and total liabilities, respectively. Financial instruments which required either direct (i.e., prices) or indirect inputs, hence categorised within Level 2 of the fair value hierarchy, represented 79.53% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 0.93% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value and the uncertainty in valuation, it is considered a key audit matter.</p> <p>Relevant disclosures are included in Note III 2 and Note V 51(c) to the consolidated financial statements.</p>	<p>We assessed and tested the design and operating effectiveness of key controls related to the valuation of financial instruments.</p> <p>We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources.</p> <p>We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value.</p>

**Independent Auditor's Report (Continued)**

**Key Audit Matters (Continued)**

Key audit matter	How our audit addressed the key audit matter
<b><i>Consolidation assessment of and disclosures about structured entities</i></b>	
<p>In the process of conducting business of financial investment, asset management and credit asset transfer, the Group issued financial products and held the rights and interests of different structured entities, including wealth management products, funds and trust plans. The Group determines whether these structured entities are to be consolidated based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns.</p> <p>The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support. The comprehensive analysis of these factors and the conclusion of whether the Group has control rights involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, it is considered a key audit matter.</p> <p>Relevant disclosures are included in Note III 6 and Note V 43 to the consolidated financial statements.</p>	<p>We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity.</p> <p>We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities.</p> <p>We assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.</p>

## **Independent Auditor's Report (Continued)**

### **Other Information included in the Bank's 2023 Annual Report**

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Consolidated Financial Statements**

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## Independent Auditor's Report (Continued)

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

Certified Public Accountants  
Hong Kong  
27 March 2024

China Everbright Bank Company Limited  
Consolidated Statement of Profit or Loss  
For the year ended 31 December 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	<u>2023</u>	<u>2022</u>
Interest income		250,809	241,309
Interest expense		<u>(143,329)</u>	<u>(127,654)</u>
<b>Net interest income</b>	1	<u>107,480</u>	<u>113,655</u>
Fee and commission income		26,724	30,077
Fee and commission expense		<u>(3,026)</u>	<u>(3,333)</u>
<b>Net fee and commission income</b>	2	<u>23,698</u>	<u>26,744</u>
Net trading gains	3	3,233	2,470
Dividend income		44	49
Net gains arising from investment securities	4	8,926	6,416
Net (losses)/gains on derecognition of financial assets measured at amortised cost		(555)	858
Net foreign exchange gains		1,125	484
Other net operating income		<u>1,784</u>	<u>1,189</u>
<b>Operating income</b>		145,735	151,865
Operating expenses	5	(43,909)	(45,227)
Credit impairment losses	8	(52,075)	(50,600)
Other impairment losses		<u>(30)</u>	<u>(9)</u>
<b>Operating profit</b>		49,721	56,029
Gains/(losses) on investment of joint ventures		<u>36</u>	<u>(63)</u>
<b>Profit before tax</b>		49,757	55,966
Income tax	9	<u>(8,681)</u>	<u>(10,926)</u>
<b>Net profit</b>		<u>41,076</u>	<u>45,040</u>
<b>Net profit attributable to:</b>			
Equity shareholders of the Bank		40,792	44,807
Non-controlling interests		<u>284</u>	<u>233</u>
		<u>41,076</u>	<u>45,040</u>
<b>Earnings per share</b>			
Basic earnings per share (in RMB/share)	10	0.62	0.74
Diluted earnings per share (in RMB/share)	10	<u>0.61</u>	<u>0.67</u>

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

China Everbright Bank Company Limited  
Consolidated Statement of Comprehensive Income  
For the year ended 31 December 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	<u>2023</u>	<u>2022</u>
<b>Net profit</b>		<u>41,076</u>	<u>45,040</u>
<b>Other comprehensive income, net of tax:</b>			
Items that will not be reclassified to profit or loss:			
- Remeasurement of supplementary retirement benefits		(192)	(135)
- Equity instruments at fair value through other comprehensive income			
- Net change in fair value		6	-
- Related income tax effect	23(b)	<u>(2)</u>	<u>-</u>
Subtotal		<u>(188)</u>	<u>(135)</u>
Items that will be reclassified to profit or loss:			
- Debt instruments at fair value through other comprehensive income			
- Net change in fair value		3,824	(5,046)
- Changes in allowance for expected credit losses		(12)	834
- Reclassified to the profit or loss upon disposal		146	(774)
- Related income tax effect	23(b)	(987)	1,201
- Cash flow hedge		4	-
- Exchange differences on translation of financial statements		<u>49</u>	<u>180</u>
Subtotal		<u>3,024</u>	<u>(3,605)</u>
<b>Other comprehensive income, net of tax</b>		<u>2,836</u>	<u>(3,740)</u>
<b>Total comprehensive income</b>		<u>43,912</u>	<u>41,300</u>
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Bank		43,627	41,065
Non-controlling interests		<u>285</u>	<u>235</u>
		<u>43,912</u>	<u>41,300</u>

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



China Everbright Bank Company Limited  
Consolidated Statement of Financial Position  
As at 31 December 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	31 December <u>2023</u>	31 December <u>2022</u>
<b>Assets</b>			
Cash and deposits with the central bank	11	349,184	356,426
Deposits with banks and other financial institutions	12	39,942	32,073
Precious metals		6,916	7,187
Placements with banks and other financial institutions	13	142,242	129,979
Derivative financial assets	14	13,324	15,730
Financial assets held under resale agreements	15	67,500	28
Loans and advances to customers	16	3,712,925	3,499,351
Finance lease receivables	17	99,158	108,012
Financial investments	18	2,241,462	2,046,612
- Financial assets at fair value through profit or loss		432,896	403,617
- Debt instruments at fair value through other comprehensive income		561,047	449,596
- Equity instruments at fair value through other comprehensive income		1,132	1,126
- Financial investments measured at amortised cost		1,246,387	1,192,273
Investment in joint ventures	19	204	165
Property and equipment	20	25,838	26,174
Right-of-use assets	21	10,408	10,281
Goodwill	22	1,281	1,281
Deferred tax assets	23	33,974	32,703
Other assets	24	28,438	34,508
<b>Total assets</b>		<b><u>6,772,796</u></b>	<b><u>6,300,510</u></b>

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

China Everbright Bank Company Limited  
Consolidated Statement of Financial Position (Continued)  
As at 31 December 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	31 December <u>2023</u>	31 December <u>2022</u>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to the central bank	26	99,633	63,386
Deposits from banks and other financial institutions	27	552,326	540,668
Placements from banks and other financial institutions	28	194,205	188,601
Financial liabilities at fair value through profit or loss	29	-	27
Derivative financial liabilities	14	13,946	14,261
Financial assets sold under repurchase agreements	30	73,115	92,980
Deposits from customers	31	4,094,528	3,917,168
Accrued staff costs	32	20,064	19,006
Taxes payable	33	7,304	11,141
Lease liabilities	34	10,349	10,151
Debt securities issued	35	1,099,326	875,971
Other liabilities	36	53,215	57,137
<b>Total liabilities</b>		<u>6,218,011</u>	<u>5,790,497</u>

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

China Everbright Bank Company Limited  
Consolidated Statement of Financial Position (Continued)  
As at 31 December 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	31 December <u>2023</u>	31 December <u>2022</u>
<b>Liabilities and equity (Continued)</b>			
<b>Equity</b>			
Share capital	37	59,086	54,032
Other equity instruments	38	104,899	109,062
of which: Preference shares		64,906	64,906
Perpetual bonds		39,993	39,993
Capital reserve	39	74,473	58,434
Other comprehensive income	40	2,245	(590)
Surplus reserve	41	26,245	26,245
General reserve	41	86,161	81,401
Retained earnings		<u>199,282</u>	<u>179,299</u>
Total equity attributable to equity shareholders of the Bank		552,391	507,883
Non-controlling interests		<u>2,394</u>	<u>2,130</u>
<b>Total equity</b>		<u>554,785</u>	<u>510,013</u>
<b>Total liabilities and equity</b>		<u><u>6,772,796</u></u>	<u><u>6,300,510</u></u>

Approved and authorised for issue by the board of directors on 27 March 2024.

Wu Lijun  
Chairman,  
Non-executive Director

Wang Zhiheng  
President,  
Executive Director

Lu Jian  
General Manager of  
Financial Accounting Department

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

China Everbright Bank Company Limited  
Consolidated Statement of Changes in Equity  
For the year ended 31 December 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

2023

	Note	Attributable to equity shareholders of the Bank										Non-controlling interests	Total
		Share capital	Other equity instruments			Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
			Preference shares	Perpetual bonds	Others								
Balance at 1 January 2023		54,032	64,906	39,993	4,163	58,434	(590)	26,245	81,401	179,299	507,883	2,130	510,013
Changes in equity for the year:													
Net profit		-	-	-	-	-	-	-	-	40,792	40,792	284	41,076
Other comprehensive income	40	-	-	-	-	-	2,835	-	-	-	2,835	1	2,836
Investment and reduction of owners													
- Convertible corporate bonds to increase share capital and capital reserve		5,054	-	-	(4,163)	16,039	-	-	-	-	16,930	-	16,930
Appropriation of profit:	42												
- Appropriation to general reserve		-	-	-	-	-	-	-	4,760	(4,760)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(11,238)	(11,238)	(21)	(11,259)
- Dividends to other equity instrument holders		-	-	-	-	-	-	-	-	(4,811)	(4,811)	-	(4,811)
Balance at 31 December 2023		59,086	64,906	39,993	-	74,473	2,245	26,245	86,161	199,282	552,391	2,394	554,785

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

China Everbright Bank Company Limited  
Consolidated Statement of Changes in Equity (Continued)  
For the year ended 31 December 2023  
(Expressed in millions of Renminbi, unless otherwise stated)

2022

	Note V	Attributable to equity shareholders of the Bank									Non- controlling interests	Total	
		Share capital	Other equity instruments			Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings			Subtotal
			Preference shares	Perpetual bonds	Others								
Balance at 1 January 2022		54,032	64,906	39,993	4,163	58,434	3,152	26,245	75,596	155,968	482,489	1,877	484,366
Changes in equity for the year:													
Net profit		-	-	-	-	-	-	-	-	44,807	44,807	233	45,040
Other comprehensive income	40	-	-	-	-	-	(3,742)	-	-	-	(3,742)	2	(3,740)
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	38	38
Appropriation of profit:	42												
- Appropriation to general reserve		-	-	-	-	-	-	-	5,805	(5,805)	-	-	-
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	-	(10,860)	(10,860)	(20)	(10,880)
- Dividends to other equity instrument holders		-	-	-	-	-	-	-	-	(4,811)	(4,811)	-	(4,811)
Balance at 31 December 2022		54,032	64,906	39,993	4,163	58,434	(590)	26,245	81,401	179,299	507,883	2,130	510,013

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

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China Everbright Bank Company Limited  
Consolidated Cash Flow Statement  
For the year ended 31 December 2023  
(Expressed in millions of Renminbi, unless otherwise stated)

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities</b>		
Profit before tax	49,757	55,966
<i>Adjustments for:</i>		
Credit impairment losses	52,075	50,600
Other impairment losses	30	9
Depreciation and amortisation	6,730	6,358
Unwinding of discount	(1,905)	(758)
Dividend income	(44)	(49)
Unrealised foreign exchange losses/(gains)	1,874	(644)
Interest income from investment securities and net gains on disposal	(65,608)	(61,804)
Net losses/(gains) on derecognition of financial assets measured at amortised cost	555	(858)
(Gains)/losses on investments of joint ventures	(36)	63
Net gains on disposal of trading securities	(3,164)	(1,979)
Revaluation (gains)/losses on financial instruments at fair value through profit	(1,135)	1,656
Interest expense on debt securities issued	25,040	23,120
Interest expense on lease liabilities	397	428
Net losses on disposal of property and equipment	21	32
	<u>64,587</u>	<u>72,140</u>
<i>Changes in operating assets</i>		
Net decrease/(increase) in deposits with the central bank, banks and other financial Institutions	2,385	(980)
Net increase in placements with banks and other financial institutions	(28,084)	(35,276)
Net decrease/(increase) in financial assets held for trading	72,860	(56,455)
Net increase in loans and advances to customers	(265,835)	(313,242)
Net (increase)/decrease in financial assets held under resale agreements	(67,427)	31,138
Net decrease in other operating assets	24,294	20,108
	<u>(261,807)</u>	<u>(354,707)</u>

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

China Everbright Bank Company Limited  
Consolidated Cash Flow Statement (Continued)  
For the year ended 31 December 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities (Continued)</b>		
<i>Changes in operating liabilities</i>		
Net increase in deposits from banks and other financial institutions	11,329	15,266
Net increase in placements from banks and other financial institutions	5,585	8,796
Net (decrease)/increase in financial assets sold under repurchase agreements	(19,935)	12,275
Net increase/(decrease) in amounts due to the central bank	35,410	(37,001)
Net increase in deposits from customers	176,978	227,572
Income tax paid	(14,149)	(18,110)
Net (decrease)/increase in other operating liabilities	<u>(1,612)</u>	<u>17,371</u>
	<u>193,606</u>	<u>226,169</u>
<b>Net cash used in operating activities</b>	<u>(3,614)</u>	<u>(56,398)</u>
<b>Cash flows from investing activities</b>		
Proceeds from disposal and redemption of investments	1,059,289	733,672
Investment income received	62,565	60,941
Proceeds from disposal of property and equipment and other long-term assets	43	16
Payments on acquisition of investments	(1,322,568)	(893,056)
Payments on acquisition of property and equipment, intangible assets and other long-term assets	<u>(5,154)</u>	<u>(4,667)</u>
<b>Net cash used in investing activities</b>	<u>(205,825)</u>	<u>(103,094)</u>

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

China Everbright Bank Company Limited  
Consolidated Cash Flow Statement (Continued)  
For the year ended 31 December 2023  
*(Expressed in millions of Renminbi, unless otherwise stated)*

	<u>Note V</u>	<u>2023</u>	<u>2022</u>
<b>Cash flows from financing activities</b>			
Capital injected into subsidiaries by non-controlling shareholders		-	38
Proceeds from insurance of debts		1,259,529	930,514
Repayments of debts issued		(1,020,256)	(818,471)
Interest paid on debt securities issued		(24,028)	(22,724)
Dividends paid		(16,070)	(15,690)
Other net cash flows from financing activities		(3,156)	(3,101)
<b>Net cash from financing activities</b>		<u>196,019</u>	<u>70,566</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		<u>658</u>	<u>3,007</u>
<b>Net decrease in cash and cash equivalents</b>	46(a)	(12,762)	(85,919)
<b>Cash and cash equivalents as at 1 January</b>		<u>136,664</u>	<u>222,583</u>
<b>Cash and cash equivalents as at 31 December</b>	46(b)	<u>123,902</u>	<u>136,664</u>
Interest received		<u>192,339</u>	<u>186,631</u>
Interest paid (excluding interest expense on debt securities issued)		<u>(116,483)</u>	<u>(92,068)</u>

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



## **I BACKGROUND INFORMATION**

China Everbright Bank Company Limited (the “Bank”) commenced its operations in Beijing, the People’s Republic of China (the “PRC”) on 18 August 1992. The A-Shares and H-Shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and the Stock Exchange of Hong Kong Limited in December 2013, respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the “CBIRC”), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People’s Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 19) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Chinese Mainland and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Chinese Mainland refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to countries and regions other than Chinese Mainland.

These financial statements have been approved by the Board of Directors on 27 March 2024.

## **II MATERIAL ACCOUNTING POLICIES**

### **1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (IASB). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note III.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **1 Basis of preparation (Continued)**

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the “Accounting Standards for Business Enterprises-Basic Standard” issued by the Ministry of Finance of the People’s Republic of China (the “MOF”), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the “PRC GAAP”). There is no difference in the net profit for the year or total equity as at the end of the year between the Group’s consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

#### **1.1 Standards, amendments and interpretations effective in 2023**

On 1 January 2023, the Group applied the following new and revised standards for the first time in 2023.

IFRS 17 and Amendments	<i>Insurance Contracts</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach), a simplified approach (the premium allocation approach) mainly for short-duration contracts. The new standard had no impact on the Group’s consolidated financial statements.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **1 Basis of preparation (Continued)**

#### **1.1 Standards, amendments and interpretations effective in 2023 (Continued)**

Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in Note II to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The adoption of amendments to IAS 12 did not have any material impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the consolidated statements of cash flows for the years ended 31 December 2023 and 2022.

Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Base on the assessment, the Group does not expect a material exposure to Pillar Two income taxes.

**II MATERIAL ACCOUNTING POLICIES (Continued)**

**1 Basis of preparation (Continued)**

**1.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2023**

		<b>Effective for annual periods beginning on or after</b>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>	1 January 2024
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>	1 January 2024
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>	1 January 2024
Amendments to IAS 21	<i>Lack of Exchangeability</i>	1 January 2025
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred indefinitely

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months. The amendments are not expected to have any significant impact on the Group's financial statements.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **1 Basis of preparation (Continued)**

#### **1.2 *Standards and amendments that are not yet effective and have not been early adopted by the Group in 2023 (Continued)***

Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **2 Consolidation**

#### **2.1 Subsidiaries**

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

If the Group acquires a subsidiary through a merger of companies under common control, the difference between the book value of the net assets acquired by the merging parties and the book value of the merger consideration paid (or the total par value of shares issued) is adjusted to capital surplus; if capital surplus is not sufficient to offset the difference, retained earnings are adjusted.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **2 Consolidation (Continued)**

#### **2.2 Joint ventures**

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investments in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in joint ventures' carrying amounts exceed their recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **3 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions as defined above.

### **4 Foreign currency translation**

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in “Other comprehensive income”. Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in “Other comprehensive income”. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as “Net trading gains” in the statement of profit or loss.



## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **4 Foreign currency translation (Continued)**

Assets and liabilities of foreign operations are translated to Renminbi at the spot exchange rates at the end of the year. Equity items, excluding “Retained Earnings”, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders’ equity with respect to a foreign operation are transferred to profit or loss in the year when the foreign operation is disposed.

### **5 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

#### **5.1 Recognition and de-recognition of financial instruments**

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- (1) the contractual rights to the cash flows from the financial asset expire; or
- (2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flows collected to a third party in full and on time under the "pass-through agreement" and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in a conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished – that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (Continued)**

#### **5.2 Classification and measurement of financial assets**

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

#### **Business models**

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial asset portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (Continued)**

#### **5.2 Classification and measurement of financial assets (Continued)**

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to determine whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification:

#### Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (Continued)**

#### **5.2 Classification and measurement of financial assets (Continued)**

##### Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in "other comprehensive income", except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

##### Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

##### Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when an accounting mismatch can be eliminated or significantly reduced, financial assets can be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as a financial asset designated at fair value through profit or loss, it cannot be reclassified as other financial asset; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (Continued)**

#### **5.2 Classification and measurement of financial assets (Continued)**

##### Financial assets at fair value through profit or loss (Continued)

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swaps to manage the associated interest rate risk.

#### **5.3 Classification and measurement of financial liabilities**

In addition to the issuance of financial guarantee contracts and financial liabilities arising from non-compliance with the conditions for termination of recognition of the transfer of financial assets or continued involvement in the transferred financial assets, the Group classifies financial liabilities as at fair value through profit or loss and financial liabilities measured at amortised cost. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For financial liabilities measured at amortised cost, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

##### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognised in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

##### Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are measured using the effective interest method.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (Continued)**

#### **5.4 *Impairment of financial instruments***

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 50(a)).

#### **5.5 *Financial guarantee contracts and loan commitments***

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

#### **5.6 *Derivative financial instruments and hedge accounting***

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (Continued)**

#### **5.6 Derivative financial instruments and hedge accounting (Continued)**

In terms of the hedge accounting method, the Group's hedge is classified as:

- (1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk);
- (2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognised definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

#### Fair value hedge

Gains or losses arising from hedging instruments are recognised in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognised in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (Continued)**

#### **5.6 Derivative financial instruments and hedge accounting (Continued)**

##### Fair value hedge (Continued)

For the fair value hedges related to the debt instrument measured at amortised cost, the adjustment of the book value of the hedged item should be amortised by the effective interest rate method during the remaining period of the hedge and recognised in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognised hedge gains or losses are amortised in the same way and recognised in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortised fair value is recognised in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

##### Cash flow hedge

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognised in other comprehensive income, and the ineffective part shall be recognised in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognised in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognised in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.



## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **5 Financial instruments (Continued)**

#### **5.7 Convertible corporate bonds**

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in “Equity” as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to share capital is recognised in share premium under “Capital reserve”.

#### **5.8 Transfer of financial assets**

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined at the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

#### **5.9 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **6 Precious metals**

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the year of the change.

### **7 Financial assets held under resale and repurchase agreements**

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

### **8 Property and equipment**

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's property and equipment mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

## II MATERIAL ACCOUNTING POLICIES (Continued)

### 8 Property and equipment (Continued)

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

#### 8.1 Premises, electronic equipment and others

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:

<u>Asset category</u>	<u>Estimated useful life (years)</u>	<u>Estimated rate of residual value (%)</u>	<u>Depreciation rate (%)</u>
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

#### 8.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

#### 8.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **9 Leases**

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### **9.1 As lessee**

In addition to short-term leases and leases of low-value assets, the Group recognises the right-of-use assets and lease liabilities for the lease, and the accounting is shown in Note V 21 and Note V 34.

##### The incremental borrowing rate of lessee

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

##### Short-term leases and leases of low-value assets

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **9 Leases (Continued)**

#### **9.2 As lessor**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets. In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

#### **9.3 Right-of-use assets**

At the commencement date of the lease, the Group recognises a right-of-use asset, which is measured according to the cost. The cost of the right-of-use asset comprises: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made at or before the commencement date of the lease less any lease incentives received; (3) any initial direct cost incurred when the Group is a lessee; and (4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. If the Group remeasures the lease liability due to changes in the lease payment amount, the carrying amount of the right-of-use assets shall be adjusted accordingly.

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **9 Leases (Continued)**

#### **9.4 Lease liability**

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets. Lease payments include fixed payments and substantial fixed payments after deduction of lease incentives, variable lease payments depending on indexes or ratios, payments expected to be made based on security balances, and also include the exercise price of the purchase option or payments to exercise the option to terminate the lease, provided that the Group is reasonably certain that the option will be exercised or that the lease period reflects that the Group will exercise the option to terminate the lease.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group increases the carrying amount of the lease liability when recognising interest and decreases the carrying amount of the lease liability when paying the lease payment. The Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either the actual fixed payment has been changed, there is a change in the amounts expected to be payable under a residual value guarantee, there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, or there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

## II MATERIAL ACCOUNTING POLICIES (Continued)

### 10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

<u>Asset category</u>	<u>Estimated useful lives (years)</u>
Computer software	5
Others	5-10

### 11 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 13). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

### 12 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

### 13 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: property and equipment, right-of-use assets, construction in progress, intangible assets, goodwill and investments in joint ventures.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **13 Provision for impairment losses on non-financial assets (Continued)**

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

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognise the impairment loss in the statement of profit or loss. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.



## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **14 Employee benefits**

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

#### **14.1 Short-term employee benefits**

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

All eligible employees overseas participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

#### **14.2 Post-employment benefits - defined contribution plans**

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Chinese Mainland also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **14 Employee benefits (Continued)**

#### **14.3 Termination benefits**

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

- When the Group can no longer withdraw an offer of those benefits; and
- When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

#### **14.4 Early retirement benefits**

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

### **15 Other provisions and contingent liabilities**

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

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **16 Fiduciary activities**

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amounts. No provision for impairment loss is made for entrusted loans.

### **17 Other equity instruments**

#### Preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payable are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

#### Perpetual bonds

The perpetual bonds issued by the Group do not include the contractual obligations to pay cash or other financial assets to other parties or exchange financial assets or financial liabilities with other parties under potential adverse conditions; and perpetual bonds issued includes no terms and arrangement that the bonds must or will alternatively be settled in the Group’s own equity instruments. The perpetual bonds issued by the Group are divided into equity instruments. The handling fees and commissions incurred in issuing the perpetual bonds are divided into equity instruments, and the transaction costs are deducted from equity. The interest on perpetual bond is recognised as profit distribution at the time of declaration.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **18 Revenue recognition**

#### **18.1 Interest income**

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

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

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

#### **18.2 Fee and commission income**

The income should be recognised when the Group's performance obligation in the contract is fulfilled, which refers the revenue is recognised when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **18 Revenue recognition (Continued)**

#### **18.3 Other income**

Other income is recognised on an accrual basis.

### **19 Expenses recognition**

#### **19.1 Interest expenses**

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

#### **19.2 Other expenses**

Other expenses are recognised on an accrual basis.

### **20 Deferred tax**

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **20 Deferred tax (Continued)**

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## **II MATERIAL ACCOUNTING POLICIES (Continued)**

### **21 Dividends**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

### **22 Related parties**

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

### **23 Segment reporting**

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

### **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

#### **1 Impairment losses on financial assets**

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- Criteria for judging a significant increase in credit risk
- Definition of credit impaired assets
- Parameters for the measurement of ECL
- Forward-looking information
- Risk grouping

#### **2 Fair value of financial instruments**

There are no quoted prices from an active market for a number of financial instruments. The fair values of these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure that the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.



### **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

#### **3 Income taxes**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

#### **4 Impairment of non-financial assets**

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and the discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

#### **5 Depreciation and amortisation**

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

### **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

#### **6 Judgement in assessing control over structured entities**

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

### **IV TAXATION**

The Group's main applicable taxes and tax rates are as follows:

- (a) Value-added tax: value-added tax is charged at 6% and 13% on taxable added value.
- (b) City construction tax: city construction tax is calculated as 1% to 7% of turnover tax paid.
- (c) Education surcharge: education surcharge is calculated as 3% of turnover tax paid.
- (d) Income tax: the income tax is calculated on taxable income. Taxation on the Bank and subsidiaries in Chinese Mainland is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent allowed under the relevant income tax laws of the PRC.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 Net interest income

	<u>Note</u>	<u>2023</u>	<u>2022</u>
<b>Interest income arising from</b>			
Deposits with the central bank		4,667	4,619
Deposits with banks and other financial institutions		257	75
Placements with banks and other financial institutions		5,295	3,433
Loans and advances to customers	(a)		
- Corporate loans and advances		86,788	81,033
- Personal loans and advances		86,838	89,442
- Discounted bills		1,563	2,350
Finance lease receivables		5,503	6,084
Financial assets held under resale agreements		2,330	915
Investments		<u>57,568</u>	<u>53,358</u>
Subtotal		<u>250,809</u>	<u>241,309</u>
<b>Interest expenses arising from</b>			
Due to the central bank		2,471	2,218
Deposits from banks and other financial institutions		11,846	10,106
Placements from banks and other financial institutions		7,642	4,422
Deposits from customers			
- Corporate customers		65,372	64,098
- Individual customers		27,526	22,294
Financial assets sold under repurchase agreements		3,432	1,396
Debt securities issued		<u>25,040</u>	<u>23,120</u>
Subtotal		<u>143,329</u>	<u>127,654</u>
<b>Net interest income</b>		<u><u>107,480</u></u>	<u><u>113,655</u></u>

Note:

- (a) The interest income arising from impaired financial assets for the year ended 31 December 2023 amounted to RMB1,905 million (2022: RMB758 million).

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2 Net fee and commission income**

	<u>2023</u>	<u>2022</u>
<b>Fee and commission income</b>		
Bank card service fees	11,215	13,067
Wealth management service fees	4,141	4,677
Settlement and clearing fees	3,782	4,271
Agency service fees	2,809	3,149
Custody and other fiduciary business fees	2,057	2,058
Acceptance and guarantee fees	1,454	1,486
Underwriting and advisory fees	1,241	1,335
Others	25	34
	<hr/>	<hr/>
Subtotal	26,724	30,077
	<hr/>	<hr/>
<b>Fee and commission expense</b>		
Bank card transaction fees	1,796	1,735
Settlement and clearing fees	801	1,135
Wealth management service fees	89	153
Underwriting and advisory fees	57	68
Acceptance and guarantee fees	7	4
Agency service fees	4	21
Others	272	217
	<hr/>	<hr/>
Subtotal	3,026	3,333
	<hr/>	<hr/>
<b>Net fee and commission income</b>	<u>23,698</u>	<u>26,744</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3 Net trading gains**

	<u>2023</u>	<u>2022</u>
Trading financial instruments		
- Derivatives	368	191
- Debt securities	<u>2,825</u>	<u>2,155</u>
Subtotal	<u>3,193</u>	<u>2,346</u>
Precious metal contracts	<u>40</u>	<u>124</u>
Total	<u><u>3,233</u></u>	<u><u>2,470</u></u>

**4 Net gains arising from investment securities**

	<u>2023</u>	<u>2022</u>
Net gains arising from financial investments at fair value through profit or loss	9,072	5,642
Net (losses)/gains arising from debt instruments at fair value through other comprehensive income	(833)	17
Net gains arising from loans and advances to customers at fair value through other comprehensive income	541	1,531
Net revaluation gains/(losses) reclassified from other comprehensive income on disposal	<u>146</u>	<u>(774)</u>
Total	<u><u>8,926</u></u>	<u><u>6,416</u></u>

China Everbright Bank Company Limited  
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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5 Operating expenses**

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Staff costs			
- Salaries and bonuses		14,432	15,249
- Pension and annuity		2,480	2,382
- Housing allowances		1,228	1,166
- Staff welfares		851	714
- Supplementary retirement benefits		369	334
- Others		<u>2,356</u>	<u>2,392</u>
Subtotal		<u>21,716</u>	<u>22,237</u>
Premises and equipment expenses			
- Depreciation of right-of-use assets		2,830	2,760
- Depreciation of property and equipment		2,506	2,412
- Amortisation of intangible assets		1,053	850
- Rental and property management expenses		511	541
- Interest expenses on leases		397	428
- Amortisation of other long-term assets		<u>341</u>	<u>336</u>
Subtotal		<u>7,638</u>	<u>7,327</u>
Tax and surcharges		1,716	1,766
Other general and administrative expenses	(a)	<u>12,839</u>	<u>13,897</u>
Total		<u><u>43,909</u></u>	<u><u>45,227</u></u>

Note:

(a) Other general and administrative expenses included auditor's remuneration of RMB9.90 million for the year ended 31 December 2023 (2022: RMB9.90 million).

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments**

The emoluments before individual income tax for directors and supervisors who held office during the reporting year are as follows:

	Notes	2023					Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
		Fees RMB'000	Salaries RMB'000	Discretionary bonuses		Payable RMB'000				
				Paid RMB'000						
<b>Executive directors</b>										
Wang Zhiheng	(i)	-	338	253	-	591	47	152	790	
Qu Liang		-	1,084	325	-	1,409	134	152	1,695	
Qi Ye	(i)	-	1,059	317	-	1,376	134	152	1,662	
Yang Bingbing	(i)	-	1,059	317	-	1,376	134	152	1,662	
<b>Non-executive directors</b>										
Wu Lijun	(ii)	-	-	-	-	-	-	-	-	
Cui Yong	(ii)	-	-	-	-	-	-	-	-	
Yao Wei		-	-	-	-	-	-	-	-	
Zhu Wenhui	(ii)	-	-	-	-	-	-	-	-	
Li Wei		-	-	-	-	-	-	-	-	
<b>Independent non-executive directors</b>										
Shao Ruiqing		430	-	-	-	430	-	-	430	
Hong Yongmiao		430	-	-	-	430	-	-	430	
Li Yinquan		430	-	-	-	430	-	-	430	
Han Fuling		420	-	-	-	420	-	-	420	
Liu Shiping		430	-	-	-	430	-	-	430	
Huang Zhiling	(ii)	-	-	-	-	-	-	-	-	

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments (Continued)**

The emoluments before individual income tax for directors and supervisors who held office during the reporting year are as follows: (Continued)

	Notes	2023				Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
		Fees RMB'000	Salaries RMB'000	Discretionary bonuses					
				Paid RMB'000	Payable RMB'000				
<b>Supervisors</b>									
Wu Junhao		-	-	-	-	-	-	-	-
Li Yinzhong		-	-	-	-	-	-	-	-
Wang Zhe		330	-	-	-	330	-	-	330
Qiao Zhimin		340	-	-	-	340	-	-	340
Chen Qing		-	-	-	-	-	-	-	-
Shang Wencheng		-	771	1,449	-	2,220	131	152	2,503
Yang Wenhua		-	780	1,384	-	2,164	134	152	2,450
Lu Jian		-	745	1,165	-	1,910	116	152	2,178
<b>Former non-executive directors</b>									
Wang Jiang	(ii)	-	-	-	-	-	-	-	-
Yao Zhongyou	(ii)	-	-	-	-	-	-	-	-
Liu Chong	(ii)	-	-	-	-	-	-	-	-
<b>Former independent non-executive director</b>									
Wang Liguo	(ii)	350	-	-	-	350	-	-	350
<b>Former supervisor</b>									
Lu Hong	(ii)	-	939	282	-	1,221	112	126	1,459



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments (Continued)**

The emoluments before individual income tax for directors and supervisors who held office during the reporting year are as follows: (Continued)

	2022							
	<u>Fees</u>	<u>Salaries</u>	<u>Discretionary bonuses</u>		<u>Subtotal</u>	<u>Contributions to social pension schemes</u>	<u>Other welfares</u>	<u>Total</u>
			RMB'000	RMB'000				
<b>Executive directors</b>								
Qu Liang	-	1,537	551	-	2,088	141	139	2,368
Wang Zhiheng	-	-	-	-	-	-	-	-
<b>Non-executive directors</b>								
Wang Jiang	-	-	-	-	-	-	-	-
Wu Lijun	-	-	-	-	-	-	-	-
Yao Zhongyou	-	-	-	-	-	-	-	-
Yao Wei	-	-	-	-	-	-	-	-
Liu Chong	-	-	-	-	-	-	-	-
Li Wei	-	-	-	-	-	-	-	-
<b>Independent non-executive directors</b>								
Wang Liguo	420	-	-	-	420	-	-	420
Shao Ruiqing	430	-	-	-	430	-	-	430
Hong Yongmiao	430	-	-	-	430	-	-	430
Li Yinquan	430	-	-	-	430	-	-	430
Han Fuling	420	-	-	-	420	-	-	420
Liu Shiping	394	-	-	-	394	-	-	394

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6 Directors' and supervisors' emoluments (Continued)**

The emoluments before individual income tax for directors and supervisors who held office during the reporting year are as follows: (Continued)

	2022							
	<u>Fees</u> RMB'000	<u>Salaries</u> RMB'000	<u>Discretionary bonuses</u>		<u>Subtotal</u> RMB'000	<u>Contributions</u> to social	<u>Other</u> welfares	<u>Total</u> RMB'000
<u>Paid</u> RMB'000			<u>Payable</u> RMB'000	<u>pension schemes</u> RMB'000		RMB'000		
<b>Supervisors</b>								
Lu Hong	-	1,569	583	-	2,152	141	139	2,432
Wu Junhao	-	-	-	-	-	-	-	-
Li Yinzhong	-	-	-	-	-	-	-	-
Wang Zhe	330	-	-	-	330	-	-	330
Qiao Zhimin	340	-	-	-	340	-	-	340
Chen Qing	-	-	-	-	-	-	-	-
Shang Wencheng	-	717	1,090	-	1,807	138	139	2,084
Yang Wenhua	-	242	420	-	662	47	49	758
Lu Jian	-	233	322	-	555	34	49	638
<b>Former executive director</b>								
Fu Wanjun	-	292	219	-	511	41	127	679
<b>Former non-executive director</b>								
Li Xiaopeng	-	-	-	-	-	-	-	-
<b>Former independent non-executive director</b>								
Xu Hongcai	36	-	-	-	36	-	-	36
<b>Former supervisors</b>								
Wu Gaolian	-	-	-	-	-	-	-	-
Xu Keshun	-	463	735	-	1,198	99	103	1,400
Sun Jianwei	-	559	803	-	1,362	103	102	1,567

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **6 Directors' and supervisors' emoluments (Continued)**

The emoluments before individual income tax for directors and supervisors who held office during the reporting year are as follows: (Continued)

Notes:

- (i) On 13 March 2023, the CBIRC approved Mr. Wang Zhiheng's appointment as the executive director and the president of the Bank.

On 7 March 2024, the Bank held its First Extraordinary General Meeting of 2024 and elected Ms. Qi Ye and Mr. Yang Bingbing as executive directors of the Bank.

- (ii) On 17 November 2023, in the 11th meeting of the Ninth Board of Directors of the Bank deliberated and approved the election of Mr. Wu Lijun as the Chairman of the Ninth Board of Directors of the Bank. On 29 January 2024, the CBIRC approved Mr. Wu Lijun's appointment as Chairman of the Bank.

On 7 March 2024, the Bank held its First Extraordinary General Meeting of 2024 and elected Mr. Cui Yong as a non-executive director of the Bank. On 8 March 2024, at the 15th meeting of the Ninth Board of Directors of the Bank, Mr. Cui Yong was elected as the vice Chairman of the Ninth Board of Directors of the Bank.

On 31 August 2023, the CBIRC approved Mr. Zhu Wenhui's appointment as a non-executive director of the Bank.

On 1 November 2023, the CBIRC approved Mr. Huang Zhiling's appointment as an independent director of the Bank, and Mr. Wang Liguó ceased to perform his duties.

On 17 November 2023, due to work adjustment, Mr. Wang Jiang resigned as Chairman of the Board of Directors, non-executive director, Chairman and member of the Strategic Committee of the Board of Directors, and member of the Nomination Committee of the Board of Directors.

On 31 May 2023, Mr. Yao Zhongyou resigned as a non-executive director of the Bank and a member of the Risk Management Committee of the Board of Directors due to his retirement.

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **6 Directors' and supervisors' emoluments (Continued)**

The emoluments before individual income tax for directors and supervisors who held office during the reporting year are as follows: (Continued)

Notes: (Continued)

On 20 November 2023, due to personal matters, Mr. Liu Chong resigned as a non-executive director of the Bank, a member of the Risk Management Committee of the Board of Directors, and a member of the Social Responsibility, Inclusive Financial Development and Consumer Rights Protection Committee.

On 13 November 2023, Mr. Lu Hong resigned as the Bank's Chief Supervisor, shareholder supervisor and member of the Nomination Committee of the Supervisory Board due to his retirement.

- (iii) The total compensation package for these directors and supervisors for the year ended 31 December 2023 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2023.

The above directors' and supervisors' emoluments for the year ended 31 December 2023 were calculated in accordance with their actual tenure.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7 Individuals with highest emoluments

	<u>2023</u> RMB'000	<u>2022</u> RMB'000
Salaries and other emoluments	2,693	2,749
Discretionary bonuses	22,872	23,275
Contributions to pension schemes	296	273
Others	964	933
	<u>26,825</u>	<u>27,230</u>

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	<u>2023</u>	<u>2022</u>
RMB3,000,001 to 3,500,000	-	-
RMB3,500,001 to 4,000,000	-	-
RMB4,000,001 to 4,500,000	-	-
RMB4,500,001 to 5,000,000	1	-
RMB5,000,001 and above	4	5

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

### 8 Credit impairment losses

	<u>2023</u>	<u>2022</u>
Loans and advances to customers		
- measured at amortised cost	45,241	47,366
- measured at fair value through other comprehensive income	(86)	302
Debt instruments at fair value through other comprehensive income	134	500
Financial investments measured at amortised cost	5,732	2,062
Finance lease receivables	597	815
Others	457	(445)
	<u>52,075</u>	<u>50,600</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9 Income tax**

(a) Income tax:

	<u>Note V</u>	<u>2023</u>	<u>2022</u>
Current tax		11,113	22,286
Deferred tax	23(b)	(2,260)	(11,607)
Adjustments for prior year	9(b)	<u>(172)</u>	<u>247</u>
Total		<u>8,681</u>	<u>10,926</u>

(b) Reconciliations between income tax and accounting profit are as follows:

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Profit before tax		<u>49,757</u>	<u>55,966</u>
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		<u>12,439</u>	<u>13,992</u>
Effect of different tax rates applied by certain subsidiaries		(5)	(2)
Non-deductible expenses and others		<u>3,896</u>	<u>2,725</u>
Non-taxable gains			
- Non-taxable income	(i)	<u>(7,477)</u>	<u>(6,036)</u>
Subtotal		<u>8,853</u>	<u>10,679</u>
Adjustments for prior year		<u>(172)</u>	<u>247</u>
Income tax		<u>8,681</u>	<u>10,926</u>

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10 Basic and diluted earnings per ordinary share**

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	<u>2023</u>	<u>2022</u>
Net profit attributable to equity holders of the Bank	40,792	44,807
Less: Dividends to other equity instruments holders	4,811	4,811
Net profit attributable to ordinary shareholders of the Bank	35,981	39,996
Weighted average number of ordinary shares in issue (in million shares)	57,822	54,032
Basic earnings per share (in RMB/share)	0.62	0.74

Weighted average number of ordinary shares in issue (in million shares)

	<u>2023</u>	<u>2022</u>
Issued ordinary shares as at 1 January	54,032	54,032
Add: Weighted average number of new issued ordinary shares in the current year	3,790	-
Weighted average number of ordinary shares in issue (in million shares)	57,822	54,032

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10 Basic and diluted earnings per ordinary share (Continued)**

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	<u>2023</u>	<u>2022</u>
Net profit attributable to ordinary shareholders of the Bank	35,981	39,996
Add: Interest expense on convertible bonds, net of tax	<u>272</u>	<u>794</u>
Net profit used to determine diluted earnings per share	<u>36,253</u>	<u>40,790</u>
Weighted average number of ordinary shares in issue (in million shares)	57,822	54,032
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	<u>1,484</u>	<u>6,817</u>
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	<u>59,306</u>	<u>60,849</u>
Diluted earnings per share (in RMB/share)	<u>0.61</u>	<u>0.67</u>



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 11 Cash and deposits with the central bank

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Cash on hand		4,361	4,022
Deposits with the central bank			
- Statutory deposit reserves	(a)	276,799	281,357
- Surplus deposit reserves	(b)	64,428	67,141
- Foreign exchange risk reserves	(c)	740	243
- Fiscal deposits		<u>2,717</u>	<u>3,522</u>
Subtotal		349,045	356,285
Accrued interest		<u>139</u>	<u>141</u>
Total		<u><u>349,184</u></u>	<u><u>356,426</u></u>

Notes:

- (a) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business. As at the end of the reporting period, the Bank's statutory deposit reserve rates in Chinese Mainland were as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
Reserve ratio for RMB deposits	7.00%	7.50%
Reserve ratio for foreign currency deposits	4.00%	6.00%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

- (b) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.
- (c) The foreign-exchange risk reserve is the foreign-exchange risk reserve paid by the Group to the PBOC in accordance with the relevant provisions. As at 31 December 2023, the proportion of foreign-exchange risk reserve shall be 20% (31 December 2022: 20%).

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12 Deposits with banks and other financial institutions**

Analysed by type and location of counterparty

	31 December <u>2023</u>	31 December <u>2022</u>
Deposits in Chinese Mainland		
- Banks	28,412	17,532
- Other financial institutions	709	1,022
Deposits overseas		
- Banks	<u>11,192</u>	<u>13,935</u>
Subtotal	40,313	32,489
Accrued interest	<u>64</u>	<u>19</u>
Total	40,377	32,508
Less: Provision for impairment losses	<u>(435)</u>	<u>(435)</u>
Net balances	<u><u>39,942</u></u>	<u><u>32,073</u></u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13 Placements with banks and other financial institutions**

Analysed by type and location of counterparty

	31 December <u>2023</u>	31 December <u>2022</u>
Placements in Chinese Mainland		
- Banks	8,243	6,068
- Other financial institutions	111,172	85,049
Placements overseas		
- Banks	<u>22,782</u>	<u>38,727</u>
Subtotal	142,197	129,844
Accrued interest	<u>371</u>	<u>379</u>
Total	142,568	130,223
Less: Provision for impairment losses	<u>(326)</u>	<u>(244)</u>
Net balances	<u><u>142,242</u></u>	<u><u>129,979</u></u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14 Derivatives and hedge accounting

(a) Analysed by nature of contract

	31 December 2023		
	Notional amount	Fair value	
		<u>Assets</u>	<u>Liabilities</u>
Interest rate derivatives			
- Interest rate swaps	911,287	4,856	(4,713)
- Treasury bond futures	97	-	(2)
Currency derivatives			
- Foreign exchange forwards	4,484	58	(49)
- Foreign exchange swap and cross-currency interest rate swaps	931,148	8,383	(9,157)
- Foreign exchange options	2,443	27	(25)
<b>Total</b>	<b><u>1,849,459</u></b>	<b><u>13,324</u></b>	<b><u>(13,946)</u></b>
	31 December 2022		
	Notional amount	Fair value	
		<u>Assets</u>	<u>Liabilities</u>
Interest rate derivatives			
- Interest rate swaps	1,037,901	4,768	(4,518)
- Treasury bond futures	308	1	-
Currency derivatives			
- Foreign exchange forwards	22,844	540	(348)
- Foreign exchange swap and cross-currency interest rate swaps	659,026	10,130	(9,379)
- Foreign exchange options	9,519	291	(16)
Credit derivatives	160	-	-
<b>Total</b>	<b><u>1,729,758</u></b>	<b><u>15,730</u></b>	<b><u>(14,261)</u></b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14 Derivatives and hedge accounting (Continued)

(b) Analysed by credit risk-weighted amount

	31 December <u>2023</u>	31 December <u>2022</u>
Counterparty default risk-weighted assets		
- Interest rate derivatives	475	1,390
- Currency derivatives	1,418	2,652
Credit value adjustment risk-weighted assets	<u>2,309</u>	<u>4,443</u>
Total	<u>4,202</u>	<u>8,485</u>

The risk-weighted assets for counterparty credit risk (“CCR”) of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, and the risk-weighted assets for credit valuation adjustment (“CVA”). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

(1) Fair value hedge

The Group uses interest rate swaps to hedge fair value changes caused by interest rate changes, and the hedged items are fixed interest bonds held by the Group. As at 31 December 2023, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB12,617 million (31 December 2022: RMB6,239 million), among which derivative financial assets amounted to RMB345 million (31 December 2022: RMB416 million), derivative financial liabilities amounted to RMB123 million (31 December 2022: RMB14 million).

In 2023 and 2022, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

(2) Cash flow hedge

The Group uses cross-currency swaps to hedge cash flow fluctuations resulting from exchange rates, and the hedged items are fixed interest bonds issued by the Group. As at 31 December 2023, the nominal amount of derivative financial instruments used by the Group as cash flow hedging instruments in hedge accounting was RMB1,500 million (31 December 2022: Nil), among which derivative financial assets amounted to RMB48 million (31 December 2022: Nil), and derivative financial liabilities amounted to RMB0 million (31 December 2022: Nil).

In 2023, the profit or loss arising from the recognised invalidated portion of the cash flow hedge was not significant.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15 Financial assets held under resale agreements**

(a) Analysed by type and location of counterparty

	31 December <u>2023</u>	31 December <u>2022</u>
In Chinese Mainland		
- Banks	2,317	-
- Other financial institutions	65,138	-
Overseas		
- Banks	-	28
Subtotal	67,455	28
Accrued interest	51	-
Total	67,506	28
Less: Provision for impairment losses	(6)	-
Net balances	<u>67,500</u>	<u>28</u>

(b) Analysed by type of collateral held

	31 December <u>2023</u>	31 December <u>2022</u>
Bonds		
- Government bonds	6,433	-
- Other debt securities	61,022	28
Subtotal	67,455	28
Accrued interest	51	-
Total	67,506	28
Less: Provision for impairment losses	(6)	-
Net balances	<u>67,500</u>	<u>28</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers**

(a) Analysed by nature

	31 December <u>2023</u>	31 December <u>2022</u>
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	2,068,722	1,838,407
Discounted bills	<u>636</u>	<u>497</u>
Personal loans and advances		
- Personal housing mortgage loans	584,099	589,758
- Personal business loans	299,291	257,190
- Personal consumption loans	195,679	208,442
- Credit cards	<u>433,547</u>	<u>463,729</u>
Subtotal	<u>1,512,616</u>	<u>1,519,119</u>
Loans and advances to customers at fair value through other comprehensive income		
Corporate loans and advances	97,118	93,043
Discounted bills	<u>107,862</u>	<u>121,210</u>
Subtotal	<u>204,980</u>	<u>214,253</u>
Total	3,786,954	3,572,276
Accrued interest	<u>11,342</u>	<u>10,255</u>
Gross loans and advances to customers	3,798,296	3,582,531
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(85,371)</u>	<u>(83,180)</u>
Net loans and advances to customers	<u>3,712,925</u>	<u>3,499,351</u>
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	<u>(690)</u>	<u>(776)</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Loans and advances to customers (Continued)

(b) Analysed by industry

	31 December 2023		
	<u>Amount</u>	<u>Percentage</u>	<u>Loans and advances secured by collateral</u>
Manufacturing	444,913	11.74%	82,297
Water, environment and public utility management	337,316	8.91%	112,731
Leasing and commercial services	335,235	8.85%	68,882
Wholesale and retail trade	177,439	4.69%	36,271
Real estate	165,745	4.38%	108,194
Construction	165,227	4.36%	42,950
Transportation, storage and postal services	136,270	3.60%	41,333
Finance	105,414	2.78%	7,663
Production and supply of electricity, gas and water	84,276	2.23%	15,973
Agriculture, forestry, husbandry and fishery	59,157	1.56%	14,789
Others	154,848	4.09%	29,297
Subtotal of corporate loans and advances	<u>2,165,840</u>	<u>57.19%</u>	<u>560,380</u>
Personal loans and advances	1,512,616	39.94%	868,717
Discounted bills	108,498	2.87%	107,305
Total	3,786,954	100.00%	1,536,402
Accrued interest	<u>11,342</u>		
Gross loans and advances to customers	3,798,296		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(85,371)</u>		
Net loans and advances to customers	<u>3,712,925</u>		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	<u>(690)</u>		



**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers (Continued)**

(b) Analysed by industry (Continued)

	31 December 2022		
	<u>Amount</u>	<u>Percentage</u>	<u>Loans and advances secured by collateral</u>
Manufacturing	379,002	10.59%	78,769
Water, environment and public utility management	320,176	8.96%	120,441
Leasing and commercial services	268,954	7.53%	65,021
Real estate	178,649	5.00%	117,234
Wholesale and retail trade	160,716	4.50%	41,166
Construction	151,748	4.25%	47,185
Transportation, storage and postal services	110,579	3.10%	38,971
Finance	85,008	2.38%	8,739
Production and supply of electricity, gas and water	72,531	2.03%	14,816
Agriculture, forestry, husbandry and fishery	65,622	1.84%	19,029
Others	138,465	3.88%	32,387
Subtotal of corporate loans and advances	<u>1,931,450</u>	<u>54.06%</u>	<u>583,758</u>
Personal loans and advances	1,519,119	42.53%	832,781
Discounted bills	121,707	3.41%	118,279
Total	<u>3,572,276</u>	<u>100.00%</u>	<u>1,534,818</u>
Accrued interest	<u>10,255</u>		
Gross loans and advances to customers	3,582,531		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(83,180)</u>		
Net loans and advances to customers	<u>3,499,351</u>		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	<u>(776)</u>		

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Loans and advances to customers (Continued)

#### (b) Analysed by industry (Continued)

As at the end of the year and for the year ended 31 December 2023, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2023					
	Impaired loans and advances	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	Impairment charged during the year	Written- off during the year
Manufacturing	<u>8,564</u>	<u>(2,564)</u>	<u>(1,099)</u>	<u>(2,932)</u>	<u>2,061</u>	<u>4,030</u>

#### (c) Analysed by type of collateral

	31 December <u>2023</u>	31 December <u>2022</u>
Unsecured loans	1,313,169	1,192,422
Guaranteed loans	937,383	845,036
Secured loans		
- Mortgage loans	1,210,545	1,188,728
- Pledged loans	<u>325,857</u>	<u>346,090</u>
Total	3,786,954	3,572,276
Accrued interest	<u>11,342</u>	<u>10,255</u>
Gross loans and advances to customers	3,798,296	3,582,531
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	<u>(85,371)</u>	<u>(83,180)</u>
Net loans and advances to customers	<u>3,712,925</u>	<u>3,499,351</u>
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	<u>(690)</u>	<u>(776)</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers (Continued)**

(d) Analysed by geographical distribution

	31 December 2023		
	<u>Loan balance</u>	<u>Percentage</u>	<u>Loans and advances secured by collateral</u>
Yangtze River Delta	903,353	23.86%	323,157
Central	650,965	17.19%	317,662
Pearl River Delta	574,249	15.16%	319,019
Bohai Rim	516,609	13.64%	256,554
Western	475,934	12.57%	223,808
Overseas	125,751	3.32%	20,962
Northeastern	105,734	2.79%	74,441
Head Office	434,359	11.47%	799
	<b>3,786,954</b>	<b>100.00%</b>	<b>1,536,402</b>

	31 December 2022		
	<u>Loan balance</u>	<u>Percentage</u>	<u>Loans and advances secured by collateral</u>
Yangtze River Delta	841,441	23.56%	332,851
Central	610,286	17.08%	319,605
Pearl River Delta	511,900	14.33%	303,254
Bohai Rim	465,674	13.04%	251,536
Western	446,599	12.50%	222,310
Overseas	116,267	3.25%	21,940
Northeastern	106,440	2.98%	74,881
Head Office	473,669	13.26%	8,441
	<b>3,572,276</b>	<b>100.00%</b>	<b>1,534,818</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Loans and advances to customers (Continued)

(d) Analysed by geographical distribution (Continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	31 December 2023			
	Impaired loans and advances	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)
Pearl River Delta	8,431	(4,373)	(3,857)	(5,253)
Yangtze River Delta	6,062	(7,075)	(1,956)	(3,674)
Central	6,001	(3,541)	(3,413)	(2,989)
Bohai Rim	4,921	(3,211)	(1,943)	(3,408)
Western	3,818	(3,265)	(4,010)	(2,055)
<b>Total</b>	<b>29,233</b>	<b>(21,465)</b>	<b>(15,179)</b>	<b>(17,379)</b>

	31 December 2022			
	Impaired loans and advances	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)
Pearl River Delta	9,326	(6,261)	(3,008)	(5,213)
Central	6,099	(5,900)	(3,496)	(3,444)
Yangtze River Delta	4,724	(10,567)	(2,246)	(3,570)
Bohai Rim	4,428	(3,252)	(1,830)	(3,270)
Western	4,186	(4,734)	(3,499)	(2,398)
<b>Total</b>	<b>28,763</b>	<b>(30,714)</b>	<b>(14,079)</b>	<b>(17,895)</b>

For the definition of regional divisions, see Note V 49(b).

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers (Continued)**

(e) Overdue loans analysed by overdue period

	31 December 2023				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	20,408	13,380	1,607	928	36,323
Guaranteed loans	3,874	2,569	2,576	594	9,613
Secured loans					
- Mortgage loans	7,395	7,908	7,847	2,014	25,164
- Pledged loans	184	2,388	14	28	2,614
Subtotal	31,861	26,245	12,044	3,564	73,714
Accrued interest	83	-	-	-	83
Total	31,944	26,245	12,044	3,564	73,797
As a percentage of gross loans and advances to customers	0.84%	0.69%	0.32%	0.09%	1.94%
	31 December 2022				
	Overdue within three months or less (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	18,061	10,778	1,456	295	30,590
Guaranteed loans	2,881	5,094	1,975	357	10,307
Secured loans					
- Mortgage loans	11,121	7,382	7,540	1,289	27,332
- Pledged loans	119	969	548	38	1,674
Subtotal	32,182	24,223	11,519	1,979	69,903
Accrued interest	108	-	-	-	108
Total	32,290	24,223	11,519	1,979	70,011
As a percentage of gross loans and advances to customers	0.90%	0.68%	0.32%	0.06%	1.96%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers (Continued)**

(f) Loans and advances and provision for impairment losses

	31 December 2023				Stage 3 loans and advances as a percentage of loans and advances
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	Total	
Loan principal	3,600,805	137,271	48,878	3,786,954	1.29%
Accrued interest	8,001	3,054	287	11,342	
Gross loans and advances to customers	3,608,806	140,325	49,165	3,798,296	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(30,599)	(23,766)	(31,006)	(85,371)	
Net loans and advances to customers	<u>3,578,207</u>	<u>116,559</u>	<u>18,159</u>	<u>3,712,925</u>	
	31 December 2022				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	3,418,026	106,860	47,390	3,572,276	1.33%
Accrued interest	8,441	1,530	284	10,255	
Gross loans and advances to customers	3,426,467	108,390	47,674	3,582,531	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(36,726)	(17,680)	(28,774)	(83,180)	
Net loans and advances to customers	<u>3,389,741</u>	<u>90,710</u>	<u>18,900</u>	<u>3,499,351</u>	

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers (Continued)**

(g) Reconciliation of provision for impairment losses

	2023			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	
As at 1 January 2023	(36,726)	(17,680)	(28,774)	(83,180)
Transfer to Stage 1	(2,610)	2,371	239	-
Transfer to Stage 2	2,153	(2,495)	342	-
Transfer to Stage 3	389	2,286	(2,675)	-
Net charge for the year	6,216	(8,247)	(43,210)	(45,241)
Write-off and disposal	-	-	51,573	51,573
Recovery of loans and advances written off	-	-	(9,437)	(9,437)
Unwinding of discount on allowance	-	-	961	961
Exchange fluctuation and others	(21)	(1)	(25)	(47)
As at 31 December 2023	<u>(30,599)</u>	<u>(23,766)</u>	<u>(31,006)</u>	<u>(85,371)</u>
	2022			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	
As at 1 January 2022	(31,363)	(19,935)	(25,591)	(76,889)
Transfer to Stage 1	(2,847)	2,511	336	-
Transfer to Stage 2	1,180	(1,377)	197	-
Transfer to Stage 3	427	3,348	(3,775)	-
Net charge for the year	(4,117)	(2,227)	(41,022)	(47,366)
Write-off and disposal	-	-	47,828	47,828
Recovery of loans and advances written off	-	-	(7,505)	(7,505)
Unwinding of discount on allowance	-	-	758	758
Exchange fluctuation and others	(6)	-	-	(6)
As at 31 December 2022	<u>(36,726)</u>	<u>(17,680)</u>	<u>(28,774)</u>	<u>(83,180)</u>

Note:

- (i) The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2023, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB690 million (31 December 2022: RMB776 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Loans and advances to customers (Continued)

(h) Rescheduled loans and advances to customers

	31 December <u>2023</u>	31 December <u>2022</u>
Rescheduled loans and advances to customers	6,551	4,404
Of which: Rescheduled loans and advances to customers overdue more than 90 days	1,267	19

### 17 Finance lease receivables

	31 December <u>2023</u>	31 December <u>2022</u>
Finance lease receivables	115,776	126,223
Less: Unearned finance lease income	<u>(12,943)</u>	<u>(14,945)</u>
Present value of finance lease receivables	102,833	111,278
Accrued interest	837	1,122
Less: Impairment losses	<u>(4,512)</u>	<u>(4,388)</u>
Net balance	<u><u>99,158</u></u>	<u><u>108,012</u></u>

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
Less than 1 year (inclusive)	40,820	39,200
1 year to 2 years (inclusive)	31,071	31,903
2 years to 3 years (inclusive)	19,730	24,686
3 years to 4 years (inclusive)	10,156	14,703
4 years to 5 years (inclusive)	3,940	7,428
More than 5 years	<u>10,059</u>	<u>8,303</u>
Total	<u><u>115,776</u></u>	<u><u>126,223</u></u>



**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Financial investments**

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Financial assets at fair value through profit or loss	(a)	432,896	403,617
Debt instruments at fair value through other comprehensive income	(b)	561,047	449,596
Equity instruments at fair value through other comprehensive income	(c)	1,132	1,126
Financial investments measured at amortised cost	(d)	<u>1,246,387</u>	<u>1,192,273</u>
Total		<u><u>2,241,462</u></u>	<u><u>2,046,612</u></u>

(a) Financial assets at fair value through profit or loss

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Debt instruments held for trading	(i)	106,408	109,640
Other financial assets at fair value through profit or loss	(ii)	<u>326,488</u>	<u>293,977</u>
Total		<u><u>432,896</u></u>	<u><u>403,617</u></u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18 Financial investments (Continued)

(a) Financial assets at fair value through profit or loss (Continued)

(i) Debt instruments held for trading

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Issued by the following governments or institutions:			
In Chinese Mainland			
- Government		28,605	9,407
- Banks and other financial institutions		45,887	79,658
- Other institutions	(1)	29,734	19,479
Overseas			
- Government		1,176	256
- Banks and other financial institutions		510	372
- Other institutions		496	468
Total	(2)	106,408	109,640
Listed	(3)	21,052	1,542
Of which: listed in Hong Kong		2,270	670
Unlisted		85,356	108,098
Total		106,408	109,640

Notes:

(1) The debt instruments issued by other institutions in Chinese Mainland mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Chinese Mainland.

(2) At the end of the year, some of the debt instruments held for trading were pledged for repurchase agreements and time deposits. See Note V 25(a).

(3) Listed investments include debt instruments traded on a stock exchange.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Financial investments (Continued)**

(a) Financial assets at fair value through profit or loss (Continued)

(ii) Other financial assets at fair value through profit or loss

	31 December <u>2023</u>	31 December <u>2022</u>
Fund investments	296,565	214,031
Equity instruments	4,341	5,059
Others	<u>25,582</u>	<u>74,887</u>
Total	<u>326,488</u>	<u>293,977</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18 Financial investments (Continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
In Chinese Mainland			
- Government		278,638	196,287
- Banks and other financial institutions	(1)	143,306	143,053
- Other institutions	(2)	88,524	65,207
Overseas			
- Government		1,911	4,437
- Banks and other financial institutions		21,121	17,852
- Other institutions		19,520	16,078
Subtotal		553,020	442,914
Accrued interest		8,027	6,682
Total	(3)	<u>561,047</u>	<u>449,596</u>
Listed	(4)	68,540	55,718
Of which: listed in Hong Kong		25,199	33,248
Unlisted		484,480	387,196
Subtotal		553,020	442,914
Accrued interest		8,027	6,682
Total		<u>561,047</u>	<u>449,596</u>

Notes:

- (1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Chinese Mainland.
- (2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Chinese Mainland.
- (3) At the end of the year, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note V 25(a).
- (4) Listed investments include debt instruments traded on a stock exchange.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18 Financial investments (Continued)

(b) Debt instruments at fair value through other comprehensive income (Continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	2023			<u>Total</u>
	Stage 1 12-month <u>ECL</u>	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	
As at 1 January 2023	(470)	(158)	(590)	(1,218)
Transfer to Stage 2	6	(6)	-	-
Transfer to Stage 3	52	92	(144)	-
Net charge for the year	(39)	(40)	(55)	(134)
Exchange fluctuation and others	18	5	36	59
As at 31 December 2023	<u>(433)</u>	<u>(107)</u>	<u>(753)</u>	<u>(1,293)</u>
	2022			
	Stage 1 12-month <u>ECL</u>	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	<u>Total</u>
As at 1 January 2022	(410)	(104)	(173)	(687)
Transfer to Stage 2	10	(30)	20	-
Transfer to Stage 3	31	104	(135)	-
Net charge for the year	(95)	(103)	(302)	(500)
Exchange fluctuation and others	(6)	(25)	-	(31)
As at 31 December 2022	<u>(470)</u>	<u>(158)</u>	<u>(590)</u>	<u>(1,218)</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Financial investments (Continued)**

(c) Equity instruments at fair value through other comprehensive income

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Listed	(i)	30	24
Unlisted		<u>1,102</u>	<u>1,102</u>
Total	(ii)	<u>1,132</u>	<u>1,126</u>

Notes:

- (i) Listed investments include equity instruments traded on a stock exchange.
- (ii) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2023, the fair value was RMB1,132 million (As at December 31 2022: RMB1,126 million). For the year ended 31 December 2023, the Group has received dividends of RMB44 million from the above equity instruments (2022: RMB60 million).

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Financial investments (Continued)**

(d) Financial investments measured at amortised cost

	<u>Notes</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
Debt securities and asset-backed instruments	(i)	1,199,678	1,105,621
Others	(ii)	<u>43,327</u>	<u>79,789</u>
Subtotal		1,243,005	1,185,410
Accrued interest		<u>18,679</u>	<u>17,745</u>
Total		1,261,684	1,203,155
Less: Provision for impairment losses		<u>(15,297)</u>	<u>(10,882)</u>
Net balance		<u><u>1,246,387</u></u>	<u><u>1,192,273</u></u>
Listed	(iii)	205,136	217,335
Of which: listed in Hong Kong		25,104	29,541
Unlisted		<u>1,022,572</u>	<u>957,193</u>
Subtotal		1,227,708	1,174,528
Accrued interest		<u>18,679</u>	<u>17,745</u>
Net balance		<u><u>1,246,387</u></u>	<u><u>1,192,273</u></u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18 Financial investments (Continued)

(d) Financial investments measured at amortised cost (Continued)

(i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
In Chinese Mainland			
- Government		488,028	405,772
- Banks and other financial institutions		408,738	385,852
- Other institutions	(1)	236,545	242,040
Overseas			
- Government		13,987	29,524
- Banks and other financial institutions		41,167	31,091
- Other institutions		11,213	11,342
Subtotal		1,199,678	1,105,621
Accrued interest		18,637	17,330
Total	(2)	1,218,315	1,122,951
Less: Provision for impairment losses		(4,241)	(4,217)
Net balance		<u>1,214,074</u>	<u>1,118,734</u>
Fair value		<u>1,241,475</u>	<u>1,135,161</u>

Notes:

- (1) Debt securities and asset-backed instruments issued by other institutions mainly represent debt securities and asset-backed instruments issued by state-owned enterprises and joint stock enterprises in Chinese Mainland.
- (2) As at the end of the year, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions. See Note V 25(a).
- (ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.
- (iii) Listed investments include debt instruments traded on a stock exchange.



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18 Financial Investments (Continued)**

(d) Financial investments measured at amortised cost (Continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	2023			<u>Total</u>
	Stage 1 12-month <u>ECL</u>	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	
As at 1 January 2023	(1,325)	(56)	(9,501)	(10,882)
Transfer to Stage 1	(19)	19	-	-
Transfer to Stage 2	22	(22)	-	-
Net charge for the year	751	(71)	(6,412)	(5,732)
Write-off and disposal	-	-	513	513
Interest income on impaired financial investments	-	-	944	944
Exchange fluctuation and others	(140)	-	-	(140)
As at 31 December 2023	<u>(711)</u>	<u>(130)</u>	<u>(14,456)</u>	<u>(15,297)</u>
	2022			
	Stage 1 12-month <u>ECL</u>	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	<u>Total</u>
As at 1 January 2022	(1,361)	(1,315)	(7,649)	(10,325)
Transfer to Stage 2	36	(36)	-	-
Transfer to Stage 3	162	1,314	(1,476)	-
Net charge for the year	(88)	(19)	(1,955)	(2,062)
Write-off and disposal	-	-	1,579	1,579
Exchange fluctuation and others	(74)	-	-	(74)
As at 31 December 2022	<u>(1,325)</u>	<u>(56)</u>	<u>(9,501)</u>	<u>(10,882)</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19 Investment in subsidiaries and joint ventures**

**(a) Investments in subsidiaries**

	31 December <u>2023</u>	31 December <u>2022</u>
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd.	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co., Ltd.	5,000	5,000
Beijing Sunshine Consumer Finance Co., Ltd.	600	600
	<u>12,983</u>	<u>12,983</u>
Total	<u>12,983</u>	<u>12,983</u>

The details of the subsidiaries are presented as follows:

<u>Corporate name</u>	<u>Registered address</u>	<u>Registered capital</u>	<u>Investment proportion</u>	<u>Voting proportion</u>	<u>Main business</u>	<u>Economic nature/type</u>
Everbright Financial Leasing Co., Ltd. (Everbright Financial Leasing)	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd. (CEB International)	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd. (Shaoshan Everbright Bank)	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd. (Huai'an Everbright Bank)	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe) (CEB Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd. (Ruijin Everbright Bank)	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd. (Everbright Wealth)	Qingdao, Shandong	5,000	100%	100%	Capital market business	Limited company
Beijing Sunshine Consumer Finance Co., Ltd. (Sunshine Consumer)	Beijing	1,000	60%	60%	Banking business	Incorporated company

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19 Investment in subsidiaries and joint ventures (Continued)

#### (b) Investments in joint ventures

	<u>2023</u>	<u>2022</u>
As at 1 January	165	256
Decreased investment	-	(47)
Investment gains/(losses) under the equity method	36	(63)
Foreign currency conversion difference	3	19
	<u>204</u>	<u>165</u>
As at 31 December	<u>204</u>	<u>165</u>

### 20 Property and equipment

	<u>Premises</u> (Note (i))	<u>Aircraft</u> (Note (ii))	<u>Construction in progress</u>	<u>Electronic equipment</u>	<u>Others</u>	<u>Total</u>
<b>Cost</b>						
As at 1 January 2023	14,278	11,057	2,832	9,968	4,971	43,106
Additions	58	267	923	648	185	2,081
Transfers in/(out)	2,138	-	(2,152)	-	-	(14)
Disposals	(24)	-	-	(390)	(155)	(569)
Foreign currency conversion difference	-	186	-	-	-	186
As at 31 December 2023	<u>16,450</u>	<u>11,510</u>	<u>1,603</u>	<u>10,226</u>	<u>5,001</u>	<u>44,790</u>
<b>Accumulated depreciation</b>						
As at 1 January 2023	(5,337)	(1,370)	-	(6,269)	(3,793)	(16,769)
Charge for the year	(495)	(414)	-	(1,304)	(293)	(2,506)
Disposals	-	-	-	365	144	509
Foreign currency conversion difference	-	(23)	-	-	-	(23)
As at 31 December 2023	<u>(5,832)</u>	<u>(1,807)</u>	<u>-</u>	<u>(7,208)</u>	<u>(3,942)</u>	<u>(18,789)</u>
<b>Provision for impairment</b>						
As at 1 January 2023	(163)	-	-	-	-	(163)
As at 31 December 2023	<u>(163)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(163)</u>
<b>Net book value</b>						
As at 31 December 2023	<u>10,455</u>	<u>9,703</u>	<u>1,603</u>	<u>3,018</u>	<u>1,059</u>	<u>25,838</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20 Property and equipment (Continued)**

	<u>Premises</u> (Note (i))	<u>Aircraft</u> (Note (ii))	<u>Construction</u> <u>in progress</u>	<u>Electronic</u> <u>equipment</u>	<u>Others</u>	<u>Total</u>
<b>Cost</b>						
As at 1 January 2022	13,529	10,134	2,656	9,151	4,818	40,288
Additions	59	1	930	1,373	351	2,714
Transfers in/(out)	690	-	(754)	-	-	(64)
Disposals	-	-	-	(556)	(198)	(754)
Foreign currency conversion difference	-	922	-	-	-	922
As at 31 December 2022	<u>14,278</u>	<u>11,057</u>	<u>2,832</u>	<u>9,968</u>	<u>4,971</u>	<u>43,106</u>
<b>Accumulated depreciation</b>						
As at 1 January 2022	(4,895)	(882)	-	(5,582)	(3,611)	(14,970)
Charge for the year	(442)	(394)	-	(1,212)	(364)	(2,412)
Disposals	-	-	-	525	182	707
Foreign currency conversion difference	-	(94)	-	-	-	(94)
As at 31 December 2022	<u>(5,337)</u>	<u>(1,370)</u>	<u>-</u>	<u>(6,269)</u>	<u>(3,793)</u>	<u>(16,769)</u>
<b>Provision for impairment</b>						
As at 1 January 2022	(163)	-	-	-	-	(163)
As at 31 December 2022	<u>(163)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(163)</u>
<b>Net book value</b>						
As at 31 December 2022	<u>8,778</u>	<u>9,687</u>	<u>2,832</u>	<u>3,699</u>	<u>1,178</u>	<u>26,174</u>

Notes:

- (i) As at 31 December 2023, title deeds were not yet finalised for the premises with a carrying amount of RMB2,278 million (31 December 2022: RMB35 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.
- (ii) As at 31 December 2023, Everbright Financial Leasing, the Group's subsidiary leased certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB9,703 million (31 December 2022: RMB9,687 million). As at the end of the year, part of the finance lease receivables was pledged for borrowings from banks. See Note V 25(a).

The net book values of premises at the end of the reporting period are analysed by the remaining terms of leases as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
<b>Held in Chinese Mainland</b>		
- Medium term leases (10 to 50 years)	9,846	8,173
- Short term leases (less than 10 years)	<u>609</u>	<u>605</u>
<b>Total</b>	<u>10,455</u>	<u>8,778</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21 Right-of-use Assets**

	<u>Premises</u>	<u>Transportation and others</u>	<u>Total</u>
<b>Cost</b>			
As at 1 January 2023	18,193	53	18,246
Charge for the year	3,574	9	3,583
Deductions	(2,854)	(26)	(2,880)
Foreign currency conversion difference	13	-	13
As at 31 December 2023	<u>18,926</u>	<u>36</u>	<u>18,962</u>
<b>Accumulated depreciation</b>			
As at 1 January 2023	(7,939)	(26)	(7,965)
Charge for the year	(2,820)	(10)	(2,830)
Reduction for the year	2,232	17	2,249
Foreign currency conversion difference	(8)	-	(8)
As at 31 December 2023	<u>(8,535)</u>	<u>(19)</u>	<u>(8,554)</u>
<b>Net book value</b>			
As at 31 December 2023	<u>10,391</u>	<u>17</u>	<u>10,408</u>
	<u>Premises</u>	<u>Transportation and others</u>	<u>Total</u>
<b>Cost</b>			
As at 1 January 2022	17,302	61	17,363
Charge for the year	2,250	8	2,258
Deductions	(1,406)	(16)	(1,422)
Foreign currency conversion difference	47	-	47
As at 31 December 2022	<u>18,193</u>	<u>53</u>	<u>18,246</u>
<b>Accumulated depreciation</b>			
As at 1 January 2022	(6,381)	(29)	(6,410)
Charge for the year	(2,749)	(11)	(2,760)
Reduction for the year	1,205	14	1,219
Foreign currency conversion difference	(14)	-	(14)
As at 31 December 2022	<u>(7,939)</u>	<u>(26)</u>	<u>(7,965)</u>
<b>Net book value</b>			
As at 31 December 2022	<u>10,254</u>	<u>27</u>	<u>10,281</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 22 Goodwill

	<u>31 December 2023</u>	<u>31 December 2022</u>
Gross amount	6,019	6,019
Less: Provision for impairment losses	<u>(4,738)</u>	<u>(4,738)</u>
Net balances	<u>1,281</u>	<u>1,281</u>

As approved by the PBOC, the Bank and China Development Bank (“CDB”) jointly signed the “Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank” (the “Agreement”) on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank (“CIB”) to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank’s cash flow forecast is 10% (2022: 11%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

### 23 Deferred tax assets and liabilities

Deferred income tax assets and deferred income tax liabilities that have not been offset:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Deferred income tax assets	36,153	34,855
Deferred income tax liabilities	<u>(2,179)</u>	<u>(2,152)</u>
Total	<u>33,974</u>	<u>32,703</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**23 Deferred tax assets and liabilities (Continued)**

(a) Analysed by nature

	31 December 2023		31 December 2022	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
- Fair value changes	2,856	697	3,456	864
- Provision for impairment losses	118,220	29,550	113,780	28,445
- Accrued staff costs and others	<u>23,623</u>	<u>5,906</u>	<u>22,183</u>	<u>5,546</u>
Total	<u>144,699</u>	<u>36,153</u>	<u>139,419</u>	<u>34,855</u>
Deferred income tax liabilities				
- Fair value changes	(2,787)	(697)	(32)	(8)
- Others	<u>(5,927)</u>	<u>(1,482)</u>	<u>(8,576)</u>	<u>(2,144)</u>
Total	<u>(8,714)</u>	<u>(2,179)</u>	<u>(8,608)</u>	<u>(2,152)</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 23 Deferred tax assets and liabilities (Continued)

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
As at 1 January 2023	28,445	856	3,402	32,703
Recognised in profit or loss	1,108	130	1,022	2,260
Recognised in other comprehensive income	(3)	(986)	-	(989)
As at 31 December 2023	<u>29,550</u>	<u>-</u>	<u>4,424</u>	<u>33,974</u>
As at 1 January 2022	17,847	(953)	3,001	19,895
Recognised in profit or loss	10,827	379	401	11,607
Recognised in other comprehensive income	(229)	1,430	-	1,201
As at 31 December 2022	<u>28,445</u>	<u>856</u>	<u>3,402</u>	<u>32,703</u>

Notes:

- (i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.
- (ii) Fair value changes of financial instruments are subject to tax when realised.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24 Other assets

	<u>Notes</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
Accrued interest		8,331	6,539
Other receivables	(a)	8,047	17,229
Intangible assets		4,297	3,475
Property and equipment purchase prepayment		2,042	1,334
Refundable Deposits		1,641	1,542
Long-term deferred expense		916	927
Repossessed assets		147	238
Land use right		71	77
Others	(b)	<u>2,946</u>	<u>3,147</u>
Total		<u>28,438</u>	<u>34,508</u>

Note:

- (a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.
- (b) Others are mainly agency financial assets.

### 25 Pledged assets

- (a) Assets pledged as collateral

The Group's financial assets as collateral for liabilities include discounted bills, debt securities and property and equipment, which are mainly used as collateral for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2023 is RMB195.465 billion (as at 31 December 2022: RMB183.853 billion).

- (b) Collateral received

The Group accepted securities as collateral for those which are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in the year ended 31 December 2023. As at 31 December 2023, the Group had no collateral received from banks and other financial institutions (31 December 2022: Nil). As at 31 December 2023, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2022: Nil). These transactions are conducted under standard terms in the normal course of business.

China Everbright Bank Company Limited  
Notes to the Consolidated Financial Statements (Continued)  
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(Expressed in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**26 Due to the central bank**

	31 December <u>2023</u>	31 December <u>2022</u>
Due to the central bank	98,552	63,142
Accrued interest	<u>1,081</u>	<u>244</u>
Total	<u><u>99,633</u></u>	<u><u>63,386</u></u>

**27 Deposits from banks and other financial institutions**

Analysed by type and location of counterparty

	31 December <u>2023</u>	31 December <u>2022</u>
Deposits in Chinese Mainland		
- Banks	153,897	160,959
- Other financial institutions	396,375	376,763
Deposits overseas		
- Banks	<u>798</u>	<u>2,019</u>
Subtotal	551,070	539,741
Accrued interest	<u>1,256</u>	<u>927</u>
Total	<u><u>552,326</u></u>	<u><u>540,668</u></u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**28 Placements from banks and other financial institutions**

Analysed by type and location of counterparty

	31 December <u>2023</u>	31 December <u>2022</u>
Placements in Chinese Mainland		
- Banks	111,593	115,365
- Other financial institutions	5,495	6,605
Placements overseas		
- Banks	<u>76,212</u>	<u>65,745</u>
Subtotal	193,300	187,715
Accrued interest	<u>905</u>	<u>886</u>
Total	<u><u>194,205</u></u>	<u><u>188,601</u></u>

**29 Financial liabilities at fair value through profit or loss**

	31 December <u>2023</u>	31 December <u>2022</u>
Short position in debt securities	<u>-</u>	<u>27</u>
Total	<u><u>-</u></u>	<u><u>27</u></u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**30 Financial assets sold under repurchase agreements**

(a) Analysed by type and location of counterparty

	31 December <u>2023</u>	31 December <u>2022</u>
In Chinese Mainland		
- Banks	51,038	74,624
- Other financial institutions	-	74
Overseas		
- Banks	21,616	17,947
- Other financial institutions	<u>274</u>	<u>215</u>
Subtotal	72,928	92,860
Accrued interest	<u>187</u>	<u>120</u>
Total	<u>73,115</u>	<u>92,980</u>

(b) Analysed by collateral

	31 December <u>2023</u>	31 December <u>2022</u>
Debt securities	71,916	89,892
Bank acceptances	<u>1,012</u>	<u>2,968</u>
Subtotal	72,928	92,860
Accrued interest	<u>187</u>	<u>120</u>
Total	<u>73,115</u>	<u>92,980</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 31 Deposits from customers

	31 December <u>2023</u>	31 December <u>2022</u>
Demand deposits		
- Corporate customers	965,167	823,302
- Individual customers	<u>249,402</u>	<u>254,332</u>
Subtotal	<u>1,214,569</u>	<u>1,077,634</u>
Time deposits		
- Corporate customers	1,451,942	1,552,167
- Individual customers	<u>945,213</u>	<u>807,037</u>
Subtotal	<u>2,397,155</u>	<u>2,359,204</u>
Pledged deposits	412,129	409,978
Other deposits	<u>1,019</u>	<u>1,078</u>
Subtotal deposits from customers	4,024,872	3,847,894
Accrued interest	<u>69,656</u>	<u>69,274</u>
Total	<u><u>4,094,528</u></u>	<u><u>3,917,168</u></u>

### 32 Accrued staff costs

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Salary and welfare payable		16,051	15,528
Pension and annuity payable	(a)	313	319
Supplementary retirement benefits payable	(b)	<u>3,700</u>	<u>3,159</u>
Total		<u><u>20,064</u></u>	<u><u>19,006</u></u>

Notes:

#### (a) Pension and annuity

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 32 Accrued staff costs (Continued)

Notes : (Continued)

#### (a) Pension and annuity (Continued)

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

#### (b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were assessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary, Wills Towers Watson Management Consulting (Shenzhen) Co., Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
Present value of supplementary retirement benefits liability	<u>3,700</u>	<u>3,159</u>

(ii) Movements of SRB of the Group are as follows:

	<u>2023</u>	<u>2022</u>
As at 1 January	3,159	2,712
Current service costs	267	239
Interest costs	102	95
Recalculation part of the defined benefit plan	192	135
Payments made	<u>(20)</u>	<u>(22)</u>
As at 31 December	<u>3,700</u>	<u>3,159</u>

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 40.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 32 Accrued staff costs (Continued)

(b) Supplementary retirement benefits (“SRB”) (Continued)

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
Discount rate	3.00%	3.25%
Medical cost growth rate	6.00%	6.00%
Average expected future lifetime	25.17	25.18

(iv) Sensitivity analysis:

Reasonably possible changes at the end of the year to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below:

	<u>31 December 2023</u>	
	<u>Increases</u>	<u>Decreases</u>
Discount rate (1% movement)	(1,097)	1,209
Medical cost growth rate (1% movement)	1,186	(832)
	<u>31 December 2022</u>	
	<u>Increases</u>	<u>Decreases</u>
Discount rate (1% movement)	(927)	1,021
Medical cost growth rate (1% movement)	1,003	(704)

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (a) and (b) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits. There is no balance in arrears in the above staff emoluments payable.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 33 Taxes payable

	31 December <u>2023</u>	31 December <u>2022</u>
Income tax payable	4,334	7,542
Value added tax payable	2,554	3,068
Others	416	531
Total	<u>7,304</u>	<u>11,141</u>

### 34 Lease liabilities

	31 December <u>2023</u>	31 December <u>2022</u>
Within 1 year (inclusive)	2,691	2,723
1 year to 2 years (inclusive)	2,288	2,171
2 years to 3 years (inclusive)	1,914	1,724
3 years to 5 years (inclusive)	2,602	2,539
More than 5 years	2,080	2,282
Total undiscounted lease liabilities	<u>11,575</u>	<u>11,439</u>
Lease liabilities	<u>10,349</u>	<u>10,151</u>

### 35 Debt securities issued

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Financial bonds issued	(a)	233,363	130,346
Tier-two capital bonds issued	(b)	61,593	46,596
Convertible bonds issued	(c)	-	24,082
Interbank deposits issued	(d)	733,507	604,319
Certificates of deposit issued	(e)	35,705	46,798
Medium term notes	(f)	30,792	20,476
Subtotal		1,094,960	872,617
Accrued interest		<u>4,366</u>	<u>3,354</u>
Total		<u>1,099,326</u>	<u>875,971</u>



**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**35 Debt securities issued (Continued)**

(a) Financial bonds issued

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Financial fixed rate bonds maturing in March 2024	(i)	39,998	39,993
Financial floating rate bonds maturing in May 2024	(ii)	1,453	1,415
Financial floating rate bonds maturing in August 2024	(iii)	969	944
Financial fixed rate bonds maturing in February 2025	(iv)	39,999	39,998
Financial floating rate bonds maturing in March 2025	(v)	436	-
Financial floating rate bonds maturing in March 2025	(vi)	799	-
Financial floating rate bonds maturing in April 2025	(vii)	547	-
Financial floating rate bonds maturing in May 2025	(viii)	291	-
Financial fixed rate bonds maturing in October 2025	(ix)	47,997	47,996
Financial fixed rate bonds maturing in May 2026	(x)	19,999	-
Financial floating rate bonds maturing in May 2026	(xi)	484	-
Financial fixed rate bonds maturing in June 2026	(xii)	19,999	-
Financial fixed rate bonds maturing in September 2026	(xiii)	29,999	-
Financial fixed rate bonds maturing in November 2026	(xiv)	27,999	-
Financial fixed rate bonds maturing in November 2026	(xv)	2,394	-
Total		<u>233,363</u>	<u>130,346</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35 Debt securities issued (Continued)

#### (a) Financial bonds issued (Continued)

Notes:

- (i) Fixed rate social bonds for Small and Micro Enterprises Loans of RMB40.00 billion with a term of three years were issued by the Bank on 22 March 2021. The coupon rate is 3.45% per annum.
- (ii) Floating rate financial bonds of AUD0.30 billion with a term of three years were issued by the Bank's Sydney branch on 18 May 2021. The coupon rate is 3MBBSW+68BPS per annum.
- (iii) Floating rate financial bonds of AUD0.20 billion with a term of 1.75 years were issued by the Bank's Sydney branch on 11 November 2022. The coupon rate is 3MBBSW+103BPS per annum.
- (iv) Fixed rate social bonds for Small and Micro Enterprises Loans of RMB40.00 billion with a term of three years were issued by the Bank on 17 February 2022. The coupon rate is 2.73% per annum.
- (v) Floating rate financial bonds of AUD90.00 million with a term of two years were issued by the Bank's Sydney branch on 24 February 2023. The coupon rate is 3MBBSW+93BPS per annum.
- (vi) Floating rate financial bonds of AUD165.00 million with a term of two years were issued by the Bank's Sydney branch on 15 March 2023. The coupon rate is 3MBBSW+100BPS per annum.
- (vii) Floating rate financial bonds of AUD113.00 million with a term of two years were issued by the Bank's Sydney branch on 19 April 2023. The coupon rate is 3MBBSW+90BPS per annum.
- (viii) Floating rate financial bonds of AUD60.00 million with a term of two years were issued by the Bank's Sydney branch on 8 May 2023. The coupon rate is 3MBBSW+92BPS per annum.
- (ix) Fixed rate financial bonds of RMB48.00 billion with a term of three years were issued by the Bank on 18 October 2022. The coupon rate is 2.47% per annum.
- (x) Fixed rate financial bonds (Phase I) of RMB20.00 billion with a term of three years were issued by the Bank on 16 May 2023. The coupon rate is 2.68% per annum.
- (xi) Floating rate financial bonds of AUD100.00 million with a term of three years were issued by the Bank's Sydney branch on 5 May 2023. The coupon rate is 3MBBSW+105BPS per annum.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35 Debt securities issued (Continued)

#### (a) Financial bonds issued (Continued)

Notes: (Continued)

- (xii) Fixed rate green financial bonds (Phase I) of RMB20.00 billion with a term of three years were issued by the Bank on 19 June 2023. The coupon rate is 2.68% per annum.
- (xiii) Fixed rate financial bonds (Phase II) of RMB30.00 billion with a term of three years were issued by the Bank on 21 September 2023. The coupon rate is 2.72% per annum.
- (xiv) Fixed rate financial bonds (Phase III) of RMB28.00 billion with a term of three years were issued by the Bank on 7 November 2023. The coupon rate is 2.81% per annum.
- (xv) Fixed rate financial bonds of RMB3.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2023. The coupon rate is 2.85% per annum.
- (xvi) As at 31 December 2023, the fair value of the total financial bonds issued was RMB233,714 million (31 December 2022: RMB130,169 million).

#### (b) Tier-two capital bonds issued

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Tier-two capital fixed rate bonds maturing in September 2030	(i)	1,596	1,596
Tier-two capital fixed rate bonds maturing in August 2032	(ii)	39,998	40,000
Tier-two capital fixed rate bonds maturing in April 2033	(iii)	9,999	-
Tier-two capital fixed rate bonds maturing in August 2037	(iv)	5,000	5,000
Tier-two capital fixed rate bonds maturing in April 2038	(v)	<u>5,000</u>	<u>-</u>
Total		<u>61,593</u>	<u>46,596</u>

Notes:

- (i) Fixed rate tier-two capital bonds of RMB1.60 billion with a term of ten years were issued on 16 September 2020 by Everbright Financial Leasing. The coupon rate is 4.39% per annum. The Group has an option to redeem the debts on 18 September 2025 at the nominal amount.

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **35 Debt securities issued (Continued)**

#### (b) Tier-two capital bonds issued (Continued)

Notes: (Continued)

- (ii) Fixed rate tier-two capital bonds of RMB40.00 billion with a term of ten years were issued on 25 August 2022. The coupon rate is 3.10% per annum. The Group has an option to redeem the debts on 29 August 2027 at the nominal amount.
- (iii) Fixed rate tier-two capital bonds of RMB10.00 billion with a term of ten years were issued on 10 April 2023. The coupon rate is 3.55% per annum. The Group has an option to redeem the debts on 12 April 2028 at the nominal amount.
- (iv) Fixed rate tier-two capital bonds of RMB5.00 billion with a term of fifteen years were issued on 25 August 2022. The coupon rate is 3.35% per annum. The Group has an option to redeem the debts on 29 August 2032 at the nominal amount.
- (v) Fixed rate tier-two capital bonds of RMB5.00 billion with a term of fifteen years were issued on 10 April 2023. The coupon rate is 3.64% per annum. The Group has an option to redeem the debts on 12 April 2033 at the nominal amount.
- (vi) As at 31 December 2023, the fair value of the total tier-two capital bonds issued approximated to RMB62,243 million (31 December 2022: RMB45,113 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35 Debt securities issued (Continued)

#### (c) Convertible bonds issued

	<u>31 December</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
Fixed rate six years convertible bonds issued in March 2017	-	24,082

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	<u>Note</u>	<u>Liability component</u>	<u>Equity component</u> Note V 38	<u>Total</u>
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		<u>(64)</u>	<u>(13)</u>	<u>(77)</u>
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2023		4,767	-	4,767
Accumulated conversion amount as at 1 January 2023		<u>(5,447)</u>	<u>(998)</u>	<u>(6,445)</u>
Balance as at 1 January 2023		24,082	4,163	28,245
Payment during the year		(7,152)	(1,251)	(8,403)
Conversion amount during the year (ii)		<u>(16,930)</u>	<u>(2,912)</u>	<u>(19,842)</u>
Balance as at 31 December 2023		<u>-</u>	<u>-</u>	<u>-</u>

Notes:

- (i) Pursuant to the approval of relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including the interest for the sixth year. The convertible bonds matured on 16 March 2023, and the Bank redeemed all the convertible bonds registered after the close of market on 16 March 2023 (redemption registration date).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35 Debt securities issued (Continued)

#### (c) Convertible bonds issued (Continued)

Notes: (Continued)

(ii) As at 31 December 2023, a total of RMB22,731 million (31 December 2022: RMB5,801 million) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 6,596,456,061 shares (31 December 2022: 1,542,885,091 shares).

(iii) For the year ended 31 December 2023, a total of RMB363 million interests on the convertible bonds has been paid by the Bank (2022: RMB436 million).

#### (d) Interbank deposits issued

For the year ended 31 December 2023, 313 inter-bank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB1,067,720 million (2022: RMB796,570 million). The carrying amount of interbank deposits due in 2023 was RMB935,110 million (2022: RMB781,630 million). As at 31 December 2023, the fair value of its outstanding interbank deposits issued was RMB726,139 million (31 December 2022: RMB596,629 million).

#### (e) Certificates of deposit issued

As at 31 December 2023, the certificates of deposit were issued by the Bank's Hong Kong branch, Seoul branch, Sydney branch and Luxembourg Branch measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35 Debt securities issued (Continued)

(f) Medium term notes

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Medium term notes with floating rate maturing on 3 August 2023	(i)	-	4,863
Medium term notes with fixed rate maturing on 11 March 2024	(ii)	3,900	3,819
Medium term notes with fixed rate maturing on 15 June 2024	(iii)	4,253	4,165
Medium term notes with fixed rate maturing on 14 September 2024	(iv)	3,544	3,471
Medium term notes with fixed rate maturing on 1 December 2024	(v)	2,125	2,081
Medium term notes with fixed rate maturing on 15 December 2024	(vi)	2,123	2,077
Medium term notes with fixed rate maturing on 12 September 2025	(vii)	1,498	-
Medium term notes with fixed rate maturing on 2 March 2026	(viii)	2,830	-
Medium term notes with floating rate maturing on 12 September 2026	(ix)	3,538	-
Medium term notes with floating rate maturing on 20 September 2026	(x)	3,892	-
Medium term notes with fixed rate maturing on 18 December 2026	(xi)	353	-
Medium term notes with fixed rate maturing on 18 December 2026	(xii)	354	-
Medium term notes with fixed rate maturing on 18 December 2026	(xiii)	995	-
Medium term notes with fixed rate maturing on 19 December 2026	(xiv)	392	-
Medium term notes with fixed rate maturing on 21 December 2026	(xv)	995	-
Total		<u>30,792</u>	<u>20,476</u>

Notes:

- (i) Floating rate medium term notes of USD700.00 million with a term of three years were issued by the Bank's Hong Kong branch on 3 August 2020. The coupon rate is QUARTLY US LIBOR+85BPS per annum.
- (ii) Fixed rate medium term notes of USD550.00 million with a term of three years were issued by the Bank's Hong Kong branch on 11 March 2021. The coupon rate is 0.93% per annum.
- (iii) Fixed rate medium term notes of USD600.00 million with a term of three years were issued by the Bank's Hong Kong branch on 15 June 2021. The coupon rate is 0.84% per annum.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35 Debt securities issued (Continued)

#### (f) Medium term notes (Continued)

Notes: (Continued)

- (iv) Fixed rate medium term notes of USD500.00 million with a term of three years were issued by the Bank's Luxembourg branch on 14 September 2021. The coupon rate is 0.83% per annum.
- (v) Fixed rate medium term notes of USD300.00 million with a term of three years were issued by the Bank's Hong Kong branch on 1 December 2021. The coupon rate is 1.27% per annum.
- (vi) Fixed rate medium term notes of USD300.00 million with a term of three years were issued by the Bank's subsidiary CEB International on 15 December 2021. The coupon rate is 2.00% per annum.
- (vii) Fixed rate medium term notes of RMB1.50 billion with a term of two years were issued by the Bank's Hong Kong branch on 12 September 2023. The coupon rate is 2.95% per annum.
- (viii) Fixed rate medium term notes of USD400.00 million with a term of three years were issued by the Bank's Hong Kong branch on 2 March 2023. The coupon rate is 4.99% per annum.
- (ix) Floating rate medium term notes of USD500.00 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2023. The coupon rate is SOFR Compounded Index+63BPS per annum.
- (x) Floating rate medium term notes of USD550.00 million with a term of three years were issued by the Bank's Sydney branch on 20 September 2023. The coupon rate is SOFR Compounded Index+63BPS per annum.
- (xi) Fixed rate medium term notes of EUR45.00 million with a term of three years were issued by the Bank's Luxembourg branch on 18 December 2023. The coupon rate is 3.70% per annum.
- (xii) Fixed rate medium term notes of USD50.00 million with a term of three years were issued by the Bank's Luxembourg branch on 18 December 2023. The coupon rate is 5.00% per annum.
- (xiii) Fixed rate medium term notes of RMB1.00 billion with a term of three years were issued by the Bank's Luxembourg branch on 28 December 2023. The coupon rate is 3.00% per annum.
- (xiv) Fixed rate medium term notes of EUR50.00 million with a term of three years were issued by the Bank's Luxembourg branch on 19 December 2023. The coupon rate is 3.66% per annum.
- (xv) Fixed rate medium term notes of RMB1.00 billion with a term of three years were issued by the Bank's Luxembourg branch on 29 December 2023. The coupon rate is 3.10% per annum.
- (xvi) As at 31 December 2023, the fair value of the medium term notes was RMB30,476 million (31 December 2022: RMB19,574 million).



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**36 Other liabilities**

	<u>Notes</u>	31 December <u>2023</u>	31 December <u>2022</u>
Bank loans	(a)	24,936	20,718
Payment and collection clearance accounts		9,616	13,436
Finance leases payable		6,510	6,680
Provisions	(b)	2,068	1,883
Dormant accounts		729	865
Dividend payables		23	23
Others		9,333	13,532
<b>Total</b>		<b>53,215</b>	<b>57,137</b>

Notes:

(a) As at 31 December 2023, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay the loans with the benefit of clear or quarterly.

(b) Provisions

	31 December <u>2023</u>	31 December <u>2022</u>
Expected credit losses on off-balance sheet items	1,845	1,598
Litigation losses	133	157
Others	90	128
<b>Total</b>	<b>2,068</b>	<b>1,883</b>

The reconciliation of the provision was as follows:

	<u>2023</u>	<u>2022</u>
As at 1 January	1,883	2,213
Net charge for the year	186	(319)
Payments for the year	(1)	(11)
<b>As at 31 December</b>	<b>2,068</b>	<b>1,883</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 37 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	31 December <u>2022</u>	The number of shares increased by conversion of convertible bonds into A shares	31 December <u>2023</u>
Ordinary shares listed in Chinese Mainland (A share)	41,353	5,054	46,407
Ordinary shares listed in Hong Kong (H share)	<u>12,679</u>	<u>-</u>	<u>12,679</u>
Total	<u>54,032</u>	<u>5,054</u>	<u>59,086</u>

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

### 38 Other equity instruments

	<u>Note V</u>	31 December <u>2023</u>	31 December <u>2022</u>
Preference shares (Notes (a), (b), (c) and (e))		64,906	64,906
Equity of convertible bonds	35(c)	-	4,163
Perpetual bonds (Notes(d) and (e))		<u>39,993</u>	<u>39,993</u>
Total		<u>104,899</u>	<u>109,062</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**38 Other equity instruments (Continued)**

(a) Preference shares at the end of the year

<u>Issue date</u>	<u>Dividend rate</u>	<u>Issue price (RMB /share)</u>	<u>Number of shares issued (million)</u>	<u>Issue amount (RMB million)</u>	<u>Conversion condition</u>
Everbright P1 2015-6-19	4.45%	100	200	20,000	Mandatory conversion triggering events
Everbright P2 2016-8-8	4.01%	100	100	10,000	Mandatory conversion triggering events
Everbright P3 2019-7-15	4.80%	100	350	<u>35,000</u>	Mandatory conversion triggering events
Subtotal				65,000	
Less: Issuing costs				<u>(94)</u>	
Book value				<u>64,906</u>	

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 38 Other equity instruments (Continued)

#### (b) Main clauses of preference shares

##### (i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

##### (ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general reserve, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

##### (iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend year to the preference shareholders in full.

##### (iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds, holders of convertible bonds and holders of perpetual bonds but have a higher priority in shares' distribution than to the ordinary shareholders.

##### (v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Triggering Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 38 Other equity instruments (Continued)

#### (b) Main clauses of preference shares (Continued)

##### (v) Mandatory conversion triggering events (Continued)

Upon the occurrence of a non-viability triggering event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares without the consent of the shareholders. If preference shares were converted to A shares, they could not be converted to preference shares again.

##### (vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant year.

#### (c) Changes in preference shares outstanding

	1 January 2023		Additions for the year		31 December 2023	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	-	-	650	64,906

	1 January 2022		Additions for the year		31 December 2022	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	-	-	650	64,906

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **38 Other equity instrument (Continued)**

#### **(d) Main clauses of perpetual bonds**

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the “Bonds”) which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the above bonds.

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank’s additional tier one capital and to increase its capital adequacy ratio.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**38 Other equity instruments (Continued)**

(e) Interests attributable to equity instruments' holders

<u>Items</u>	31 December <u>2023</u>	31 December <u>2022</u>
Total equity attributable to equity shareholders of the Bank	552,391	507,883
- Equity attributable to ordinary shareholders of the Bank	447,492	402,984
- Equity attributable to preference shareholders of the Bank	64,906	64,906
- Equity attributable to Perpetual bonds holders of the Bank	39,993	39,993
Total equity attributable to non-controlling interests	2,394	2,130
- Equity attributable to non-controlling interests of ordinary shares	2,394	2,130

**39 Capital reserve**

	31 December <u>2023</u>	31 December <u>2022</u>
Share premium	<u>74,473</u>	<u>58,434</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**40 Other comprehensive income**

	31 December <u>2023</u>	31 December <u>2022</u>
<b>Items that will not be reclassified to profit or loss</b>		
Fair value changes on equity instruments at fair value through other comprehensive income	20	16
Remeasurement of a defined benefit plan	<u>(895)</u>	<u>(703)</u>
Subtotal	<u>(875)</u>	<u>(687)</u>
<b>Items that will be reclassified to profit or loss</b>		
Debt instruments at fair value through other comprehensive income	3,051	81
- Net change in fair value	1,522	(1,463)
- Net change in expected credit loss	<u>1,529</u>	<u>1,544</u>
Cash flow hedge	4	-
Exchange differences on translation of financial statements	<u>65</u>	<u>16</u>
Subtotal	<u>3,120</u>	<u>97</u>
Total	<u><u>2,245</u></u>	<u><u>(590)</u></u>



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**40 Other comprehensive income (Continued)**

Other comprehensive income attributable to equity holders of the Bank in the condensed consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Cash flow hedge	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasure- ment of a defined benefit plan	Total
As at 1 January 2022	2,929	939	16	-	(164)	(568)	3,152
Changes in amount for the previous year	(4,392)	605	-	-	180	(135)	(3,742)
As at 1 January 2023	(1,463)	1,544	16	-	16	(703)	(590)
Changes in amount for the year	2,985	(15)	4	4	49	(192)	2,835
As at 31 December 2023	1,522	1,529	20	4	65	(895)	2,245

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 41 Surplus reserve and general reserve

#### (a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

#### (b) General reserve

Pursuant to the Measures for Managing the Appropriation of Provisions of Financial Enterprises (Cai Jin [2012] No. 20) issued by the Ministry of Finance, the Bank is required to provide for impairment losses of its assets and set aside a general reserve through the appropriation of net profits to cover potential losses against its assets. The general reserve is part of the equity shareholders' interests and the general reserve through net profit should not be less than 1.5% of the period-end balance of risk-bearing assets.

The Bank's subsidiaries appropriated their profits to the general reserve according to the applicable local regulations.

The Group appropriated RMB4,760 million of profits to the general reserve for the year ended 31 December 2023 (2022: RMB5,805 million).

The Bank appropriated RMB4,397 million of profits to the general reserve for the year ended 31 December 2023 (2022: RMB4,608 million).

### 42 Appropriation of profits

#### (a) At the Board Meeting held on 27 March 2024, the Board of Directors approved the following profit appropriations for the year ended 31 December 2023:

- The accumulated amount of withdrawal has reached 50% of the Bank registered capital; According to the relevant terms of the company law, the surplus reserve can no longer be withdrawn in this profit distribution;
- Appropriated RMB4,397 million to general reserve;
- The 2023 annual dividend of RMB1,680 million should be paid to the Third preference shareholders in cash dividend RMB4.80 per share before tax base on the coupon dividend yield of 4.8%;
- Declared cash dividends of RMB10,222 million to all ordinary shareholders at 31 December 2023, representing RMB1.73 per 10 shares before tax.

The above profit appropriation is subject to the approval of the Bank's general meeting of shareholders.

#### (b) The Bank distributed the interest on the Undated Capital Bonds amounting to RMB1,840 million on 22 September 2023.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42 Appropriation of profits (Continued)

- (c) At the Annual General Meeting of Shareholders held on 21 June 2023, the Shareholders approved the following profit appropriations for the year ended 31 December 2022:
- Under the Company Law of the PRC, the Bank's statutory surplus reserve has reached 50% of its registered capital, so no further statutory surplus reserve shall be withdrawn for this profit distribution;
  - Appropriated RMB4,608 million to general reserve;
  - Declared cash dividends of RMB11,226 million to all ordinary shareholders, representing RMB1.90 per 10 shares before tax.
- (d) At the Board Meeting held on 24 March 2023, the dividend distribution of the Everbright P3 for the year ended 2022 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB1,680 million before tax, representing RMB4.80 per share before tax, accruing from 1 January 2022, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3;
- (e) At the Board Meeting held on 2 June 2023, the dividend distribution of the Everbright P1 for the year ended 2023 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB890 million before tax, representing RMB4.45 per share before tax, accruing from 25 June 2022, and are calculated using the 4.45% of dividend yield ratio for the Everbright P1;
- (f) At the Board Meeting held on 2 June 2023, the dividend distribution of the Everbright P2 for the year ended 2023 was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB401 million before tax, representing RMB4.01 per share before tax, accruing from 11 August 2022, and are calculated using the 4.01% of dividend yield ratio for the Everbright P2.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 43 Involvement with structured entities

- (a) Structured entities sponsored by third party institutions in which the Group holds an interest:

In order to make better use of the funds to obtain income, the Group has an interest in the structured entities initiated and established by third-party institutions through direct holding of investments. Structured entities that the Group does not consolidate but in which it holds interests for better investment return include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2023		31 December 2022	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
- Fund investments	296,565	296,565	214,031	214,031
- Asset management plans	8,137	8,137	52,909	52,909
Financial investments measured at amortised cost				
- Asset management plans	32,313	32,313	73,539	73,539
- Asset-backed securities	115,552	115,552	145,276	145,276
Total	452,567	452,567	485,755	485,755

- (b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2023, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **43 Involvement with structured entities (Continued)**

- (b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (Continued)

As at 31 December 2023, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB1,312,263 million (31 December 2022: RMB1,185,241 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2023 but matured before 31 December 2023 was RMB30,187 million (2022: RMB3,421 million).

In 2023, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB4,141 million (2022: RMB4,677 million).

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. As at 31 December 2023, the balance of above transactions was Nil (31 December 2022: Nil). In 2023, the amount of interest receivables from the above financing transactions was not material for the Group in the statement of profit or loss.

In addition, please refer to Note V44 for the interests in the unconsolidated structured entities of asset securitization transactions held by the Group as at 31 December 2023. In 2023, the Group's income from these structured entities was immaterial.

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **43 Involvement with structured entities (Continued)**

#### **(c) Consolidated structured entities**

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products issued by the Group, and the single asset management plans and special purpose trust plans issued by third parties. The Group provides a principal guarantee commitment for the principal guaranteed financial products issued and managed by them. And investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group have power over the single asset management plans and special purpose trust plans issued by third parties and has the ability to use its power over these entities to affect the amount of the Group's returns. Then Group have the controls power over these entities.

### **44 Transferred financial assets**

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases, these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

#### Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 44 Transferred financial assets(Continued)

#### Credit assets backed securitization (Continued)

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB29 million as at 31 December 2023 (31 December 2022: Nil).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2023, the Group has no continuing involvement in credit asset-backed securities(31 December 2022: Nil).

#### Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2023, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2023, loans with an original carrying amount of RMB1,998 million (31 December 2022: RMB1,998 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2023, the carrying amount of assets that the Group continues to recognise amounted to RMB251 million (31 December 2022: RMB251 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with the relevant capital regulatory requirements. The capital of the Group is categorised into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank quarterly.

With effect from 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

According to the Regulation Governing Capital of Commercial Banks (provisional), the capital adequacy ratio of commercial banks at all levels shall not be lower than the following minimum requirements: common equity tier-one capital adequacy ratio shall not be less than 5%, tier-one capital adequacy ratio shall not be less than 6%, and capital adequacy ratio shall not be less than 8%. Commercial banks should set aside reserve capital on the basis of minimum capital requirement which is 2.5% of risk-weighted assets and is met by common equity tier-one capital. In certain circumstances, commercial banks should provide counter-cyclical capital above the minimum capital requirement and reserve capital requirement, which is 0% to 2.5% of risk-weighted assets and is met by common equity tier-one capital. According to the requirements of the Additional Regulatory Provisions on Systemically Important Banks (Provisional), systemically important banks should meet certain additional capital requirements which are met by common equity tier-one capital, on the basis of meeting the minimum capital requirements, and reserve capital and counter-cyclical capital requirements. The Group is in the first group on the list of systemically important banks, and needs to meet the additional capital requirement of 0.25%, which became effective on 1 January 2023. In addition, subsidiaries or branches of the bank incorporated overseas are also directly regulated and supervised by their respective local banking supervisors, respectively. There are differences in the capital adequacy requirements of different countries.



## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **45 Capital management (Continued)**

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (“OTC”) derivatives are the summation of default risk-weighted assets and credit value adjustment (“CVA”). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group has computed its capital adequacy ratios and related data in accordance with PRC accounting standards. During the reporting year, the Group complied with the capital requirements imposed by the regulatory authorities.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45 Capital management (Continued)

The Group calculates the capital adequacy ratios in accordance with “Regulation Governing Capital of Commercial Banks (provisional)” and relevant requirements are as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
<b>Total common equity tier-one capital</b>	448,686	404,205
Share capital	59,086	54,032
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	76,722	62,007
Surplus reserve	26,245	26,245
General reserve	86,161	81,401
Retained earnings	199,276	179,293
Qualifying portions of non-controlling interests	1,196	1,227
<b>Common equity tier-one capital deductions</b>	(5,586)	(4,809)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(4,295)	(3,475)
Net deferred tax assets arising from operating losses that depend on future profits	(10)	(53)
<b>Net common equity tier-one capital</b>	<u>443,100</u>	<u>399,396</u>
<b>Additional tier-one capital</b>	105,059	105,063
Additional tier-one capital instruments	104,899	104,899
Qualifying portions of non-controlling interests	160	164
<b>Tier-one capital net</b>	<u>548,159</u>	<u>504,459</u>
<b>Tier-two capital</b>	103,223	88,759
Qualifying portions of tier-two capital instruments issued and share premium	59,997	45,000
Excess loan loss provisions	41,899	42,287
Qualifying portions of non-controlling interests	1,327	1,472
<b>Net capital base</b>	<u>651,382</u>	<u>593,218</u>
<b>Total risk-weighted assets</b>	4,824,278	4,579,772
<b>Common equity tier-one capital adequacy ratio</b>	9.18%	8.72%
<b>Tier-one capital adequacy ratio</b>	11.36%	11.01%
<b>Capital adequacy ratio</b>	13.50%	12.95%

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**46 Notes to consolidated cash flow statements**

(a) Net increase in cash and cash equivalents

	31 December <u>2023</u>	31 December <u>2022</u>
Cash and cash equivalents as at 31 December	123,902	136,664
Less: Cash and cash equivalents as at 1 January	<u>136,664</u>	<u>222,583</u>
Net decrease in cash and cash equivalents	<u>(12,762)</u>	<u>(85,919)</u>

(b) Cash and cash equivalents

	31 December <u>2023</u>	31 December <u>2022</u>
Cash on hand	4,361	4,022
Deposits with the central bank	64,428	67,141
Deposits with banks and other financial institutions	36,427	31,084
Placements with banks and other financial institutions	<u>18,686</u>	<u>34,417</u>
Total	<u>123,902</u>	<u>136,664</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**46 Notes to consolidated cash flow statements (Continued)**

(c) Reconciliation of liabilities arising from financing activities

	Debt securities <u>issued</u>	Lease <u>liabilities</u>	Dividend <u>payables</u>	<u>Total</u>
As at 1 January 2023	875,971	10,151	23	886,145
Financing cash flows	215,245	(3,156)	(16,070)	196,019
Non-cash changes				
- Interest expense	25,040	397	-	25,437
- Net increase in leases	-	2,957	-	2,957
- Convertible corporate bonds to increase share capital and capital reserve	(16,930)	-	-	(16,930)
- Appropriation of profits	-	-	16,070	16,070
As at 31 December 2023	<u>1,099,326</u>	<u>10,349</u>	<u>23</u>	<u>1,109,698</u>
	Debt Securities <u>issued</u>	Lease <u>liabilities</u>	Dividend <u>payables</u>	<u>Total</u>
As at 1 January 2022	763,532	10,736	22	774,290
Financing cash flows	89,319	(3,101)	(15,690)	70,528
Non-cash changes				
- Interest expense	23,120	428	-	23,548
- Net increase in leases	-	2,088	-	2,088
- Appropriation of profits	-	-	15,691	15,691
As at 31 December 2022	<u>875,971</u>	<u>10,151</u>	<u>23</u>	<u>886,145</u>

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **47 Related party relationships and transactions**

#### **(a) Related parity relationships**

##### **(i) The ultimate parent company and its subsidiaries**

The ultimate controlling party of the Group is China Investment Corporation (“CIC”) set up in China.

Approved by the State Council of the PRC, CIC was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. (“Huijin”) is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC to ultimately control the Bank through the China Everbright Group.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group’s transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, interbank deposits and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year. The amount and balance of related parties and transactions between the group and the ultimate parent company and its subsidiaries are listed in Note V47(b).

##### **(ii) Affiliated companies**

The immediate parent of the Group is China Everbright Group Ltd. (“China Everbright Group”). The uniform social credit code of China Everbright Group is 91100000102063897J. The affiliated companies refer to China Everbright Group and its affiliated companies. The transactions and balances with China Everbright Group and its affiliates are listed in Note V 47(b).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Related party relationships and transactions (Continued)

#### (a) Related parity relationships (Continued)

##### (ii) Affiliated companies (Continued)

The affiliated companies that have related party transactions with the Group are as follows:

##### Related party

- CEL Elite Limited
- Beijing Financial Assets Co., Ltd.
- Da Cheng Fund Management Co., Ltd.
- Ganzhou Light Control Soviet Area High Quality Development Industry Investment Fund (Limited Partnership)
- Everbright Prudential Fund Management Co., Ltd.
- China Everbright Environment Group Limited
- Everbright Financial Holdings Asset Management Co., Ltd.
- Everbright Jinou Asset Management Co., Ltd.
- Everbright Technology Co., Ltd.
- Everbright Futures Co., Ltd.
- Everbright Xinglong Trust Co., Ltd.
- Everbright Happiness Financial Leasing Co., Ltd.
- Everbright Life Insurance Co., Ltd.
- Sun Light Everbright Asset Management Co., Ltd.
- Everbright Securities Company Limited
- China Everbright Real Estate Co., Ltd.
- CDB Jinzhan Economic and Trade Co., Ltd.
- Jia Shi Guo Run(Shanghai) Medical Technology Co., L
- Kunshan Development Zone Guangkong Digital Industry
- Qingdao Light Control Low Carbon Xinneng Equity Investment Co., Ltd.
- Everbright Securities Asset Management Co., Ltd.
- Shanghai Guangkong Jiaxin Equity Investment Management Co., Ltd.
- Shanghai Jiashi Jiayi Medical Equipment Co., Ltd.
- Shanghai Jiashi Minglun Medical Equipment Co., Ltd.
- Everbright Prestige Capital Asset Management Co., Ltd.
- Yixing Huankeyuan Optical Control Investment Co., Ltd.
- Everbright Finance (Shanxi) Advanced Manufacturing Investment Partnership (Limited Partnership)
- Huadian Financial Leasing Co., Ltd.
- Tianjin Guangkong Chengfa Investment Management Partnership (Limited Partnership)
- China Everbright Limited
- China Everbright industry (Group) Co., Ltd.
- Sichuan Jiashi Rongjin Pharmaceutical Co., Ltd.
- Zhangjiakou Guanghe Xiangda Property Service Co., Ltd.
- China CYTS Group Corporation

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Related party relationships and transactions (Continued)

#### (a) Related parity relationships (Continued)

##### (iii) Other related parties

Other related parties include key management personnel (directors, supervisors, senior management personnel of the head office) and their close family members, enterprises controlled, jointly controlled or exerted significant influence by key management personnel or their close family members, shareholders holding more than 5% shares of the Group and the key management personnel in direct control party.

The other related parties that have related party transactions with the Group are as follows:

##### Other related parties

- Beijing CYTS Trank Technology Co., Ltd.
- Orient Securities Co., Ltd.
- Everbright One Belt, One Road Green Equity Investment Fund Partnership (limited Partnership)
- Guangkong Zhengzhou Guotou New Industry Investment Fund Partnership (limited Partnership)
- Hunan OCT Cultural Tourism Investment Co., Ltd.
- Overseas Chinese Town Holding Company
- China Huarong Financial Leasing Co., Ltd.
- Huarongtianze Investment Company Limited
- World Oriental International Container (Qidong) Co., Ltd.
- Jinhua Future Real Estate Co., Ltd.
- Konka Group Co., Ltd.
- Kunming Investment Partnership (limited Partnership)
- Shenneng Group Finance Co., Ltd.
- Shenzhen Overseas Chinese Town Co., Ltd.
- Xi'an Branch of Digital China Rongxin Cloud Technology Service Co., Ltd.
- Wuhan Qingshan Ancient Town Real Estate Co., Ltd.
- China Merchants Securities Co., Ltd.
- Zhongfei Xianqing Leasing (Tianjin) Co., Ltd.
- Zhongfei Leasing Finance Leasing Co., Ltd.
- CSSC (Hong Kong) Shipping Company Limited
- CHINA AIRCRAFT LEASING LIMITED
- China International Marine Containers (Group) Co., Ltd.
- China CITIC Financial Asset Management Co., Ltd.
- China Cinda Asset Management Co., Ltd.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Related party relationships and transactions (Continued)

#### (a) Related parity relationships (Continued)

##### (iii) Other related parties (Continued)

The other related parties that have related party transactions with the Group are as follows: (Continued)

##### Other related parties (Continued)

- China Aircraft Recycling & Remanufacturing Limited
- China Shipping & Sinopec Suppliers Co., Ltd.
- COSCO SHIPPING Development (HONG KONG) Co., Ltd.
- COSCO SHIPPING Group Finance Co., Ltd.
- COSCO SHIPPING Investment Holdings Co., Limited
- China SHIPPING Cargo Services Co., Ltd.
- ZJ Tianlu Leasing (Tianjin) Co., Ltd.
- Beijing Gubei Water Town Tourism Co., Ltd.
- Xiangyang OCT Culture and Tourism Development Co., Ltd.
- Ningbo Hejiang Real Estate Co., Ltd.
- Shenzhen Zhaohua Exhibition Industry Co., Ltd.
- Terminus Technology Group Co., Ltd.
- Zhongfei Baoqing Leasing (Tianjin) Co., Ltd.
- China Pacific Property Insurance Co., Ltd.
- China Ocean Shipping (Group) Company
- ZJ Yongle Leasing (Tianjin) Co., Ltd.
- CIMC Finance Leasing Co., Ltd.
- COSCO Shipping Container Transportation Co., Ltd.
- COSCO SHIPPING Technology Co., Ltd.

The amount and balance of transactions between the Group and other related parties are shown in Note V47(b).



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Related party relationships and transactions (Continued)

#### (b) Related party transactions

##### (i) The ultimate parent company and its subsidiaries

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	<u>2023</u>	<u>2022</u>
Interest income	984	730
Interest expense	8,553	5,902

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
Deposits with banks and other financial institutions	4,616	8,143
Precious metal	2,557	6
Placements with banks and other financial institutions	22,055	23,419
Derivative financial assets	2,697	3,128
Financial assets held under resale agreements	10,878	28
Loans and advances to customers	20	100
Financial investments	335,428	340,056
Financial assets at fair value through profit or loss	103,533	122,064
Debt instruments at fair value through other comprehensive income	72,259	51,592
Financial investments measured at amortised cost	159,636	166,400
Other assets	740	814
<b>Total</b>	<b><u>378,991</u></b>	<b><u>375,694</u></b>
Deposits from banks and other financial institutions	104,479	121,788
Placements from banks and other financial institutions	60,985	64,165
Derivative financial liabilities	2,959	3,215
Financial assets sold under repurchase agreements	-	17,281
Deposits from customers	88,215	108,483
Other liabilities	1,209	1,025
<b>Total</b>	<b><u>257,847</u></b>	<b><u>315,957</u></b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Related party relationships and transactions (Continued)

#### (b) Related party transactions (Continued)

##### (ii) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group’s banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group’s pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

##### (iii) Affiliated companies and other related parties

The Group’s material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows:

	<u>China Everbright Group</u>	<u>Affiliated companies</u>	<u>Others</u>	<u>Total</u>
Transactions with related parties for year ended 31 December 2023:				
Interest income	-	1,383	982	2,365
Interest expense	260	658	605	1,523

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Related party relationships and transactions (Continued)

#### (b) Related party transactions (Continued)

##### (iii) Affiliated companies and other related parties (Continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows : (Continued)

	China Everbright Group	Affiliated companies	Others	Total
Balances with related parties as at 31 December 2023:				
Precious metal	-	451	412	863
Placements with banks and other financial institutions	-	1,454	16,505	17,959
Derivative financial assets	-	-	23	23
Loans and advances to customers	-	3,588	15,558	19,146
Financial investments	222	23,169	8,056	31,447
Financial assets at fair value through profit or loss	222	23,003	2,243	25,468
Debt instruments at fair value through other comprehensive income	-	-	2,990	2,990
Financial investments measured at amortised cost	-	166	2,823	2,989
Other assets	-	106	1,608	1,714
<b>Total</b>	<b><u>222</u></b>	<b><u>28,768</u></b>	<b><u>42,162</u></b>	<b><u>71,152</u></b>
Deposits from banks and other financial institutions	-	15,120	11,888	27,008
Derivative financial liabilities	-	-	18	18
Deposits from customers	14,304	11,656	5,573	31,533
Other liabilities	-	189	1,957	2,146
<b>Total</b>	<b><u>14,304</u></b>	<b><u>26,965</u></b>	<b><u>19,436</u></b>	<b><u>60,705</u></b>
Significant other sheet items with related parties as at 31 December 2023:				
Guarantee granted (Note)	<u>180</u>	<u>-</u>	<u>-</u>	<u>180</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Related party relationships and transactions (Continued)

#### (b) Related party transactions (Continued)

##### (iii) Affiliated companies and other related parties (Continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows : (Continued)

	China Everbright Group	Affiliated companies	Others	Total
Transactions with related parties for the year ended 31 December 2022:				
Interest income	-	4,289	407	4,696
Interest expense	105	708	1,136	1,949
Balances with related parties as at 31 December 2022:				
Placements with banks and other financial institutions	-	3,100	2,000	5,100
Derivative financial assets	-	-	13	13
Loans and advances to customers	-	3,822	9,528	13,350
Financial investments	272	21,462	706	22,440
Financial assets at fair value through profit or loss	272	21,356	-	21,628
Debt instruments at fair value through other comprehensive income	-	41	77	118
Financial investments measured at amortised cost	-	65	629	694
Other assets	-	119	161	280
<b>Total</b>	<b>272</b>	<b>28,503</b>	<b>12,408</b>	<b>41,183</b>
Deposits from banks and other financial institutions	-	20,958	16,648	37,606
Derivative financial liabilities	-	-	20	20
Deposits from customers	5,164	10,387	22,138	37,689
Other liabilities	-	192	2,222	2,414
<b>Total</b>	<b>5,164</b>	<b>31,537</b>	<b>41,028</b>	<b>77,729</b>
Significant other sheet items with related parties as at 31 December 2022:				
Guarantee granted (Note)	180	-	-	180

Note: As at 31 December 2023, the Bank has guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2022: RMB180 million) due to one of the state-owned commercial banks.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47 Related party relationships and transactions (Continued)

#### (b) Related party transactions (Continued)

##### (iv) Remuneration of directors, supervisors and senior management

	<u>2023</u> RMB'000	<u>2022</u> RMB'000
Remuneration	<u>21,085</u>	<u>24,427</u>
- Retirement benefits	1,831	1,903
- Basic social pension insurance	621	587

The total compensation packages for senior management of the Group as at 31 December 2023 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's financial statements as at 31 December 2023.

##### (v) Loans to related natural persons

The aggregate amount of relevant loans outstanding as at 31 December 2023 to related natural persons amounted to RMB7 million (As at 31 December 2022: RMB9 million).

Of which the aggregate amount of relevant loans outstanding to directors, supervisors and senior management, are as follows:

The aggregate amount of relevant loans outstanding to directors, supervisors, senior management or their associates of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December <u>2023</u> RMB'000	31 December <u>2022</u> RMB'000
Aggregate amount of relevant loans outstanding as at the year end	<u>4,581</u>	<u>8,199</u>
Maximum aggregate amount of relevant loans outstanding during the year	<u>4,956</u>	<u>8,308</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 48 Statement of financial position of the Bank

	<u>Note V</u>	31 December <u>2023</u>	31 December <u>2022</u>
<b>Assets</b>			
Cash and deposits with the central bank		348,606	356,253
Deposits with banks and other financial institutions		22,823	28,279
Precious metals		6,916	7,187
Placements with banks and other financial institutions		153,835	137,450
Derivative financial assets		13,324	15,726
Financial assets held under resale agreements		56,127	-
Loans and advances to customers		3,704,549	3,489,051
Financial investments		2,214,355	2,031,064
- Financial assets at fair value through profit or loss		449,847	398,106
- Debt instruments at fair value through other comprehensive income		555,215	443,869
- Equity instruments at fair value through other comprehensive income		1,127	1,121
- Financial investments measured at amortised cost		1,208,166	1,187,968
Investment in subsidiaries	19	12,983	12,983
Property and equipment		16,066	16,403
Right-of-use assets		10,318	10,122
Goodwill		1,281	1,281
Deferred tax assets		32,562	31,146
Other assets		25,186	32,121
<b>Total assets</b>		<u>6,618,931</u>	<u>6,169,066</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 48 Statement of financial position of the Bank (Continued)

	31 December <u>2023</u>	31 December <u>2022</u>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Due to the central bank	99,488	63,231
Deposits from banks and other financial institutions	554,964	544,410
Placements from banks and other financial institutions	115,644	105,321
Derivative financial liabilities	13,943	14,257
Financial assets sold under repurchase agreements	52,227	89,959
Deposits from customers	4,094,098	3,915,781
Accrued staff costs	19,412	18,473
Taxes payable	6,518	9,836
Lease liabilities	10,259	9,993
Debts securities issued	1,093,182	872,278
Other liabilities	19,865	27,151
<b>Total liabilities</b>	<u>6,079,600</u>	<u>5,670,690</u>
<b>Equity</b>		
Share capital	59,086	54,032
Other equity instrument	104,899	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	74,473	58,434
Other comprehensive income	2,322	(453)
Surplus reserve	26,245	26,245
General reserve	81,826	77,429
Retained earnings	190,480	173,627
<b>Total equity</b>	<u>539,331</u>	<u>498,376</u>
<b>Total liabilities and equity</b>	<u>6,618,931</u>	<u>6,169,066</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

#### *Corporate banking*

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

#### *Retail banking*

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

#### *Financial market business*

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

#### *Others*

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.



China Everbright Bank Company Limited  
Notes to the Consolidated Financial Statements (Continued)  
For the year ended 31 December 2023  
(Expressed in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**49 Segment reporting (Continued)**

(a) Segment results, assets and liabilities

	2023				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	22,663	59,217	25,600	-	107,480
Internal net interest income/(expense)	<u>22,057</u>	<u>(10,455)</u>	<u>(11,602)</u>	-	-
Net interest income	44,720	48,762	13,998	-	107,480
Net fee and commission income	6,913	16,115	670	-	23,698
Net trading gains	-	-	3,233	-	3,233
Dividend income	-	-	-	44	44
Net gains/(losses) arising from investment securities	330	-	9,728	(1,132)	8,926
Net losses on derecognition of financial assets measured at amortised cost	-	-	(555)	-	(555)
Foreign exchange gains	270	58	797	-	1,125
Other net operating income	<u>1,715</u>	<u>21</u>	<u>1</u>	<u>47</u>	<u>1,784</u>
Operating income	53,948	64,956	27,872	(1,041)	145,735
Operating expenses	(17,347)	(24,666)	(1,785)	(111)	(43,909)
Credit impairment losses	(12,578)	(33,545)	(5,952)	-	(52,075)
Other impairment losses	(24)	(4)	(2)	-	(30)
Gains on investments of joint ventures	-	-	-	36	36
Profit/(Losses) before tax	<u>23,999</u>	<u>6,741</u>	<u>20,133</u>	<u>(1,116)</u>	<u>49,757</u>
Other segment information					
- Depreciation and amortisation	<u>3,024</u>	<u>3,443</u>	<u>263</u>	-	<u>6,730</u>
- Capital expenditure	<u>1,967</u>	<u>2,998</u>	<u>189</u>	-	<u>5,154</u>
	31 December 2023				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	<u>2,637,211</u>	<u>1,676,631</u>	<u>2,418,605</u>	<u>5,094</u>	<u>6,737,541</u>
Segment liabilities	<u>3,050,710</u>	<u>1,338,226</u>	<u>1,826,215</u>	<u>2,837</u>	<u>6,217,988</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**49 Segment reporting (Continued)**

(a) Segment results, assets and liabilities (Continued)

	2022				Total
	Corporate banking	Retail banking	Financial market business	Others	
Operating income					
External net interest income	20,821	67,033	25,801	-	113,655
Internal net interest income/(expense)	<u>27,544</u>	<u>(19,537)</u>	<u>(8,007)</u>	<u>-</u>	<u>-</u>
Net interest income	48,365	47,496	17,794	-	113,655
Net fee and commission income	7,522	18,399	823	-	26,744
Net trading gains	-	-	2,470	-	2,470
Dividend income	-	-	-	49	49
Net gains arising from investment securities	438	-	5,912	66	6,416
Net gains on derecognition of financial assets measured at amortised cost	-	-	858	-	858
Foreign exchange gains	245	48	191	-	484
Other net operating income	<u>1,049</u>	<u>55</u>	<u>3</u>	<u>82</u>	<u>1,189</u>
Operating income	57,619	65,998	28,051	197	151,865
Operating expenses	(18,176)	(25,006)	(1,899)	(146)	(45,227)
Credit impairment losses	(13,596)	(34,630)	(2,374)	-	(50,600)
Other impairment losses	(3)	(4)	(2)	-	(9)
Losses on investments of joint ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63)</u>	<u>(63)</u>
Profit/(Losses) before tax	<u>25,844</u>	<u>6,358</u>	<u>23,776</u>	<u>(12)</u>	<u>55,966</u>
Other segment information					
- Depreciation and amortisation	<u>2,866</u>	<u>3,226</u>	<u>266</u>	<u>-</u>	<u>6,358</u>
- Capital expenditure	<u>1,819</u>	<u>2,672</u>	<u>176</u>	<u>-</u>	<u>4,667</u>
	31 December 2022				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	<u>2,453,436</u>	<u>1,673,543</u>	<u>2,133,844</u>	<u>5,703</u>	<u>6,266,526</u>
Segment liabilities	<u>2,977,717</u>	<u>1,176,387</u>	<u>1,632,788</u>	<u>3,582</u>	<u>5,790,474</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**49 Segment reporting (Continued)**

(a) Segment results, assets and liabilities (Continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	<u>Note V</u>	31 December <u>2023</u>	31 December <u>2022</u>
Segment assets		6,737,541	6,266,526
Goodwill	22	1,281	1,281
Deferred tax assets	23	<u>33,974</u>	<u>32,703</u>
Total assets		<u>6,772,796</u>	<u>6,300,510</u>
Segment liabilities		6,217,988	5,790,474
Dividend payables	36	<u>23</u>	<u>23</u>
Total liabilities		<u>6,218,011</u>	<u>5,790,497</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49 Segment reporting (Continued)

#### (b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul, Sydney and Macao, with subsidiaries located in Beijing, Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qingdao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include property and equipment, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical locations of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- "Yangtze River Delta" refers to the following areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- "Bohai Rim" refers to the areas serviced by the following branches of the Bank, Everbright Wealth and Sunshine Consumer: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- "Central" refers to the areas serviced by the following subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright Bank and Ruijin Everbright Bank: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;
- "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;
- "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- "Overseas" refers to the areas serviced by the Bank and the following branches, CEB International, CEB Europe: Hong Kong, Seoul, Luxembourg, Sydney, Macao; and
- "Head Office" refers to the head office of the Bank.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**49 Segment reporting (Continued)**

(b) Geographical information (Continued)

	Operating Income								
	<u>Yangtze River Delta</u>	<u>Bohai Rim</u>	<u>Head Office</u>	<u>Central</u>	<u>Pearl River Delta</u>	<u>Western</u>	<u>North eastern</u>	<u>Overseas</u>	<u>Total</u>
2023	25,697	25,622	22,797	24,748	20,304	17,997	5,634	2,936	145,735
2022	28,355	27,202	20,771	26,434	21,625	18,587	5,889	3,002	151,865
	Non-current Asset (Note(i))								
	<u>Yangtze River Delta</u>	<u>Bohai Rim</u>	<u>Head Office</u>	<u>Central</u>	<u>Pearl River Delta</u>	<u>Western</u>	<u>North eastern</u>	<u>Overseas</u>	<u>Total</u>
31 December 2023	3,618	3,277	12,744	12,970	3,506	3,009	1,138	352	40,614
31 December 2022	3,704	3,408	12,191	12,995	3,241	2,763	1,214	491	40,007

Note:

(i) Including property and equipment, right-of-use assets, intangible assets and land use rights.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management

The goal of the Group's financial risk management is to optimise capital allocation and achieve value creation within an acceptable range of risks, while meeting the requirements of regulatory authorities, depositors, and other stakeholders for the stable operation of banks. The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

#### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

#### Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of the risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

##### Credit business (Continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Finance Department/Strategic Account Department, Investment Banking Department, Inclusive Finance Department/Rural Revitalization Finance Department, Credit Card Centre, Retail Credit Department, Digital Finance Department/E-cloud Banking Services Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Bank. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in the duration, and they are firstly responsible for the compliance and security of the business.
- The Bank's main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Asset Management Department/Asset Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology - Investigation and approval – During and post-lending monitoring - Collection and Resolution".
- The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

##### Credit business (Continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, repayment ability and collateral condition of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, and a standardized review and approval policies and process in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

##### Credit business (Continued)

The Group adopts a financial asset risk classification approach to manage its financial asset portfolio risk. Financial assets are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be non-performing assets. The Group measures and manages the quality of the financial assets of the Group in accordance with the *Measures for the Risk Classification of Financial Assets of Commercial Banks* (Decree No.1 of CBIRC in 2023).

The core definitions of the five categories of loans and advances financial assets are set out below:

Normal:	Debtors can perform the contract and there is no objective evidence that the principal, interest or proceeds cannot be paid in full and on time.
Special mention:	Although there are currently a number of factors that may adversely affect the performance of the contract, the debtors are currently able to pay the principal, interest or proceeds.
Substandard:	Debtors are unable to pay the principal, interest or income in full, or the financial assets have suffered credit impairment.
Doubtful:	Debtors have been unable to pay the principal, interest or income in full, and the financial assets have suffered significant credit impairment.
Loss:	After all possible measures taken, only a very small part of the financial assets can be recovered, or all of the financial assets can be lost.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

##### Credit business (Continued)

The Bank implemented a customer credit rating system based on the PD model. The PD model predicts the PD for customers in the coming year. The risk rating of the customer is obtained through mapping relationship. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

##### Financial market business

The Group will incorporate the financial market business that bears credit risk into its unified credit management system, and ensures that the credit risk level borne by the financial market business meets the Group's risk appetite through differentiated access standards. Relevant standards will be dynamically adjusted.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

Credit risk measurement

##### *Measurement of ECL*

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, on the balance sheet date, if there is no significant increase in credit risk since initial recognition of the financial instrument, the Group measures the impairment allowance of the financial instruments on the balance sheet date according to the ECL in the next 12 months.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition on the balance sheet date as impairment allowance. On the balance sheet date, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Risk grouping

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

#### Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition on the balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- On the balance sheet date, the absolute and relative changes in customer default probability exceeded a certain range

Qualitative criteria

- Significant adverse change in debtors' operation or financial status
- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, and to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

#### Definition of credit-impaired assets

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

#### Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Mainly based on the requirements of IFRS 9, the Group takes into account the historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral and repayments) and forward-looking information in order to establish the model of PD, LGD and ECL.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

*Parameters of ECL measurement (Continued)*

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the result of the credit risk rating of customers, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

*Forward-looking information*

The calculation of ECL involves forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP , CPI, investment in property and equipment.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

*Forward-looking information (Continued)*

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process and according to the result of model and experts' judgement, the Group predicts these economic indicators at least every half year and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In 2023, the key assumptions the Group has taken include the GDP growth rate, the CPI growth rate and the investment in property and equipment growth rate. The GDP growth rate of the prediction under the base economic scenario during the year of 2024 is 4.97%, with the optimistic prediction being 5.15%, the pessimistic prediction being 2.86%.

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or lifetime (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

Credit risk measurement (Continued)

*Measurement of ECL (Continued)*

*Forward-looking information (Continued)*

The Group conducts sensitivity analysis on the main economic indicators used in forward-looking information. When the predicted value of the main economic indicators changes by 10%, the difference between the hypothetical expected credit loss and the current expected credit loss measurement does not exceed 5%.

*Risk grouping*

The Group groups financial assets with similar credit risk characteristics when measuring expected credit losses. According to the nature of the business, the financial assets of the Group are categorised into corporate business, interbank business, debt securities business, retail business and credit card business according to the business categories, within which the risk groups are further categorised according to the credit risk characteristics such as product type, customer industry and internal risk assessment pool. The Group regularly reviews the reasonableness of the groupings. When the credit risk characteristics of the exposure within the portfolio change, the reasonableness of the groupings is reviewed in a timely manner and, if necessary, regrouped according to the common risk characteristics of the relevant credit risk exposures.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

##### (i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the off-balance sheet of financial position items as at the end of the reporting period is disclosed in Note V 53(a).

	31 December 2023				
	Stage 1	Stage 2	Stage 3	N/A	Total
<b>Assets</b>					
Deposits with the central bank	344,823	-	-	-	344,823
Deposits with banks and other financial institutions	39,942	-	-	-	39,942
Placements with banks and other financial institutions	142,138	-	104	-	142,242
Financial assets held under resale agreements	67,500	-	-	-	67,500
Loans and advances to customers	3,578,207	116,559	18,159	-	3,712,925
Finance lease receivables	92,478	6,164	516	-	99,158
Financial investments	1,792,844	3,028	11,562	118,763	1,926,197
Others (Note)	11,625	8,332	-	13,324	33,281
<b>Total</b>	<b>6,069,557</b>	<b>134,083</b>	<b>30,341</b>	<b>132,087</b>	<b>6,366,068</b>
	31 December 2022				
	Stage 1	Stage 2	Stage 3	N/A	Total
<b>Assets</b>					
Deposits with the central bank	352,404	-	-	-	352,404
Deposits with banks and other financial institutions	32,073	-	-	-	32,073
Placements with banks and other financial institutions	129,845	-	134	-	129,979
Financial assets held under resale agreements	28	-	-	-	28
Loans and advances to customers	3,389,741	90,710	18,900	-	3,499,351
Finance lease receivables	104,043	3,505	464	-	108,012
Financial investments	1,618,886	5,192	17,791	129,863	1,771,732
Others (Note)	21,338	6,539	-	15,730	43,607
<b>Total</b>	<b>5,648,358</b>	<b>105,946</b>	<b>37,289</b>	<b>145,593</b>	<b>5,937,186</b>

Note: Others comprise derivative financial assets and assets from wealth management business, deposit margin, interests receivable and other receivables recorded in other assets.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

##### (ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
<i>Impaired</i>		
Carrying amount	300	300
Provision for impairment losses	<u>(196)</u>	<u>(166)</u>
Subtotal	<u>104</u>	<u>134</u>
<i>Neither overdue nor impaired</i>		
- grade A to AAA	244,359	158,470
- grade B to BBB	285	900
- unrated (Note)	<u>4,936</u>	<u>2,576</u>
Subtotal	<u>249,580</u>	<u>161,946</u>
Total	<u><u>249,684</u></u>	<u><u>162,080</u></u>

Note: Mainly represent deposits with banks and other financial institutions.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (a) Credit risk (Continued)

##### (ii) Credit rating (Continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	31 December 2023	31 December 2022
<i>Impaired</i>		
Carrying amount	26,018	27,292
Provision for impairment losses	(14,456)	(9,501)
Subtotal	<u>11,562</u>	<u>17,791</u>
<i>Neither overdue nor impaired</i>		
<i>Bloomberg Composite</i>		
- grade AAA	2,286	5,217
- grade AA- to AA+	11,146	9,355
- grade A- to A+	31,186	33,794
- grade lower than A-	35,923	26,151
Subtotal	<u>80,541</u>	<u>74,517</u>
<i>Other agency ratings</i>		
- grade AAA	1,532,931	1,384,698
- grade AA- to AA+	226,978	208,649
- grade A- to A+	14,588	15,561
- grade lower than A-	8,559	6,924
- unrated	51,038	63,592
Subtotal	<u>1,834,094</u>	<u>1,679,424</u>
Total	<u>1,926,197</u>	<u>1,771,732</u>

## **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### **50 Risk management (Continued)**

#### **(b) Market risk**

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured, monitored and controlled all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department, Investment Banking Department and overseas institution are responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, identifying, measuring and monitoring the Group's market risk, and the daily monitoring and management of interest rate risk and exchange rate risk in the Bank's trading book.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, effective duration analysis and scenario simulation analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (b) Market risk (Continued)

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Scenario simulation analysis is an important technique for assessing interest rate risk. It simulates and calculates the changes in net interest income (NII) and economic value (EVE) indicators in the following year through multiple conventional scenarios and stress scenarios, including interest rate standard shocks, yield curve shifts and shape changes, historical extreme interest rate changes, customers' execution of embedded options for deposits and loans, etc. The Bank regularly re-examines important customer behavior models such as loan prepayment and deposits from early withdrawals used in scenario simulation analysis.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (b) Market risk (Continued)

##### **Interest rate risk**

The Group is primarily exposed to interest rate risk arising from gap risk and basis risk. The Assets and Liability Management Department and Risk Management Department are responsible for identifying, measuring and monitoring. In terms of measuring and monitoring risks, the Group regularly evaluates the interest rate sensitivity repricing gap of each period and the impact of interest rate changes on the Group's net interest income and economic value. The main purpose of interest rate risk management is to reduce the potential negative impact of interest rate changes on net interest income and economic value.

##### *Gap risk*

Gap risk refers to the risk caused by different repricing periods of different financial instruments when interest rates change. Changes in interest rates include both a parallel upward or downward shift of the yield curve and a change in the shape of the yield curve. Due to the different repricing periods of financial instruments, when the interest rate rises when the interest rate on liabilities is repriced earlier than the interest rate on assets, or when the interest rate falls when the interest rate on assets is repriced earlier than the interest rate on liabilities, the Bank faces a reduction in interest rate spreads or even negative interest rate differentials for a certain period of time, resulting in losses.

##### *Basis risk*

Basis risk, is caused by interest rates on different pricing basis on the on-and off-balance sheet business of bank books. The risk could be different because the basis risk changes no matter the term is the same or similar.

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(b) Market risk (Continued)

**Interest rate risk (Continued)**

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year:

	31 December 2023						
	<u>Effective interest rate (*)</u>	<u>Total</u>	<u>Non-Interest-bearing</u>	<u>Less than three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>
<b>Assets</b>							
Cash and deposits with the central bank	1.50%	349,184	12,868	336,316	-	-	-
Deposits with banks and other financial institutions	0.65%	39,942	64	36,916	614	2,348	-
Placements with banks and other financial institutions	3.32%	142,242	475	53,598	88,169	-	-
Financial assets held under resale agreements	1.85%	67,500	51	67,449	-	-	-
Loans and advances to customers	4.75%	3,712,925	11,342	2,781,823	840,342	76,552	2,866
Finance lease receivables	5.12%	99,158	837	19,567	54,075	19,795	4,884
Financial investments	3.32%	2,241,462	342,584	95,378	203,955	1,230,409	369,136
Others	N/A	120,383	117,232	1,213	-	-	1,938
<b>Total assets</b>	N/A	<u>6,772,796</u>	<u>485,453</u>	<u>3,392,260</u>	<u>1,187,155</u>	<u>1,329,104</u>	<u>378,824</u>



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(b) Market risk (Continued)

**Interest rate risk (Continued)**

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year: (Continued)

	31 December 2023						
	Effective interest rate (*)	Total	Non- interest- bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
<b>Liabilities</b>							
Due to the central bank	2.63%	99,633	1,081	35,115	63,437	-	-
Deposits from banks and other financial institutions	2.12%	552,326	1,256	458,150	92,920	-	-
Placements from banks and other financial institutions	3.85%	194,205	911	137,193	56,101	-	-
Financial assets sold under repurchase agreements	1.91%	73,115	187	63,150	9,294	484	-
Deposits from customers	2.32%	4,094,528	71,197	2,133,378	832,260	1,057,655	38
Debt securities issued	2.59%	1,099,326	4,366	182,999	654,566	247,396	9,999
Others	N/A	104,878	69,593	21,841	4,380	7,501	1,563
<b>Total liabilities</b>	N/A	<b>6,218,011</b>	<b>148,591</b>	<b>3,031,826</b>	<b>1,712,958</b>	<b>1,313,036</b>	<b>11,600</b>
<b>Asset-liability gap</b>	N/A	<b>554,785</b>	<b>336,862</b>	<b>360,434</b>	<b>(525,803)</b>	<b>16,068</b>	<b>367,224</b>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(b) Market risk (Continued)

**Interest rate risk (Continued)**

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year: (Continued)

	31 December 2022						
	<u>Effective interest rate (*)</u>	<u>Total</u>	<u>Non-Interest-bearing</u>	<u>Less than three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>
<b>Assets</b>							
Cash and deposits with the central bank	1.45%	356,426	14,922	341,504	-	-	-
Deposits with banks and other financial institutions	0.19%	32,073	19	32,054	-	-	-
Placements with banks and other financial institutions	2.56%	129,979	513	47,992	70,779	10,695	-
Financial assets held under resale agreements	1.62%	28	-	28	-	-	-
Loans and advances to customers	4.98%	3,499,351	10,255	2,647,346	757,395	82,753	1,602
Finance lease receivables	5.56%	108,012	1,122	20,983	60,173	19,863	5,871
Financial investments	3.48%	2,046,612	299,498	115,021	243,919	970,807	417,367
Others	N/A	128,029	124,407	1,420	-	-	2,202
<b>Total assets</b>	N/A	<b>6,300,510</b>	<b>450,736</b>	<b>3,206,348</b>	<b>1,132,266</b>	<b>1,084,118</b>	<b>427,042</b>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(b) Market risk (Continued)

**Interest rate risk (Continued)**

- (i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the year: (Continued)

	31 December 2022						
	<u>Effective interest rate (*)</u>	<u>Total</u>	<u>Non-interest-bearing</u>	<u>Less than three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>
<b>Liabilities</b>							
Due to the central bank	2.93%	63,386	272	68	63,046	-	-
Deposits from banks and other financial institutions	2.06%	540,668	927	463,639	76,102	-	-
Placements from banks and other financial institutions	2.28%	188,601	892	106,837	80,872	-	-
Financial assets sold under repurchase agreements	1.63%	92,980	120	89,764	1,548	1,548	-
Deposits from customers	2.30%	3,917,168	76,352	2,161,300	811,022	868,413	81
Debt securities issued	2.62%	875,971	3,354	261,866	422,153	183,598	5,000
Others	N/A	111,723	80,815	29,523	-	1,358	27
<b>Total liabilities</b>	N/A	<u>5,790,497</u>	<u>162,732</u>	<u>3,112,997</u>	<u>1,454,743</u>	<u>1,054,917</u>	<u>5,108</u>
<b>Asset-liability gap</b>	N/A	<u>510,013</u>	<u>288,004</u>	<u>93,351</u>	<u>(322,477)</u>	<u>29,201</u>	<u>421,934</u>

\* The effective interest rate represents the ratio of interest income/expense to the average interest-bearing assets/liabilities.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (b) Market risk (Continued)

##### Interest rate risk (Continued)

#### (ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2023, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB2,241 million (31 December 2022: decrease by RMB2,736 million), and equity to decrease by RMB14,041 million (31 December 2022: decrease by RMB12,553 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB 2,404 million (31 December 2022: increase by RMB2,908 million), and equity to increase by RMB14,844 million (31 December 2022: increase by RMB13,337 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by the repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rate movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the portfolio of asset and liability;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (b) Market risk (Continued)

##### Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2023			Total (RMB Equivalent)
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
<b>Assets</b>				
Cash and deposits with the central bank	336,903	4,039	8,242	349,184
Deposits with banks and other financial institutions	24,287	12,334	3,321	39,942
Placements with banks and other financial institutions	123,706	13,713	4,823	142,242
Financial assets held under resale agreements	67,500	-	-	67,500
Loans and advances to customers	3,562,808	76,324	73,793	3,712,925
Financial lease receivables	95,658	3,500	-	99,158
Financial investments	2,104,119	94,282	43,061	2,241,462
Others	99,085	19,163	2,135	120,383
<b>Total assets</b>	<b>6,414,066</b>	<b>223,355</b>	<b>135,375</b>	<b>6,772,796</b>
<b>Liabilities</b>				
Due to the central bank	99,633	-	-	99,633
Deposits from banks and other financial institutions	550,469	1,194	663	552,326
Placements from banks and other financial institutions	93,855	72,675	27,675	194,205
Financial assets sold under repurchase agreements	50,493	12,638	9,984	73,115
Deposits from customers	3,946,331	110,553	37,644	4,094,528
Debt securities issued	1,044,469	40,643	14,214	1,099,326
Others	91,055	10,589	3,234	104,878
<b>Total liabilities</b>	<b>5,876,305</b>	<b>248,292</b>	<b>93,414</b>	<b>6,218,011</b>
<b>Net position</b>	<b>537,761</b>	<b>(24,937)</b>	<b>41,961</b>	<b>554,785</b>
Off-balance sheet credit commitments	1,294,400	29,802	13,979	1,338,181
Derivative financial instruments (Note)	16,923	25,298	4,458	46,679

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (b) Market risk (Continued)

#### Foreign currency risk (Continued)

The Group's currency exposures as at the end of the year are as follows: (Continued)

	31 December 2022			Total (RMB Equivalent)
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
<b>Assets</b>				
Cash and deposits with the central bank	344,797	7,628	4,001	356,426
Deposits with banks and other financial institutions	14,275	10,286	7,512	32,073
Placements with banks and other financial institutions	99,693	25,085	5,201	129,979
Financial assets held under resale agreements	-	-	28	28
Loans and advances to customers	3,354,625	74,791	69,935	3,499,351
Financial lease receivables	104,687	3,325	-	108,012
Financial investments	1,906,805	105,825	33,982	2,046,612
Others	110,819	15,285	1,925	128,029
<b>Total assets</b>	<b>5,935,701</b>	<b>242,225</b>	<b>122,584</b>	<b>6,300,510</b>
<b>Liabilities</b>				
Due to the central bank	63,386	-	-	63,386
Deposits from banks and other financial institutions	534,696	3,924	2,048	540,668
Placements from banks and other financial institutions	97,935	58,477	32,189	188,601
Financial assets sold under repurchase agreements	74,725	8,343	9,912	92,980
Deposits from customers	3,731,263	153,797	32,108	3,917,168
Debt securities issued	816,898	51,913	7,160	875,971
Others	99,343	9,900	2,480	111,723
<b>Total liabilities</b>	<b>5,418,246</b>	<b>286,354</b>	<b>85,897</b>	<b>5,790,497</b>
<b>Net position</b>	<b>517,455</b>	<b>(44,129)</b>	<b>36,687</b>	<b>510,013</b>
Off-balance sheet credit commitments	1,331,943	34,169	13,312	1,379,424
Derivative financial instruments (Note)	(927)	43,772	(8,031)	34,814

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (b) Market risk (Continued)

##### Foreign currency risk (Continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the end of the year, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Exchange rates against RMB for the HKD	0.9079	0.8914
Exchange rates against RMB for the USD	7.0919	6.9509

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2023, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB49 million (31 December 2022: increase by RMB31 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB49 million (31 December 2022: decrease by RMB31 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points' fluctuation in the foreign currency exchange rates (central parity) against RMB;
- At the end of the reporting year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movement over the next 12 months;
- Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (b) Market risk (Continued)

##### **Price risk**

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

#### (c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.



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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2023							<u>Total</u>
	<u>Overdue/ indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
<b>Assets</b>								
Cash and deposits with the central bank	280,256	68,928	-	-	-	-	-	349,184
Deposits with banks and other financial institutions	-	36,037	319	450	614	2,348	174	39,942
Placements with banks and other financial institutions	104	-	33,883	19,965	88,290	-	-	142,242
Financial asset held under resale agreements	-	-	67,500	-	-	-	-	67,500
Loans and advances to customers	39,762	396,811	154,641	248,115	1,060,240	944,464	868,892	3,712,925
Finance lease receivables	162	128	3,263	6,171	25,185	56,191	8,058	99,158
Financial investments	18,447	306,948	43,247	56,486	203,673	1,241,735	370,926	2,241,462
Others	86,094	19,027	1,529	3,211	4,422	3,957	2,143	120,383
<b>Total assets</b>	<u>424,825</u>	<u>827,879</u>	<u>304,382</u>	<u>334,398</u>	<u>1,382,424</u>	<u>2,248,695</u>	<u>1,250,193</u>	<u>6,772,796</u>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year: (Continued)

	31 December 2023							Total
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
<b>Liabilities</b>								
Due to the central bank	-	-	-	35,905	63,728	-	-	99,633
Deposits from banks and other financial institutions	-	333,243	45,042	80,762	93,279	-	-	552,326
Placements from banks and other financial institutions	-	8	97,753	40,064	56,380	-	-	194,205
Financial assets sold under repurchase agreements	-	-	62,702	568	9,361	484	-	73,115
Deposits from customers	-	1,470,859	337,149	361,246	803,504	1,121,731	39	4,094,528
Debt securities issued	-	-	12,038	159,232	659,110	258,947	9,999	1,099,326
Others	-	49,141	2,366	4,979	21,631	22,697	4,064	104,878
<b>Total liabilities</b>	-	1,853,251	557,050	682,756	1,706,993	1,403,859	14,102	6,218,011
<b>Net position</b>	424,825	(1,025,372)	(252,668)	(348,358)	(324,569)	844,836	1,236,091	554,785
Notional amount of derivative financial instruments	-	-	214,180	219,449	817,324	592,781	5,725	1,849,459

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year: (Continued)

	31 December 2022							<u>Total</u>
	<u>Overdue/ indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
<b>Assets</b>								
Cash and deposits with the central bank	285,122	71,304	-	-	-	-	-	356,426
Deposits with banks and other financial institutions	-	29,321	269	2,231	80	-	172	32,073
Placements with banks and other financial institutions	134	-	37,301	10,778	70,999	10,767	-	129,979
Financial asset held under resale agreements	-	-	28	-	-	-	-	28
Loans and advances to customers	50,072	435,712	165,707	218,479	935,429	834,213	859,739	3,499,351
Finance lease receivables	33	46	4,371	5,486	23,607	67,841	6,628	108,012
Financial investments	25,405	216,233	35,753	53,166	268,783	1,013,567	433,705	2,046,612
Others	81,666	28,432	2,098	4,564	5,309	3,492	2,468	128,029
<b>Total assets</b>	<u>442,432</u>	<u>781,048</u>	<u>245,527</u>	<u>294,704</u>	<u>1,304,207</u>	<u>1,929,880</u>	<u>1,302,712</u>	<u>6,300,510</u>

China Everbright Bank Company Limited  
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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year: (Continued)

	31 December 2022							Total
	<u>Overdue/ indefinite</u>	<u>Repayable on demand</u>	<u>Within one month</u>	<u>Between one month and three months</u>	<u>Between three months and one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
<b>Liabilities</b>								
Due to the central bank	-	-	25	71	63,290	-	-	63,386
Deposits from banks and other financial institutions	-	274,073	57,135	133,346	76,114	-	-	540,668
Placements from banks and other financial institutions	-	6	64,023	43,183	81,389	-	-	188,601
Financial assets sold under repurchase agreements	-	-	82,059	7,820	1,550	1,551	-	92,980
Deposits from customers	-	1,382,165	318,146	364,756	830,288	1,021,718	95	3,917,168
Debt securities issued	-	-	13,069	243,628	426,169	188,105	5,000	875,971
Others	-	59,873	3,013	5,312	8,015	30,022	5,488	111,723
<b>Total liabilities</b>	-	<u>1,716,117</u>	<u>537,470</u>	<u>798,116</u>	<u>1,486,815</u>	<u>1,241,396</u>	<u>10,583</u>	<u>5,790,497</u>
<b>Net position</b>	<u>442,432</u>	<u>(935,069)</u>	<u>(291,943)</u>	<u>(503,412)</u>	<u>(182,608)</u>	<u>688,484</u>	<u>1,292,129</u>	<u>510,013</u>
Notional amount of derivative financial instruments	-	-	235,347	218,141	574,524	699,711	2,035	1,729,758

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the year:

	31 December 2023							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	99,633	101,085	-	-	36,043	65,042	-	-
Deposits from banks and other financial institutions	552,326	553,439	333,338	45,073	81,039	93,989	-	-
Placements from banks and other financial institutions	194,205	195,946	8	97,976	40,394	57,568	-	-
Financial assets sold under repurchase agreements	73,115	73,427	-	62,735	572	9,587	533	-
Deposits from customers	4,094,528	4,170,249	1,470,859	342,224	368,489	829,163	1,159,474	40
Debt securities issued	1,099,326	1,135,956	-	12,185	162,688	674,799	274,704	11,580
Other financial liabilities	61,496	66,078	19,705	358	1,856	17,638	20,740	5,781
<b>Total non-derivative financial liabilities</b>	<b>6,174,629</b>	<b>6,296,180</b>	<b>1,823,910</b>	<b>560,551</b>	<b>691,081</b>	<b>1,747,786</b>	<b>1,455,451</b>	<b>17,401</b>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		194	-	(1)	-	74	3	118
Derivative financial instruments settled on gross basis								
- Cash inflow		935,633	-	202,641	161,113	559,855	12,024	-
- Cash outflow		(766,976)	-	(94,206)	(117,104)	(543,869)	(11,797)	-
<b>Total derivative financial liabilities</b>		<b>168,657</b>	<b>-</b>	<b>108,435</b>	<b>44,009</b>	<b>15,986</b>	<b>227</b>	<b>-</b>

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**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**50 Risk management (Continued)**

(c) Liquidity risk (Continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the year: (Continued)

	31 December 2022							
	Carrying amount	Contractual undiscounted cash flows	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
<b>Non-derivative financial liabilities</b>								
Due to the central bank	63,386	64,799	-	25	72	64,702	-	-
Deposits from banks and other financial institutions	540,668	543,019	274,209	57,357	134,598	76,855	-	-
Placements from banks and other financial institutions	188,601	190,663	6	64,091	43,520	83,046	-	-
Financial assets sold under repurchase agreements	92,980	93,084	-	82,102	7,863	1,566	1,553	-
Deposits from customers	3,917,168	3,978,082	1,382,165	324,008	376,136	862,226	1,033,433	114
Debt securities issued	875,971	904,053	-	13,211	251,786	433,688	199,530	5,838
Other financial liabilities	65,432	70,298	28,111	354	2,711	2,872	28,620	7,630
<b>Total non-derivative financial liabilities</b>	<b>5,744,206</b>	<b>5,843,998</b>	<b>1,684,491</b>	<b>541,148</b>	<b>816,686</b>	<b>1,524,955</b>	<b>1,263,136</b>	<b>13,582</b>
<b>Derivative financial liabilities</b>								
Derivative financial instruments settled on net basis		748	-	13	(2)	378	97	262
Derivative financial instruments settled on gross basis								
- Cash inflow		681,857	-	213,796	162,785	300,364	4,912	-
- Cash outflow		(489,327)	-	(106,413)	(128,164)	(249,837)	(4,913)	-
<b>Total derivative financial liabilities</b>		<b>192,530</b>	<b>-</b>	<b>107,383</b>	<b>34,621</b>	<b>50,527</b>	<b>(1)</b>	<b>-</b>

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (c) Liquidity risk (Continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2023			<u>Total</u>
	<u>Within one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
Loan and credit card commitments	376,524	525	2,261	379,310
Guarantees, acceptances and other credit commitments	<u>914,859</u>	<u>42,911</u>	<u>1,101</u>	<u>958,871</u>
<b>Total</b>	<u><u>1,291,383</u></u>	<u><u>43,436</u></u>	<u><u>3,362</u></u>	<u><u>1,338,181</u></u>

	31 December 2022			<u>Total</u>
	<u>Within one year</u>	<u>Between one year and five years</u>	<u>More than five years</u>	
Loan and credit card commitments	365,068	540	1,520	367,128
Guarantees, acceptances and other credit commitments	<u>964,754</u>	<u>46,456</u>	<u>1,086</u>	<u>1,012,296</u>
<b>Total</b>	<u><u>1,329,822</u></u>	<u><u>46,996</u></u>	<u><u>2,606</u></u>	<u><u>1,379,424</u></u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50 Risk management (Continued)

#### (d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impacts from other external events.

The Group establishes a framework of an operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as follows:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Fair value

#### (a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

##### (i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

##### (ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the year.

##### (iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

##### (iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Thomson Reuters' quoted price.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Fair value (Continued)

#### (b) Fair value measurement

##### (i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, finance lease receivables and financial investments.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, and equity instruments at fair value through other comprehensive income presented at fair value.

##### (ii) Financial liabilities

Financial liabilities at fair value through profit or loss and derivative financial liabilities presented at fair value.

The tables below summarise the carrying amounts and fair values of "debt securities and asset-backed instruments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of year:

	Carrying value		Fair value	
	31 December <u>2023</u>	31 December <u>2022</u>	31 December <u>2023</u>	31 December <u>2022</u>
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	<u>1,214,074</u>	<u>1,118,734</u>	<u>1,241,475</u>	<u>1,135,161</u>
<b>Financial liabilities</b>				
Debt securities issued	<u>1,099,326</u>	<u>875,971</u>	<u>1,088,390</u>	<u>859,788</u>

Debt securities and asset-backed instruments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd..

The fair values of debt securities issued are measured using a discounted cash flow model based on the current yield curve that matches the remaining maturity date.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Fair value (Continued)

#### (c) Fair value hierarchy

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e., prices) or indirectly. Instruments in this level include bonds and a majority of OTC derivative contracts.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). Instruments in this level include complicated unlisted equity with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries its best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Fair value (Continued)

#### (c) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value

The table below summaries the carrying values in three levels of assets and liabilities measured at fair value at the end of the year:

	31 December 2023			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<i>Derivative financial assets</i>				
- Currency derivatives	-	8,468	-	8,468
- Interest rate derivatives	-	4,856	-	4,856
<i>Loan and advances to customers</i>	-	204,980	-	204,980
<i>Financial assets at fair value through profit or loss</i>				
- Debt instruments held for trading	-	106,290	118	106,408
- Other financial assets at fair value through profit or loss	237,057	79,327	10,104	326,488
Debt instruments at fair value through other comprehensive income	-	561,027	20	561,047
Equity instruments at fair value through other comprehensive income	30	-	1,102	1,132
<b>Total</b>	<b>237,087</b>	<b>964,948</b>	<b>11,344</b>	<b>1,213,379</b>
<b>Liabilities</b>				
<i>Derivative financial liabilities</i>				
- Currency derivatives	-	9,231	-	9,231
- Interest rate derivatives	2	4,713	-	4,715
<b>Total</b>	<b>2</b>	<b>13,944</b>	<b>-</b>	<b>13,946</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 51 Fair value (Continued)

#### (c) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value (Continued)

The table below summaries the carrying values in three levels of assets and liabilities measured at fair value at the end of the year: (Continued)

	31 December 2022			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
<i>Derivative financial assets</i>				
- Currency derivatives	-	10,961	-	10,961
- Interest rate derivatives	1	4,768	-	4,769
<i>Loan and advances to customers</i>	-	214,253	-	214,253
<i>Financial assets at fair value through profit or loss</i>				
- Debt instruments held for trading	1,287	108,098	255	109,640
- Other financial assets at fair value through profit or loss	217,137	69,144	7,696	293,977
Debt instruments at fair value through other comprehensive income	56,292	393,240	64	449,596
Equity instruments at fair value through other comprehensive income	24	-	1,102	1,126
Total	<u>274,741</u>	<u>800,464</u>	<u>9,117</u>	<u>1,084,322</u>
<b>Liabilities</b>				
<i>Financial liabilities at fair value through profit or loss</i>				
	27	-	-	27
<i>Derivative financial liabilities</i>				
- Currency derivatives	-	9,743	-	9,743
- Interest rate derivatives	-	4,518	-	4,518
Total	<u>27</u>	<u>14,261</u>	<u>-</u>	<u>14,288</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Fair value (Continued)**

(c) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value (Continued)

The movements during the year ended 31 December 2023 in the balance of Level 3 fair value measurements are as follows:

	<u>Derivative financial assets</u>	<u>Financial assets at fair value through profit or loss</u>	<u>Equity instruments at fair value through other comprehensive income</u>	<u>Debt instruments at fair value through other comprehensive income</u>	<u>Total assets</u>	<u>Derivative financial liabilities</u>	<u>Total liabilities</u>
1 January 2023	-	7,951	1,102	64	9,117	-	-
Transferred to level 3	-	12	-	20	32	-	-
Total gain or loss:							
- Recognised in the profit or loss	-	1,586	-	-	1,586	-	-
Purchases	-	1,045	-	-	1,045	-	-
Settlements	-	(372)	-	(64)	(436)	-	-
31 December 2023	-	10,222	1,102	20	11,344	-	-
Impact on net income	-	1,586	-	-	1,586	-	-

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Fair value (Continued)**

(c) Fair value hierarchy (Continued)

Assets and liabilities measured at fair value (Continued)

The movements during the year ended 31 December 2022 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Debt instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2022	1	10,318	1,102	67	11,488	-	-
Total gain or loss:							
- Recognised in the profit or loss	(1)	(1,237)	-	(3)	(1,241)	-	-
Purchases	-	2,964	-	-	2,964	-	-
Settlements	-	(4,094)	-	-	(4,094)	-	-
31 December 2022	-	7,951	1,102	64	9,117	-	-
Impact on net income	(1)	(1,237)	-	(3)	(1,241)	-	-

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**51 Fair value (Continued)**

(c) Fair value hierarchy (Continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities and asset-backed instruments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	31 December 2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	-	1,241,463	12	1,241,475
	-	1,241,463	12	1,241,475
<b>Financial liabilities</b>				
Debt securities issued	-	1,088,390	-	1,088,390
	-	1,088,390	-	1,088,390

	31 December 2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets</b>				
Debt securities and asset-backed instruments measured at amortised cost	217,623	917,538	-	1,135,161
	217,623	917,538	-	1,135,161
<b>Financial liabilities</b>				
Debt securities issued	21,583	838,205	-	859,788
	21,583	838,205	-	859,788

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily unlisted equity and derivative contracts. These financial instruments are valued using cash flow discount model and market method. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2023, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial.



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 52 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December <u>2023</u>	31 December <u>2022</u>
Entrusted loans	<u>89,823</u>	<u>92,724</u>
Entrusted funds	<u>89,823</u>	<u>92,724</u>

### 53 Commitments and contingent liabilities

#### (a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December <u>2023</u>	31 December <u>2022</u>
Loan commitments		
- Original contractual maturity within one year	23,826	16,007
- Original contractual maturity more than one year (inclusive)	7,908	6,009
Credit card commitments	<u>347,576</u>	<u>345,112</u>
Subtotal	<u>379,310</u>	<u>367,128</u>
Acceptances	669,058	724,330
Letters of guarantee	128,239	116,297
Letters of credit	161,394	171,484
Guarantees	<u>180</u>	<u>185</u>
Total	<u>1,338,181</u>	<u>1,379,424</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**53 Commitments and contingent liabilities (Continued)**

(a) Credit commitments (Continued)

The Group may be exposed to credit risk in all the credit businesses above. Group management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount of credit commitments

	31 December <u>2023</u>	31 December <u>2022</u>
Credit risk-weighted amount of credit commitments	<u>402,069</u>	<u>418,205</u>

The credit risk-weighted amount of credit commitments represents the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
Contracted but not paid		
- Purchase of property and equipment	2,330	3,939
Approved but not contracted for		
- Purchase of property and equipment	<u>6,286</u>	<u>5,708</u>
Total	<u>8,616</u>	<u>9,647</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 53 Commitments and contingent liabilities (Continued)

#### (d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2023.

As an underwriting agent of the PRC government bonds, the Group has the responsibility for buying back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December <u>2023</u>	31 December <u>2022</u>
Redemption commitments	<u>4,022</u>	<u>4,320</u>

#### (e) Outstanding litigations and disputes

As at 31 December 2023, the Group was the defendant or third party in certain pending litigations and disputes with a gross claim of RMB665 million (31 December 2022: RMB1,688 million). Provisions have been made for the estimated losses from such litigations based upon the opinions of the Group's internal and external legal counsels (Note V 36). The Group considers that the provisions made are reasonable and adequate.

### 54 Subsequent Events

The Group has no significant subsequent event.

Unaudited supplementary financial information  
 (Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

**1 Liquidity Coverage Ratio, Liquidity Ratio, Leverage Ratio and Net Stable Funding Ratio**

**Liquidity Coverage Ratio**

As stipulated by the Rules on *Liquidity Risk Management of Commercial Banks*, commercial banks' liquidity coverage ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December <u>2023</u>
Liquidity coverage ratio	149.17%
High Quality Liquid Assets	1,068,057
Net cash outflows in 30 days from the end of the reporting period	716,013

**Liquidity Ratio\***

	As at 31 December <u>2023</u>	Average for the year ended 31 December <u>2023</u>	As at 31 December <u>2022</u>	Average for the year ended 31 December <u>2022</u>
RMB current assets to RMB current liabilities	<u>76.71%</u>	<u>67.23%</u>	<u>74.44%</u>	<u>70.72%</u>
Foreign current assets to foreign current liabilities	<u>77.51%</u>	<u>91.29%</u>	<u>123.89%</u>	<u>136.46%</u>

\* Liquidity ratio is calculated in accordance with the banking level.

Unaudited supplementary financial information (Continued)  
(Expressed in millions of Renminbi, unless otherwise stated)

**1 Liquidity Coverage Ratio, Liquidity Ratio, Leverage Ratio and Net Stable Funding Ratio (Continued)**

**Leverage Ratio**

31 December  
2023

Leverage Ratio 7.10%

Pursuant to the Leverage Ratio Management of Commercial Banks which has been effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

**Net Stable Funding Ratio**

The net stable fund ratio is designed to ensure that commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds\*100%

As at 31 December 2023, the Group met the supervision requirement with the net stable funding ratio standing at 109.48%.

<u>Indicators</u>	31 December <u>2023</u>
Available and stable funds	3,914,733
Required stable funds	3,575,681
Net stable funding ratio	109.48%

Unaudited supplementary financial information (Continued)  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**2 Currency concentrations**

	31 December 2023			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	223,355	54,577	80,798	358,730
Spot liabilities	(248,292)	(45,595)	(47,819)	(341,706)
Forward purchases	468,139	3,717	16,446	488,302
Forward sales	(442,841)	(4,862)	(10,843)	(458,546)
Net long position	<u>361</u>	<u>7,837</u>	<u>38,582</u>	<u>46,780</u>
Net structural position	<u>-</u>	<u>344</u>	<u>197</u>	<u>541</u>
	31 December 2022			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	242,225	51,952	70,632	364,809
Spot liabilities	(286,354)	(35,120)	(50,777)	(372,251)
Forward purchases	351,772	2,015	26,327	380,114
Forward sales	(308,000)	(12,136)	(24,237)	(344,373)
Net (short)/long position	<u>(357)</u>	<u>6,711</u>	<u>21,945</u>	<u>28,299</u>
Net structural position	<u>-</u>	<u>201</u>	<u>107</u>	<u>308</u>

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg, Sydney and Macao branches. Structural assets mainly include property and equipment.

Unaudited supplementary financial information (Continued)  
 (Expressed in millions of Renminbi, unless otherwise stated)

### 3 International claims

The Group is principally engaged in business operations within Chinese Mainland, and regards all claims on third parties overseas and claims in foreign currencies on third parties within the Chinese Mainland as international claims.

International claims include loans and advances to customers, deposits with central banks, deposits and placements with banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	As at 31 December 2023			
	<u>Banks and other financial institutions</u>	<u>Public sector entities</u>	<u>Others</u>	<u>Total</u>
Asia Pacific excluding Chinese Mainland	67,706	15,894	91,764	175,364
- of which: attributed to Hong Kong	18,338	11,461	59,948	89,747
Europe	25,640	396	29,354	55,390
North and South America	13,005	1,751	20,187	34,943
<b>Total</b>	<b>106,351</b>	<b>18,041</b>	<b>141,305</b>	<b>265,697</b>
	As at 31 December 2022			
	<u>Banks and other financial institutions</u>	<u>Public sector entities</u>	<u>Others</u>	<u>Total</u>
Asia Pacific excluding Chinese Mainland	124,453	9,522	85,160	219,135
- of which: attributed to Hong Kong	24,794	4,769	54,965	84,528
Europe	25,259	257	24,536	50,052
North and South America	11,882	25,684	16,069	53,635
<b>Total</b>	<b>161,594</b>	<b>35,463</b>	<b>125,765</b>	<b>322,822</b>

Unaudited supplementary financial information (Continued)  
*(Expressed in millions of Renminbi, unless otherwise stated)*

**4 Gross amount of overdue loans and advances**

(a) By geographical segment

	31 December <u>2023</u>	31 December <u>2022</u>
Pearl River Delta	7,268	8,542
Yangtze River Delta	5,020	4,589
Central	4,786	4,264
Bohai Rim	4,363	3,953
Overseas	4,114	1,656
Northeastern	3,559	4,034
Western	2,820	3,200
Head Office	9,923	7,483
Total	<u>41,853</u>	<u>37,721</u>

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue day

	31 December <u>2023</u>	31 December <u>2022</u>
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
- between 3 and 6 months (inclusive)	13,899	11,769
- between 6 months and 1 year (inclusive)	12,346	12,454
- over 1 year	15,608	13,498
Total	<u>41,853</u>	<u>37,721</u>
As a percentage of total gross loans and advances		
- between 3 and 6 months (inclusive)	0.36%	0.33%
- between 6 months and 1 year (inclusive)	0.33%	0.35%
- over 1 year	0.41%	0.38%
Total	<u>1.10%</u>	<u>1.06%</u>

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.



Unaudited supplementary financial information (Continued)  
(Expressed in millions of Renminbi, unless otherwise stated)

**4 Gross amount of overdue loans and advances (Continued)**

(c) Collateral of loans and advances past due but not impaired

	31 December <u>2023</u>	31 December <u>2022</u>
Covered portion of loans and advances past due but not impaired	6,426	10,392
Uncovered portion of loans and advances past due but not impaired	24,031	19,137
Total loans and advances past due but not impaired	30,457	29,529
Current market value of collateral	16,114	22,226

**5 Non-bank Chinese Mainland exposure**

The Bank is a commercial bank established in the PRC with its banking business conducted in Chinese Mainland. As at 31 December 2023, substantial amounts of the Group's exposures arose from businesses with Chinese Mainland entities or individuals.

**ISSUER**

**China Everbright Bank Co., Ltd., Hong Kong Branch**

23/F, Everbright Centre  
108 Gloucester Road, Wan Chai  
Hong Kong

**AUDITOR OF THE BANK**

**Ernst & Young**

**Certified Public Accountants**

22/F, One Taikoo Place  
979 King's Road, Quarry Bay  
Hong Kong

**ISSUING AND PAYING AGENT,  
TRANSFER AGENT AND REGISTRAR**

**Citibank, N.A., London Branch**  
Citigroup Centre, Canada Square  
Canary Wharf  
London E14 5LB, United Kingdom

**FISCAL AGENT AND CMU LODGING AND  
PAYING AGENT**

**Citicorp International Limited**  
9th Floor Citi Tower, One Bay East  
83 Hoi Bun Road  
Kwun Tong, Kowloon  
Hong Kong

**LEGAL ADVISERS**

*To the Issuer  
as to Hong Kong law*

**Linklaters**  
11th Floor, Alexandra House  
Chater Road  
Hong Kong

*To the Issuer  
as to PRC law*

**King & Wood Mallesons**  
18th Floor, East Tower  
World Financial Center  
1 Dongsanhuan Zhonglu  
Chaoyang District  
Beijing 100020  
P.R. China

*To the Joint Lead Managers  
as to English law*

**Clifford Chance**  
27th Floor, Jardine House  
One Connaught Place  
Central, Hong Kong

*To the Joint Lead Managers  
as to PRC law*

**JunHe LLP**  
20/F, China Resources Building  
8 Jianguomenbei Avenue  
Beijing 100005  
P.R. China

**PRICING SUPPLEMENT**

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

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**")) ("**Professional Investors**") only.

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

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

This document together with the Offering Circular (as defined below) and the Supplemental Offering Circular (as defined below) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Bank, the Group, the Programme and the Notes. 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.

**Paragraph 21 of the Hong Kong SFC Code of Conduct** – As paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission applies to this offering of Notes, prospective investors should refer to the section on "*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors*" appearing on pages iii to iv of the Offering Circular, and CMI's (as defined in the Offering Circular) should refer to the section on "*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMI's (including private banks)*" appearing on pages 268 to 270 of the Offering Circular.

**Pricing Supplement dated 7 May 2024**

**China Everbright Bank Co., Ltd., Hong Kong Branch**

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

**Issue of CNY1,500,000,000 3.00 per cent. Notes due 2026 (the "Notes")  
under the U.S.\$5,000,000,000 Medium Term Note Programme (the "Programme")**

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated 4 September 2023 relating to the Programme (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 4 September 2023 and the documents incorporated by reference thereto and the Supplemental Offering Circular dated 7 May 2024 (the "**Supplemental Offering Circular**").

1	Issuer:	China Everbright Bank Co., Ltd., Hong Kong Branch
2	(i) Series Number:	17
	(ii) Tranche Number:	1
	(iii) Date on which the Notes become fungible:	Not Applicable
3	Specified Currency or Currencies:	Chinese Yuan ("CNY")
4	Aggregate Nominal Amount:	
	(i) Series:	CNY1,500,000,000
	(ii) Tranche:	CNY1,500,000,000
5	(i) Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	CNY1,498,200,000
6	(i) Specified Denominations:	CNY1,000,000 and integral multiples of CNY10,000 in excess thereof
	(ii) Calculation Amount:	CNY10,000
7	(i) Issue Date:	14 May 2024
	(ii) Interest Commencement Date:	14 May 2024
8	Maturity Date:	Interest Payment Date falling on, or nearest to, 14 May 2026
9	Interest Basis:	3.00 per cent. Fixed Rate <i>(further particulars specified below)</i>
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Not Applicable
13	Date of the Board approval for issuance of Notes obtained:	The issue of the Notes thereunder was authorised by Authorisation (2014) No. 851, Authorisation (2015) No. 338, Authorisation (2016) No. 390, Authorisation (2017) No. 640 and Authorisation (2023) No. 535 of the Bank passed on 29 December 2014, 18 June 2015, 16 June 2016, 1 November 2017 and 18 July 2023, respectively.
14	Date of the Relevant NDRC quota granted for issuance of Notes:	Examination and Registration Certificate of Issuance of Foreign Debts (企业借用外债审核登记证明) (发改办外债[2023]133号) dated 5 June 2023 from the NDRC.

15 Listing: Application will be made to the Hong Kong Stock Exchange (expected effective listing date: 16 May 2024).

16 Status of the Notes: Senior

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

- 17 **Fixed Rate Note Provisions:** Applicable
- (i) Rate of Interest: 3.00 per cent. per annum payable semi-annually in arrear
- (ii) Interest Payment Date(s): 14 May and 14 November in each year, adjusted in accordance with the Modified Following Business Day Convention
- (iii) Fixed Coupon Amount: As set out in Condition 6(d)
- (iv) Fixed Coupon Amount for a short or long Interest Period ("Broken Amount(s)": Not Applicable
- (v) Day Count Fraction: Actual/365 (Fixed)
- (vi) Other terms relating to the method of calculating interest for Fixed Rate Notes: Not Applicable
- 18 **Floating Rate Note Provisions:** Not Applicable
- 19 **Zero Coupon Note Provisions:** Not Applicable
- 20 **Index-Linked Interest Note/other variable-linked interest Note Provisions:** Not Applicable
- 21 **Dual Currency Note Provisions:** Not Applicable

#### PROVISIONS RELATING TO REDEMPTION

- 22 **Call Option:** Not Applicable
- 23 **Put Option:** Not Applicable
- 24 Final Redemption Amount of each Note: CNY10,000 per Calculation Amount
- 25 Early Redemption Amount (Tax): CNY10,000 per Calculation Amount

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 26 **Form of Notes:** **Registered Notes:**  
Global Note Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Note Certificate
- 27 Additional Financial Centre(s) or other special provisions relating to payment dates: Hong Kong
- 28 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No
- 29 Redenomination, renominalisation and reconventioning provisions: Not Applicable
- 30 Consolidation provisions: The provisions in Condition 20 (*Further Issues*) apply

- |    |   |                |
|----|---|----------------|
| 31 | Any applicable currency disruption/<br>fallback provisions: | Not Applicable |
| 32 | Other terms or special conditions:                          | Not Applicable |
| 33 | Credit Linked Provisions:                                   | Not Applicable |

**DISTRIBUTION**

- |    |   |  |
|----|---|--|
| 34 | (i) Method of Distribution:               | Syndicated   |
|    | (ii) If syndicated, names of<br>Managers: | <p><b>Joint Global Coordinators:</b></p> <ol style="list-style-type: none"> <li>1. China Everbright Bank Co., Ltd., Hong Kong Branch</li> <li>2. Citigroup Global Markets Limited</li> <li>3. Agricultural Bank of China Limited Hong Kong Branch</li> <li>4. Bank of China Limited</li> <li>5. Bank of Communications Co., Ltd. Hong Kong Branch</li> <li>6. China Construction Bank (Asia) Corporation Limited</li> <li>7. Industrial and Commercial Bank of China (Asia) Limited</li> </ol> <p><b>Joint Bookrunners:</b></p> <ol style="list-style-type: none"> <li>8. ABCI Capital Limited</li> <li>9. Agricultural Bank of China Limited Macao Branch</li> <li>10. Agricultural Bank of China Limited, Singapore Branch</li> <li>11. Bank of China (Hong Kong) Limited</li> <li>12. CCB International Capital Limited</li> <li>13. CEB International Capital Corporation Limited</li> <li>14. China CITIC Bank International Limited</li> <li>15. China Everbright Securities (HK) Limited</li> <li>16. China Galaxy International Securities (Hong Kong) Co., Limited</li> <li>17. China Industrial Securities International Brokerage Limited</li> <li>18. China International Capital Corporation Hong Kong Securities Limited</li> <li>19. China Minsheng Banking Corp., Ltd., Hong Kong Branch</li> <li>20. China Securities (International) Corporate Finance Company Limited</li> <li>21. China Zheshang Bank Co., Ltd. (Hong Kong Branch)</li> <li>22. Chiyu Banking Corporation Limited</li> <li>23. CMB Wing Lung Bank Limited</li> <li>24. CMBC Securities Company Limited</li> <li>25. CNCB (Hong Kong) Capital Limited</li> <li>26. Crédit Agricole Corporate and Investment Bank</li> <li>27. Guotai Junan Securities (Hong Kong) Limited</li> <li>28. Hua Xia Bank Co., Limited Hong Kong Branch</li> <li>29. ICBC International Securities Limited</li> </ol> |

	30. Industrial and Commercial Bank of China (Macau) Limited
	31. Industrial and Commercial Bank of China Limited, Singapore Branch
	32. Industrial Bank Co., Ltd. Hong Kong Branch
	33. Nanyang Commercial Bank, Limited
	34. Natixis
	35. Orient Securities (Hong Kong) Limited
	36. Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch
	37. SPDB International Capital Limited
	38. The Bank of East Asia, Limited
	(together, the " <b>Managers</b> ")
(iii) Stabilisation Manager(s) (if any):	Citigroup Global Markets Limited
35 If non-syndicated, name and address of Dealer:	Not Applicable
36 Total commission and concession:	The Issuer has agreed to pay the Managers a management commission based on the gross subscription moneys of the Notes
37 U.S. Selling Restrictions:	Reg. S Category 1; TEFRA not applicable
38 Prohibition of Sales to EEA Retail Investors:	Not Applicable
39 Prohibition of Sales to UK Retail Investors:	Not Applicable
40 Additional selling restrictions:	As set out in the Supplemental Offering Circular
<b>OPERATIONAL INFORMATION</b>	
41 ISIN Code:	HK0001007316
42 Common Code:	280197955
43 CMU Instrument Number:	EVERFN24002
44 LEI:	The Legal Entity Identifier number of the Issuer is 549300WVNR4RWTGIV379
45 Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	Not Applicable
46 Delivery:	Delivery against payment
47 Additional Paying Agent(s) (if any):	Not Applicable
48 Registrar (if other than Citibank, N.A., London Branch):	Not Applicable
<b>GENERAL</b>	
49 Private Bank Rebate/Commission:	Not Applicable
50 The aggregate principal amount of the Notes issued has been translated into	U.S.\$207,750,000

United States dollars at the rate of  
CNY1= U.S.\$0.1385, producing a sum  
of (for Notes not denominated in United  
States dollars):

- 51 Ratings: The Notes to be issued are expected to be rated:  
Fitch: BBB+  
(the "**Rating Agency**").

#### **HONG KONG SFC CODE OF CONDUCT**

- 52 Rebates: Not Applicable
- 53 Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: dcm.cebhk@cebbank.com.hk; dcmomnibus@citi.com; abchk.dcm@abchina.com; andyching@abchina.com.hk; ling.chen@icbcasia.com; jackie.jq.chen@icbcasia.com; tiantian.li@icbcasia.com; Emily.my.zheng@icbcasia.com; harry.h.huang@asia.ccb.com; ccba\_dcm@asia.ccb.com; dcm@bankcomm.com.hk; toshing@bankcomm.com.hk; dcmhk@bocgroup.com
- 54 Marketing and Investor Targeting Strategy: Includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals

#### **USE OF PROCEEDS**

The net proceeds from the issue of Notes will be used for repayment of offshore debts and general funding purposes.

#### **FINANCIAL/TRADING POSITION**

Since 31 December 2023, there has been no material adverse change in the financial position or prospects, nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

#### **STABILISATION**

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

#### **PURPOSE OF PRICING SUPPLEMENT**

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.\$5,000,000,000 Medium Term Note Programme.

#### **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.




**RESPONSIBILITY**

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

Signed on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch:

By:  ..... Name: Desmond Wu  
Title: Chief Risk Officer  
*Duly authorised*

By:  ..... Name: Wally Kwok  
Title: Chief Marketing Officer  
*Duly authorised*

**PRICING SUPPLEMENT**

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

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**")) ("**Professional Investors**") only.

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

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

This document together with the Offering Circular (as defined below) and the Supplemental Offering Circular (as defined below) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Bank, the Group, the Programme and the Notes. 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.

**Paragraph 21 of the Hong Kong SFC Code of Conduct** – As paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission applies to this offering of Notes, prospective investors should refer to the section on "*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to Prospective Investors*" appearing on pages iii to iv of the Offering Circular, and CMI's (as defined in the Offering Circular) should refer to the section on "*Notice to capital market intermediaries and prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct – Important Notice to CMI's (including private banks)*" appearing on pages 268 to 270 of the Offering Circular.

**Pricing Supplement dated 7 May 2024**

**China Everbright Bank Co., Ltd., Hong Kong Branch**

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

**Issue of U.S.\$550,000,000 Floating Rate Notes due 2027 (the "Notes")  
under the U.S.\$5,000,000,000 Medium Term Note Programme (the "Programme")**

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated 4 September 2023 relating to the Programme (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 4 September 2023 and the documents incorporated by reference thereto and the Supplemental Offering Circular dated 7 May 2024 (the "**Supplemental Offering Circular**").

1	Issuer:	China Everbright Bank Co., Ltd., Hong Kong Branch
2	(i) Series Number:	16
	(ii) Tranche Number:	1
	(iii) Date on which the Notes become fungible:	Not Applicable
3	Specified Currency or Currencies:	U.S. dollar ("U.S.\$")
4	Aggregate Nominal Amount:	
	(i) Series:	U.S.\$550,000,000
	(ii) Tranche:	U.S.\$550,000,000
5	(i) Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	U.S.\$549,340,000
6	(i) Specified Denominations:	U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof
	(ii) Calculation Amount:	U.S.\$1,000
7	(i) Issue Date:	14 May 2024
	(ii) Interest Commencement Date:	14 May 2024
8	Maturity Date:	The Specified Interest Payment Date falling on or nearest to 14 May 2027
9	Interest Basis:	SOFR Compounded Index + 0.52 per cent. per annum Floating Rate <i>(further particulars specified below)</i>
10	Redemption/Payment Basis:	Redemption at par
11	Change of Interest or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Not Applicable
13	Date of the Board approval for issuance of Notes obtained:	The issue of the Notes thereunder was authorised by Authorisation (2014) No. 851, Authorisation (2015) No. 338, Authorisation (2016) No. 390, Authorisation (2017) No. 640 and Authorisation (2023) No. 535 of the Bank passed on 29 December 2014, 18 June 2015, 16 June 2016, 1 November 2017 and 18 July 2023, respectively.

- 14 Date of the Relevant NDRC quota granted for issuance of Notes: Examination and Registration Certificate of Issuance of Foreign Debts (企业借用外债审核登记证明) (发改办外债[2023]133号) dated 5 June 2023 from the NDRC.
- 15 Listing: Application will be made to the Hong Kong Stock Exchange (expected effective listing date: 16 May 2024).
- 16 Status of the Notes: Senior

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

- 17 **Fixed Rate Note Provisions:** Not Applicable
- 18 **Floating Rate Note Provisions:** Applicable
- (i) Specified Period: Not Applicable
- (ii) Specified Interest Payment Dates: 14 February, 14 May, 14 August and 14 November in each year, commencing on the First Interest Payment Date and ending on the Maturity Date, in each case adjusted in accordance with the Modified Following Business Day Convention set out in paragraph (iv) below
- (iii) First Interest Payment Date: The Specified Interest Payment Date falling on or nearest to 14 August 2024
- (iv) Business Day Convention: Modified Following Business Day Convention
- (v) Additional Business Centre(s): Hong Kong
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: Screen Rate Determination
- (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s): Citibank, N.A., London Branch, as appointed under the Agency Agreement
- (viii) Screen Rate Determination: Applicable
- Reference Rate: SOFR Compounded Index
  - Observation Method: Not Applicable
    - Lag Period: Not Applicable
    - Observation Shift Period: Not Applicable
    - D: 360
    - SOFR Compounded Index Determination: Applicable
    - Relevant Decimal Place: 5 (subject to the rounding provisions in the Conditions)
    - Relevant Number of Index Days: 5
  - Interest Determination Date(s): In respect of any Interest Period, the date falling five U.S. Government Securities Business Days prior to the Interest Payment Date for such Interest Period (or the date falling five U.S. Government Securities Business Days prior to the

	Interest Payment Date prior to such earlier date, if any, on which the Notes are due and payable)
• Relevant Screen Page:	Not Applicable
• Relevant Time:	Not Applicable
• Relevant Financial Centre:	Not Applicable
(ix) ISDA Determination:	Not Applicable
(x) Margin(s):	+0.52 per cent. per annum
(xi) Minimum Rate of Interest:	Not Applicable
(xii) Maximum Rate of Interest:	Not Applicable
(xiii) Day Count Fraction:	Actual/360
(xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	As set out in the Conditions
19 <b>Zero Coupon Note Provisions:</b>	Not Applicable
20 <b>Index-Linked Interest Note/other variable-linked interest Note Provisions:</b>	Not Applicable
21 <b>Dual Currency Note Provisions:</b>	Not Applicable
<b>PROVISIONS RELATING TO REDEMPTION</b>	
22 <b>Call Option:</b>	Not Applicable
23 <b>Put Option:</b>	Not Applicable
24 Final Redemption Amount of each Note:	U.S.\$1,000 per Calculation Amount
25 Early Redemption Amount (Tax):	U.S.\$1,000 per Calculation Amount
<b>GENERAL PROVISIONS APPLICABLE TO THE NOTES</b>	
26 <b>Form of Notes:</b>	<b>Registered Notes:</b> Global Note Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Note Certificate
27 Additional Financial Centre(s) or other special provisions relating to payment dates:	Hong Kong
28 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
29 Redenomination, renominalisation and reconventioning provisions:	Not Applicable
30 Consolidation provisions:	The provisions in Condition 20 ( <i>Further Issues</i> ) apply
31 Any applicable currency disruption/fallback provisions:	Not Applicable

- 32 Other terms or special conditions: Not Applicable
- 33 Credit Linked Provisions: Not Applicable

#### **DISTRIBUTION**

- 34 (i) Method of Distribution: Syndicated
- (ii) If syndicated, names of Managers:
- Joint Global Coordinators:**
1. China Everbright Bank Co., Ltd., Hong Kong Branch
  2. Citigroup Global Markets Limited
  3. Agricultural Bank of China Limited Hong Kong Branch
  4. Bank of China Limited
  5. Bank of Communications Co., Ltd. Hong Kong Branch
  6. China Construction Bank (Asia) Corporation Limited
  7. Industrial and Commercial Bank of China (Asia) Limited
- Joint Bookrunners:**
8. ABCI Capital Limited
  9. Agricultural Bank of China Limited Macao Branch
  10. Agricultural Bank of China Limited, Singapore Branch
  11. Bank of China (Hong Kong) Limited
  12. CCB International Capital Limited
  13. CEB International Capital Corporation Limited
  14. China CITIC Bank International Limited
  15. China Everbright Securities (HK) Limited
  16. China Galaxy International Securities (Hong Kong) Co., Limited
  17. China Industrial Securities International Brokerage Limited
  18. China International Capital Corporation Hong Kong Securities Limited
  19. China Minsheng Banking Corp., Ltd., Hong Kong Branch
  20. China Securities (International) Corporate Finance Company Limited
  21. China Zheshang Bank Co., Ltd. (Hong Kong Branch)
  22. Chiyu Banking Corporation Limited
  23. CMB Wing Lung Bank Limited
  24. CMBC Securities Company Limited
  25. CNCB (Hong Kong) Capital Limited
  26. Crédit Agricole Corporate and Investment Bank
  27. Guotai Junan Securities (Hong Kong) Limited
  28. Hua Xia Bank Co., Limited Hong Kong Branch
  29. ICBC International Securities Limited
  30. Industrial and Commercial Bank of China (Macau) Limited

	31. Industrial and Commercial Bank of China Limited, Singapore Branch
	32. Industrial Bank Co., Ltd. Hong Kong Branch
	33. Nanyang Commercial Bank, Limited
	34. Natixis
	35. Orient Securities (Hong Kong) Limited
	36. Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch
	37. SPDB International Capital Limited
	38. The Bank of East Asia, Limited
	(together, the " <b>Managers</b> ")
(iii) Stabilisation Manager(s) (if any):	Citigroup Global Markets Limited
35 If non-syndicated, name and address of Dealer:	Not Applicable
36 Total commission and concession:	The Issuer has agreed to pay the Managers a management commission based on the gross subscription moneys of the Notes
37 U.S. Selling Restrictions:	Reg. S Category 1; TEFRA not applicable
38 Prohibition of Sales to EEA Retail Investors:	Not Applicable
39 Prohibition of Sales to UK Retail Investors:	Not Applicable
40 Additional selling restrictions:	As set out in the Supplemental Offering Circular
<b>OPERATIONAL INFORMATION</b>	
41 ISIN Code:	XS2801983078
42 Common Code:	280198307
43 CMU Instrument Number:	Not Applicable
44 LEI:	The Legal Entity Identifier number of the Issuer is 549300WVNR4RWTGIV379
45 Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	Not Applicable
46 Delivery:	Delivery against payment
47 Additional Paying Agent(s) (if any):	Not Applicable
48 Registrar (if other than Citibank, N.A., London Branch):	Not Applicable
<b>GENERAL</b>	
49 Private Bank Rebate/Commission:	Not Applicable
50 The aggregate principal amount of the Notes issued has been translated into United States dollars at the rate of [•],	Not Applicable

producing a sum of (for Notes not denominated in United States dollars):

- 51 Ratings: The Notes to be issued are expected to be rated:  
Fitch: BBB+  
(the "**Rating Agency**").

#### **HONG KONG SFC CODE OF CONDUCT**

- 52 Rebates: Not Applicable
- 53 Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: dcm.cebhk@cebbank.com.hk; dcmomnibus@citi.com; abchk.dcm@abchina.com; andyching@abchina.com.hk; ling.chen@icbcasia.com; jackie.jq.chen@icbcasia.com; tiantian.li@icbcasia.com; Emily.my.zheng@icbcasia.com; harry.h.huang@asia.ccb.com; ccba\_dcm@asia.ccb.com; dcm@bankcomm.com.hk; toshing@bankcomm.com.hk; dcmhk@bocgroup.com
- 54 Marketing and Investor Targeting Strategy: Includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals

#### **USE OF PROCEEDS**

The net proceeds from the issue of Notes will be used for repayment of offshore debts and general funding purposes.

#### **FINANCIAL/TRADING POSITION**

Since 31 December 2023, there has been no material adverse change in the financial position or prospects, nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

#### **STABILISATION**

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**RESPONSIBILITY**

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Signed on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch:

By:  ..... Name: Desmond Wu  
Title: Chief Risk Officer  
*Duly authorised*

By:  ..... Name: Wally Kwok  
Title: Chief Marketing Officer  
*Duly authorised*