香港交易及結算所有限公司及香港聯合交易所有限公司對本公告的內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示，概不對因本公告全部或任何部分內容而產生或因依賴該等內容而引致之任何損失承擔任何責任。

*本公告及所附上市文件僅供參考，並不構成收購、購買或認購本公司（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本公司證券的要約或招攬購買任何本公司證券的要約。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）條例而言根據本公司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：本公司確認擬於該計劃（定義見下）下發行的票據（「**該等票據**」）擬僅供專業投資者（定義見上市規則第 37 章）購買，該計劃已經按該基準於香港聯合交易所有限公司上市，而擬於香港聯合交易所有限公司上市之該等票據亦將會按該基準於香港聯合交易所有限公司上市。因此，本公司確認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

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)

6,000,000,000 美元中期票據計劃（「該計劃」）

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二零二四年五月十七日有關該計劃的發售通函（「**發售通函**」）。誠如發售通函所披露，該等票據僅供專業投資者（定義見上市規則第 37 章）購買，該計劃已經按該基準於香港聯合交易所有限公司上市，而擬於香港聯合交易所有限公司上市之該等票據亦將會按該基準於香港聯合交易所有限公司上市。

發售通函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 20 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、洪永淼先生、李引泉先生、劉世平先生及黃志凌先生。

目錄

IMPORTANT NOTICE

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

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

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

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

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

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

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

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

CHINA EVERBRIGHT BANK COMPANY LIMITED

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

U.S.$6,000,000,000

Medium Term Note Programme

Under the U.S.$6,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), China Everbright Bank Company Limited (the "**Bank**"), or any branch of the Bank located outside of the PRC, as specified as an issuer in the relevant Pricing Supplement, (each such branch of the Bank, a "**Branch Issuer**" and, together with the Bank, each, an "**Issuer**") may, subject to compliance with all relevant laws, regulations and directives, from time to time issue notes (the "**Notes**") under the Programme. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$6,000,000,000 (or the equivalent in other currencies), subject to increases of the programme size made in accordance with the terms of a dealer agreement dated 8 September 2023 entered into by the Bank (on behalf of itself and each Branch Issuer) (the "**Dealer Agreement**").

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

Investing in the Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement (as defined in "*Summary of the Programme*") and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with the Notes. The principal risk factors that may affect the ability of the Bank, or as the case may be, the relevant Branch Issuer to fulfil its obligations in respect of the Notes are discussed under "*Risk Factors*" beginning on page 12.

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

Notice to Hong Kong investors: The Bank and **the relevant Issuer 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 and the relevant Issuer confirm 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 relevant Issuer, the Bank or the Group (as defined below) or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the relevant 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 relevant Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes to file or cause to be filed with the NDRC the requisite information and documents within the 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.

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

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

The Programme is expected to be rated "Baa2" by Moody's Investors Service, Inc. ("**Moody's**") and "BBB+" by S&P Global Ratings, a division of S&P Global Inc. ("**S&P**"). Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Arrangers and Dealers

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

Offering Circular dated 17 May 2024

IMPORTANT NOTICE

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

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

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

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

EU MiFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "EU MiFID II Product Governance" which will outline the target market 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.

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

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001

The Pricing Supplement in respect of any Notes may include a legend entitled "*Singapore Securities and Futures Act Product Classification*" which will state the product classification of the Notes pursuant to Section 309B(1) of the Securities and Futures Act 2001 (the "**SFA**"). The relevant Issuer or the Bank will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

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 relevant Issuer, a CMI or its group companies would be considered under the SFC Code as having an association (an "**Association**") with the relevant Issuer, the CMI or the relevant group company. Prospective investors associated with the relevant 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 CMIs). 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 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 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 relevant 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 is or has been authorised by the relevant Issuer or the Bank to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the relevant Issuer, the Bank, or any of the Arrangers or the Dealers (as defined in "*Summary of the Programme*") or the Agents (as defined in "*Terms and Conditions of the Notes*"). Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes should be considered as a recommendation by any of the relevant Issuer, the Bank, any Arranger, any Dealer or any Agents that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. This Offering Circular does not take into account the objectives, financial situation or needs of any potential investor. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer and the Bank. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the relevant Issuer, the Bank, any Arranger, any Dealer or any Agents to any person to subscribe for or to purchase any Notes.

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

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

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

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

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

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

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

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

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

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

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

In connection with the issue of any Tranche of the Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the relevant issue date in respect of that Tranche of the Notes. However, stabilisation may not necessarily occur. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

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

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

- the "**Bank**" is to China Everbright Bank Company Limited and, as the context may require, its subsidiaries;
- the "**Issuer**" is to the Bank or the relevant Branch Issuer as specified as an issuer in the relevant Pricing Supplement;
- the "**branch outlet**" include the head office, branches and outlets and other establishments of the Bank;
- a "**business day**" is a day that is not Saturday, Sunday or a public holiday in Hong Kong and Singapore; and
- the terms "**associate**", "**subsidiary**" and "**substantial shareholder**" shall have the meanings given to such terms in the HKSE Listing Rules, unless the context otherwise requires.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

For convenience only, this Offering Circular contains translations of certain amounts denominated in Renminbi and U.S. dollars. Unless indicated otherwise, the translations between Renminbi and U.S. dollars were made at the rate of 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 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, 2022 and 2023 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, 2022 and 2023 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 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 relevant Issuer, the Bank, the Arrangers or the Dealers accepts responsibility for the factual correctness of any such statistics or information but the relevant Issuer and the Bank accepts responsibility for accurately extracting and transcribing such statistics and information.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual consolidated financial statements and any interim, semi-annual or quarterly 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 relevant Issuer, the Bank, the Group, the Arrangers, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information 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 in respect of any financial year should not be relied upon to provide the same quality of information associated with information that has been subject to audit and/or review and should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December of the same financial year.

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

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

Special Note on Forward-Looking Statements

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

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SUMMARY OF THE PROGRAMME

*This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole, 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.*

"**Bank**"..	China Everbright Bank Company Limited (LEI: 549300U6PKQ4H1P34E17).
"**Issuer**"	The Bank or, a Branch Issuer, specified as issuer in the relevant Pricing Supplement.
"**Programme Size**"	Up to U.S.$6,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in "*Subscription and Sale*")) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
"**Risk Factors**"	Investing in Notes issuable under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Bank, or, the relevant Branch Issuer to fulfil its obligations in respect of the Notes, and risk factors that are material for the assessment of market risks associated with Notes issued under the Programme are discussed under the section "*Risk Factors*" below.
"**Issue Price**"	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly paid Notes may be issued, the issue price of which will be payable in two or more instalments.
"**Status of the Notes**"...............................	The Notes constitute direct, general, unconditional, unsecured and unsubordinated obligations of the relevant Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future, unsecured and unsubordinated obligations of the relevant Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
"**Method of Issue**"	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
"**Clearing Systems**"	Euroclear Bank SA/NV ("**Euroclear**"), Clearstream Banking S.A. ("**Clearstream**"), the Central Moneymarkets Unit Service (the "**CMU**")

	operated by the Hong Kong Monetary Authority (the "**HKMA**") and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, Fiscal Agent, the CMU Lodging and Paying Agent and the relevant Dealer(s).
"**Form of the Notes**"	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. No single Series or Tranche may comprise both Bearer Notes and Registered Notes. Each Tranche of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary for Clearstream and/or Euroclear and/or, in respect of CMU Notes, a sub-custodian for the CMU and/or, as the case may be, any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Global Certificates. Global Certificates representing Registered Notes will be registered in the name of a nominee for one or more of Euroclear and Clearstream and/or, in respect of CMU Notes, the Hong Kong Monetary Authority as the operator of the CMU.
"**Currencies**"	Notes may be denominated in any currency or currencies, agreed between the relevant Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of the Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
"**Denominations**"	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
"**Maturities**"	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i)

	have a minimum redemption value of £100,000 (or an amount of equivalent value denominated wholly or partly in a currency other than sterling) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") by the relevant Issuer.
"**Notification and Reporting to PBOC or NAFR**"..	Where applicable, the Bank undertakes to duly obtain or complete any approval from, submission, filing or reporting to PBOC or NAFR (as defined below) in accordance with all applicable PRC laws and regulatory requirements.
"**Reporting to the NDRC**"	Where the NDRC Measures applies to the Tranche of Notes to be issued in accordance with the Conditions and the Agency Agreement, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes to (i) file or cause to be filed with the NDRC the requisite information and documents 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.
"Benchmark Event"	Other than in respect of Notes for which SOFR is specified as the Reference Rate in the relevant Pricing Supplement, notwithstanding the provisions of Condition 7 (*Floating Rate Note Provisions and Index-Linked Interest Note Provisions*), if the Relevant Issuer (in consultation with the Calculation Agent) determines that a Benchmark Event has occurred (or will occur on or prior to the Interest Determination Date relating to the next succeeding Interest Period), when the Rate of Interest (or any relevant component part thereof) remains to be determined by reference to the Reference Rate, then the Benchmark Replacement (Independent Adviser) (other than Floating Rate Notes which reference SOFR) provisions under Condition 7(m) shall apply. "**Benchmark Event**" means: (A) the Reference Rate has ceased to be published for a period of at least five Business Days; or (B) the making of a public statement by the administrator of the Reference Rate that it has ceased, or will cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or (C) the making of a public statement by the supervisor of the administrator of the Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued; or

	(D) the making of a public statement by the supervisor of the administrator of the Reference Rate that means that such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in circumstances where the same shall be applicable to the Notes; or (E) the making of a public statement by the supervisor of the administrator of the Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of its underlying market, in circumstances where the same shall be applicable to the Notes; or (F) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Reference Rate (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable), provided that in the case of paragraphs (B) to (E) above, the Benchmark Event shall occur on: (1) in the case of (B) above, the date of the cessation of the publication of the Reference Rate; (2) in the case of (C) above, the discontinuation of the Reference Rate; (3) in the case of (D) above, the date on which the Reference Rate is prohibited from use or becomes subject to restrictions or adverse consequences (as applicable); or (4) in the case of (E) above, the date on which the Reference Rate is deemed no longer to be representative, (5) and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (1), (2), (3) or (4) above, as applicable).
"**Events of Default**"	Events of Default for the Notes are set out in Condition 14 (*Events of Default*).
"**Cross-acceleration**"	The Notes will contain a cross-acceleration provision as further described in Condition 14(c) (*Cross-acceleration of Bank, Issuer or Subsidiary*).
"**Withholding Tax**".................................	All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the relevant Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Tax Jurisdiction or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law.

	Where such withholding or deduction is made by the Issuer as a result of the Issuer being deemed to be a PRC tax resident by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax at the rate applicable in the PRC on the date of issue of the first Tranche of the Notes (the "**Applicable Rate**"), the Issuer will pay such additional amounts to the extent required as will result in receipt by the Noteholders and Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required. In the event that the Issuer is required to make a deduction or withholding (i) by or on behalf of the PRC or any political subdivision thereof or authority therein or thereof having power to tax in excess of the Applicable Rate; or (ii) by or within a Tax Jurisdiction (other than the PRC), the Issuer shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note or Coupon in the circumstances as set out in Condition 13(c) (*Additional Tax Amounts*).
"**Redemption**"	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
"**Optional Redemption**"	Notes may be redeemed before their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement as described in Condition 10(c) (*Redemption at the option of the Issuer*) and/or the Noteholders to the extent (if at all) specified in Condition 10(e) (*Redemption at the option of Noteholders*).
"**Tax Redemption**"	Early redemption for tax reasons will only be permitted as described in Condition 10(b) (*Redemption for tax reasons*).
"**Listing and Trading**"	Application has been made to the HKSE for the listing of the Programme on the HKSE under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the HKSE. Separate application may be made for the listing of the Notes on the HKSE. Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies). Unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be

	listed on the HKSE or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
"**Governing Law**"	The Notes, the Deed of Covenant and the Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes, the Deed of Covenant and the Agency Agreement are governed by English law.
"**Arrangers and Dealers**"	CEB International Capital Corporation Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, Citigroup Global Markets Limited and CLSA Limited. The Bank may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. In relation to a particular Tranche of Notes, the relevant Issuer may appoint additional dealers. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
"**Issuing and Paying Agent, Registrar and Transfer Agent**"	Citibank, N.A., London Branch.
"**Fiscal Agent, CMU Lodging and Paying Agent and CMU Registrar**"....	Citicorp International Limited.

SUMMARY FINANCIAL INFORMATION OF THE BANK

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 years ended 31 December 2022 and 2023 and the notes thereto, which are included elsewhere in this 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 years ended 31 December 2022 and 2023, which are included elsewhere in this 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	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*(1)
		(audited)		
Interest income	229,334	241,309	250,809	35,326
Interest expense	(117,179)	(127,654)	(143,329)	(20,187)
Net interest income	112,155	113,655	107,480	15,139
Fee and commission income	30,131	30,077	26,724	3,764
Fee and commission expense	(2,817)	(3,333)	(3,026)	(426)
Net fee and commission income	27,314	26,744	23,698	3,338
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

	For the year ended 31 December			
	2021	2022		2023
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)[(1)]*
		(audited)		
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
Operating income	153,366	151,865	145,735	20,526
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)
Operating profit	53,031	56,029	49,721	7,003
(Losses)/Gains on investment of joint ventures	(90)	(63)	36	5
Profit before tax	52,941	55,966	49,757	7,008
Income tax	(9,302)	(10,926)	(8,681)	(1,223)
Net profit	43,639	45,040	41,076	5,785
Other comprehensive income, net of tax:				
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
Other comprehensive income, net of tax	1,759	(3,740)	2,836	399
Total comprehensive income	45,398	41,300	43,912	6,185
Net profit attributable to:				
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
Total comprehensive income attributable to:				
Equity shareholders of the Bank	45,166	41,065	43,627	6,145

	For the year ended 31 December			
	2021	2022		2023
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
		(audited)		
Non-controlling interests	232	235	285	40
	45,398	41,300	43,912	6,185
Earnings per share				
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
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
		(audited)		
Assets				
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
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
Total assets	5,902,069	6,300,510	6,772,796	953,928

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	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]
		(audited)		
Liabilities and equity				
Liabilities				
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
Total liabilities	5,417,703	5,790,497	6,218,011	875,789
Equity				
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
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
Total equity	484,366	510,013	554,785	78,140
Total liabilities and equity	5,902,069	6,300,510	6,772,796	953,928

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

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

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

RISKS RELATING TO THE BANK'S 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, conducting insider dealing, improperly using or disclosing confidential information and otherwise not complying with applicable laws and regulations. In recent years, there have been instances where current or former employees or senior management of the Bank have been investigated for, and in some cases prosecuted and convicted of, bribery, corruption or other wrongdoings. There can be no assurance that there will be no such investigations against the employees or senior management of the Bank in the future, which may have a material negative effect on the reputation of the Bank. 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 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 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規定), 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 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 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 mitigates its currency risk through investments denominated in U.S. dollars. As a result, fluctuations in exchange rates, particularly between Renminbi and U.S. dollar, could affect the Group's profitability and may result in foreign currency exchange losses with respect to its foreign currency-denominated assets and liabilities.

The exchange rate of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's, as well as international, political and economic conditions and the PRC Government's fiscal and currency policies. Starting from 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, was based on rates set daily by PBOC based on the previous business day's inter-bank foreign exchange market rates and the current exchange rates on the world financial markets. For more than 10 years, the official exchange rate for conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC Government introduced a managed floating exchange rate system. 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 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.

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 “Baa2” by Moody’s 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. 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 Bank or the Branch 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 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 Bank fails to complete the post-issuance report to the NDRC in connection with the Notes, NDRC may impose penalties or other administrative procedures on the Bank.

Effective from 10 February 2023, NDRC Measures superseded the NDRC Circular. Under the NDRC Measures, the Branch Issuer (acting through the Bank) or, as the case may be, the Bank 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 Branch Issuer (acting through the Bank) or, as the case may be, the Bank, undertakes to (i) file or cause to be filed with the NDRC the requisite information and documents 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 relevant 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 may include the Bank's Hong Kong branch. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes issued by Hong Kong branch or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of such Notes, all of which may adversely affect the value of such Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes issued by Hong Kong branch may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries, its operations and/or its financial position.

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 Bank or the relevant 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 any political subdivision therein, territory, possession thereof or authority therein or thereof having power to tax. Although, pursuant to the Conditions, the relevant Issuer is required to gross up payments on account of any such withholding taxes or deductions, the relevant Issuer also has the right to redeem the Notes at any time subject to certain specified exceptions in the event that it 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 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 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 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 depositary for Euroclear and Clearstream, or lodged with a sub-custodian for the CMU (each of Euroclear, Clearstream, and the CMU, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, or, as the case may be, to the relevant paying agent, in the case of the CMU, for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates. Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

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

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

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

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

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

Risk factors relating to potential conflicts of interest.

The Bank, the Branch Issuer and their affiliates may act in a number of capacities in respect of Notes issued under the Programme including, without limitation, Dealer and Calculation Agent. The Bank, the Branch Issuer and their 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 Bank, the Branch Issuer or an affiliate of them 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 Bank, the Branch Issuer and all investors.

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

The Bank, the Branch 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 Bank, the Branch Issuer and their 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 relevant Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the British Virgin Islands, Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes and the Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes and the Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes and the Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Instruments. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Instruments, no person will be required to pay additional amounts as a result of the withholding.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

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

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

An optional redemption feature is likely to limit the market value of Notes. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period. The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes.

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

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

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

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

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

Certain benchmark 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 14 (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.

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

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

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

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

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

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

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

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

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

Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

RISKS RELATING TO THE MARKET GENERALLY

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

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

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

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

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

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.

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 relevant Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

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

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

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

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

Investment in Renminbi Notes is subject to exchange rate risks.

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

Investment in Renminbi Notes is subject to interest rate risks.

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

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

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

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

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

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

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

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

TERMS AND CONDITIONS OF THE NOTES

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

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

1. Introduction

(a) *Programme*: China Everbright Bank Company Limited (the "**Bank**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$6,000,000,000 in aggregate principal amount of notes (the "**Notes**"). Notes under the Programme may be issued by the Bank, or any branch of the Bank located outside of the PRC, as specified as issuer in the relevant Pricing Supplement (each such branch of the Bank, a "**Branch Issuer**" and, together with the Bank, each an "**Issuer**").

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

(c) *Agency Agreement*: The Notes are the subject of an amended and restated issue and paying agency agreement dated 8 September 2023 and otherwise as further amended and/or supplemented from time to time (the "**Agency Agreement**") between (i) the Bank (on behalf of itself and each Branch Issuer), (ii) Citicorp International Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), (iii) Citicorp International Limited as CMU lodging and paying agent, transfer agent and registrar in respect of Notes cleared or to be cleared through the CMU (in such capacities, the "**CMU Lodging and Paying Agent**", the "**CMU Transfer Agent**" and the "**CMU Registrar**"), which expressions include any successor CMU lodging and paying agent, transfer agent and registrar appointed from time to time in connection with such Notes), (iv) Citibank, N.A., London Branch as issuing and paying agent in respect of Notes cleared through Euroclear Bank SA/NV and/or Clearstream Banking S.A. (the "**Issuing and Paying Agent**"); and (v) Citibank, N.A., London Branch as transfer agent and registrar in respect of Notes cleared through Euroclear Bank SA/NV and/or Clearstream Banking S.A. (in such capacities, the "**Principal Transfer Agent**" and the "**Principal Registrar**", which expression includes any successor or additional transfer agent and registrar appointed from time to time in connection with such Notes), the paying agents named therein (together with the Fiscal Agent and the CMU Lodging and Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein. In these Conditions references to the "**Registrars**" are to the Principal Registrar and the CMU Registrar and any reference to a "**Registrar**" is to any one of them; references to the "**Transfer Agents**", are to the Principal Transfer Agent and the CMU Transfer Agent and any reference to a "**Transfer Agent**" is to any one of them; and references to the "**Agents**" are to the Paying Agents, the Transfer Agents and the Registrar and any reference to an "**Agent**" is to any one of them.

(d) *Deed of Covenant*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by an amended and restated deed of covenant dated 8 September 2023 and otherwise as further amended and/or restated from time to time (the "**Deed of Covenant**") entered into by the Bank (on behalf of itself and each Branch Issuer).

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

(f) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. 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 upon request by Noteholders during normal business hours at the Specified Offices of each of the Agents.

2. Interpretation

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

"**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);

"**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);

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

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

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

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

"**Business Day**" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (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_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**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;

“**NAFR**” means the National Administration of Financial Regulation of the PRC or its relevant competent local counterparts, formed on the basis of the former China Banking and Insurance Regulatory Commission of the PRC;

“**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) a TARGET Settlement Day and (b) a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

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

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

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

“**PBOC**” means the People’s Bank of China;

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

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

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

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

(a) in relation to euro, it means the principal financial centre of such Member State of the European 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 a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

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

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

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

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

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

"**Reference Rate**" means CNH HIBOR, 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;

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

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

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

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

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

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

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

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

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

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

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

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

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

"**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 Tax Amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

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

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

(vii) if an expression is stated in Condition 2(a) (*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;

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

(x) 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 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 Condition 3(i) (*Form, Denomination, Title and Transfer – Closed periods)* and Condition 3(j) (*Denomination, Title and Transfer – Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of any Registrar or any Transfer Agent, together with such evidence as such Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with Condition 3(f) (*Denomination, Title and Transfer – 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 Condition 3(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, any Registrar or any Transfer Agent but against such indemnity as such Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

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

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

(ii) during the period of 15 days ending on any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 10(b) (*Redemption and Purchase – Redemption for tax reasons*) or Condition 10(c) *(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 10(e) (*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 each Registrar. A copy of the current regulations will be mailed (free of charge) by a Registrar to any Noteholder who requests in writing a copy of such regulations.

4. Status of the Notes

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

5. Covenants

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

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

(i) file or cause to be filed with the NDRC the requisite information and documents 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.

(c) *Notification and Reporting to PBOC or NAFR*: Where applicable, the Bank undertakes to duly obtain or complete any approval from, submission, filing or reporting to PBOC or NAFR in accordance with all applicable PRC laws and regulatory requirements.

6. Fixed Rate Note Provisions

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

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

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

(d) *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 Agent, the CMU Lodging and Paying Agent, the Registrar (in the case of Registered Notes) and the Noteholders in accordance with Condition 20 (*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.

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

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

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

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

(c) *Screen Rate Determination (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; and

(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 disapplied; 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.):

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

"**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_o**" 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_o, 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_i**" 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;

"**$SOFR_i$**" 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 Agent, the CMU Lodging and Paying Agent, and, in accordance with Condition 20 (*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.):

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

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)(iv)) (*Floating Rate Note and Index Linked Interest Note Provisions – Interest – Floating Rate Notes referencing SOFR (Screen Rate Determination)*) 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)(iv) (*Floating Rate Note and Index Linked Interest Note Provisions – Interest – Floating Rate Notes referencing SOFR (Screen Rate Determination)*) 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. If the relevant Pricing Supplement does not specify any Minimum Rate of Interest and the Rate of Interest as determined by the Calculation Agent according to this Condition 7 is a negative value, the Rate of Interest shall be zero per cent. per annum.

(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 Issuer and the Paying Agents as soon as practicable after such determination. Notice thereof shall also promptly be given by the Issuer to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall notify the Issuer and the Paying Agents only of the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

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

(l) *Determination of Rate of Interest following acceleration*: If (i) the Notes become due and payable in accordance with Condition 14 (*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)(iv) (*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 Condition7(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 w 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 20 (*Notices*); and the Successor Rate or Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread and the Benchmark Amendments (if any) specified in such notice will (in the absence of manifest error or bad faith in the determination thereof) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the other Agents and the Noteholders.

(viii) As used in this Condition 7(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 (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof; and

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

8. Zero Coupon Note Provisions

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

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

(i) the Reference Price; and

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

9. Dual Currency Note Provisions

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

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

10. Redemption and Purchase

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

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

(i) at any time (if neither the Floating Rate Note Provisions 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, or such other period(s) as may be specified in the relevant Pricing Supplement, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

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

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

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

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

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

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

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

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

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

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

(i) the Reference Price; and

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

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

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

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

11. Payments – Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

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

(b) *Interest*: Payments of interest shall, subject to Condition 11(i) (*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 Paying Agent outside the United States in the manner described in Condition 11(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 in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

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

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

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

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

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

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

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

Each sum of principal so deducted shall be paid in the manner provided in Condition 11(a) (*Payments – Bearer Notes – Principal*) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

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

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

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

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

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

12. Payments – Registered Notes

This Condition 12 is only applicable to Registered Notes.

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

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

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered 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 any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*), any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *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 a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

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

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

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

13. Taxation

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

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

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

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

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

(iii) to, or to a third party on behalf of a holder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority.

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

14. Events of Default

If any of the following events occurs and is continuing:

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

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

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

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

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

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

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

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

(e) *Insolvency etc*: (i) the Bank or any of its Material Subsidiaries or the Issuer becomes insolvent or is unable to pay all or 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 Issuer or the whole or any material part of the undertaking, assets and revenues of the Bank or any of its Material Subsidiaries or the Issuer, (iii) the Bank or any of its Material Subsidiaries or the Issuer takes any action for a readjustment or deferment of all or 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 or the Issuer 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 the PRC has an analogous effect to any of the events referred to in Conditions 14s(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,

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

In these Conditions:

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

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

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

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

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

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

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

15. Prescription

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

16. Replacement of Notes and Coupons

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

17. Agents

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

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

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

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

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

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

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

18. Meetings of Noteholders; Modification and Waiver

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

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 (i) it is of a formal, minor or technical nature, (ii) it is made to correct a manifest error or (iii) it is a modification which neither contradicts these Conditions nor is reasonably expected to be materially prejudicial to the interests of the Noteholders.

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.

19. Further Issues

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

20. Notices

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

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

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions, or 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.

21. Currency Indemnity

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

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

22. Rounding

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

23. Governing Law and Jurisdiction

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

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

CLEARANCE AND SETTLEMENT

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

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

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions 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.

Book-Entry Ownership

Bearer Notes

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

Registered Notes

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

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

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

FORMS OF THE NOTES

Bearer Notes

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

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

Temporary Global Note exchangeable for Permanent Global Note

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

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the relevant Issuer shall procure (in the case of first exchange) the 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 or the CMU Lodging and Paying Agent; and

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

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership 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. (Local 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 Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment, then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (Local Time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (Local Time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

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

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

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

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

    (i) Euroclear or Clearstream or 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 14 (*Events of Default*) occurs.

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

If:

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

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

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

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (Local Time) on such due date (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 relevant Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of 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. (Local Time) on the 30^{th} day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

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

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

Permanent Global Note exchangeable for Definitive Notes

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

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

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

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

    (i) Euroclear or Clearstream or 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 14 (*Events of Default*) occurs.

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

If:

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

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

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

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (Local Time) on such 30th day (in the case of (a) above) or at 5.00 p.m. (Local Time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (Local Time) on such due date (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 CMU and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the relevant Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream and/or CMU and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which 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 Certificates in registered form ("**Individual Certificates**"); or a global Note in registered form (a "**Global Certificate(s)**"), in each case as specified in the relevant Pricing Supplement.

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

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

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

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

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

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

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

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

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

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

If:

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

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

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

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

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

Terms and Conditions applicable to the Notes

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

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

Summary of Provisions relating to the Notes while in Global Form

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the 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 Certificate, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Certificate is for the time being registered in the Register which, for so long as the Global Certificate is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the 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 Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the relevant Issuer to the holder of such Global Note or Global Certificate and in relation to all other rights arising under such Global Note or Global Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Certificate, Accountholders shall have no claim directly against the relevant Issuer in respect of payments due under the Notes and such obligations of the relevant Issuer will be discharged by payment to the holder of such Global Note or Global Certificate.

If a Global Note or a Global Certificate is lodged with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled or, in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the relevant Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or

Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the relevant Issuer in respect of such Global Note or Global Certificate.

Conditions applicable to Global Notes

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

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

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

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

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

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

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

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 China Everbright Bank Company Limited (the "Bank"), the Issuer (as defined below), the Bank and its subsidiaries (the "Group"), the Bank's U.S.$6,000,000,000 Medium Term Note Programme (the "Programme"), the Notes (as defined below) 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).][1]

[**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.]

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

Pricing Supplement dated [•]

CHINA EVERBRIGHT BANK COMPANY LIMITED
[specify relevant branch]

Issue of *[Aggregate Nominal Amount of Tranche*] *[Title of Notes*] [due [•]] (the "Notes")

under the U.S.$6,000,000,000 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 Company Limited/ *[specify relevant branch as Issuer]*
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:[2] [3] [4]	[•]
	(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*][5] [*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] [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*]

[2] *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).*

[3] *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.

[4] *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).*

[5] *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.*

12.	Put/Call Options:		[Investor Put] [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 Stock Exchange/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][6] *(N.B. This will need to be amended in the case of long or short coupons.)*
	(iii)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount[7]
	(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*]

6 *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.*

7 *For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest RMB0.01, RMB0.005 for the case of Renminbi-denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.*

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 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] [8]
	o Lag Period:	[5 / [•] U.S. Government Securities Business Days/other (*give details*)]
	o 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*)
	o D:	360

[8] *Observation Method should only be included when SOFR or SOFR Compounded Index is selected as the Reference Rate.*

o SOFR Compounded Index Determination:	[Applicable/Not Applicable]
o Relevant Decimal Place:	5 (subject to the rounding provisions in the Conditions)
o Relevant Number of Index Days[9]:	[5/[●]] (*unless otherwise specified in Pricing Supplement, the Relevant Number shall be 5*)]
• Interest Determination Date(s):	[●][10]
• 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*)
o Compounding Method:	[Compounding with Lookback • Lookback: [•] Applicable Business Days] [Compounding with Observation Period Shift • Observation Period Shift: [•] Observation Period Shift Business Days

9 *Index Days is defined in the Conditions as five U.S. Government Securities Business Days.*

10 *[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].*

- 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*)
		o 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 10(g)*]

20.	**Index-Linked Interest Note/other variable-linked interest Note Provisions:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Index/Formula/other variable:	[give or annex details]
	(ii) Calculation Agent responsible for calculating the interest due:	[•]
	(iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[•]
	(iv) Interest Determination Date(s):	[•]
	(v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•] [*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:	[•][11]
23.	**Put Option**:		[Applicable/Not Applicable] (If *not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	Notice period:	[•]
24.	**Final Redemption Amount of each Note:**		[•] per Calculation Amount
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		
	(i)	Index/Formula/variable:	[*give or annex details*]
	(ii)	Calculation Agent responsible for calculating the Final Redemption Amount:	[•]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[•]

11 Euroclear and Clearstream require a minimum of 5 business days' notice for exercise of call options.

	(iv)	Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[•]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[•]
	(vi)	[Payment Date]:	[•]
	(vii)	Minimum Final Redemption Amount:	[•] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[•] per Calculation Amount
25.	**Early Redemption Amount:**		
	(i)	Early Redemption Amount (Tax) per Calculation Amount payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable (*if the Early Redemption Amount is the principal amount of the Notes)/specify the Early Redemption Amount if different from the principal amount of the Notes or specify its method of calculation*]
	(ii)	Early Termination Amount per Calculation Amount payable on mandatory redemption on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable (*if the Early Termination Amount is the principal amount of the Notes)/specify the Early Termination Amount if different from the principal amount of the Notes or specify its method of calculation*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	**Form of Notes:**	**Bearer Notes:**[12] [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][13] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][14] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note][15] **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][16]
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.*]
29.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
30.	Consolidation provisions:	[The provisions in Condition [19] (*Further Issues*) [annexed to this Pricing Supplement] apply]
31.	Any applicable currency disruption/ fallback provisions:	[Not Applicable/*give details*]

[12] Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.

[13] 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.

[14] 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.

[15] 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.

[16] 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.

32.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

33.	(i) Method of Distribution:	[Syndicated/Non-syndicated]
	(ii) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(iii) Stabilisation Manager(s) (if any):	[Not Applicable/*give names*]
34.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
35.	Total commission and concession:	[•] per cent. of the Aggregate Nominal Amount
36.	U.S. Selling Restrictions:	Reg. S Category [1/2]; (*In the case of Bearer Notes*) – [TEFRA C/ TEFRA D/TEFRA not applicable] (*In the case of Registered Notes*) – Not Applicable[17]
37.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]
38.	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable]
39.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

40.	ISIN Code:	[•]
41.	Common Code:	[•]
42.	CMU Instrument Number:	[•]
43.	LEI:	The Legal Entity Identifier number of the Issuer is [•].
44.	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
45.	Delivery:	Delivery [against/free of] payment
46.	Additional Paying Agent(s) (if any):	[•]
47.	Registrar (if other than Citibank, N.A., London Branch):	[*please specify (if any)*]

GENERAL[18]

48.	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
49.	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.$[•]]
50.	[Ratings:	The Notes to be issued have [not] been rated: [S&P: [•]];

[17] 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.

[18] 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.

		[Moody's: [•]]; [Fitch: [•]]; [[Other: [•]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)
HONG KONG SFC CODE OF CONDUCT		
51.	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 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.] / [Not Applicable]
52.	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]
53.	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.]

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 listing on the [Hong Kong Stock Exchange] of the Notes described herein pursuant to the U.S.6,000,000,000 Medium Term Note Programme of China Everbright Bank Company Limited.

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:
[SPECIFY ISSUER]

By:..
Duly authorised

Name:

Title:

CAPITALISATION AND INDEBTEDNESS

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.

This table should be read in conjunction with the audited consolidated financial statements of the Bank and related notes thereto included elsewhere in this Offering Circular:

	As at 31 December 2023	
	(RMB in millions)	*(U.S.$ in millions)*(1)
Debt		
Debt securities issued	1,099,326	154,837
Shareholders' Equity	-	-
Share capital	59,086	8,322
Other equity instruments	104,899	14,775
Capital reserve	74,473	10,489
Other comprehensive income	2,245	316
Surplus reserve	26,245	3,697
General reserve	86,161	12,136
Retained earnings	199,282	28,068
Total equity attributable to equity shareholders of the Bank	552,391	77,803
Non-controlling interests	2,394	337
Total equity	**554,785**	**78,140**
Total capitalisation(2)	**1,654,111**	**232,977**

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 Offering Circular, there has not been any material change in the Bank's capitalisation and indebtedness since 31 December 2023.

USE OF PROCEEDS

Subject to compliance with applicable laws, regulations and rules, the net proceeds of any Notes issued under the Programme shall be used for general funding purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

DESCRIPTION OF THE BANK

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 28th 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.

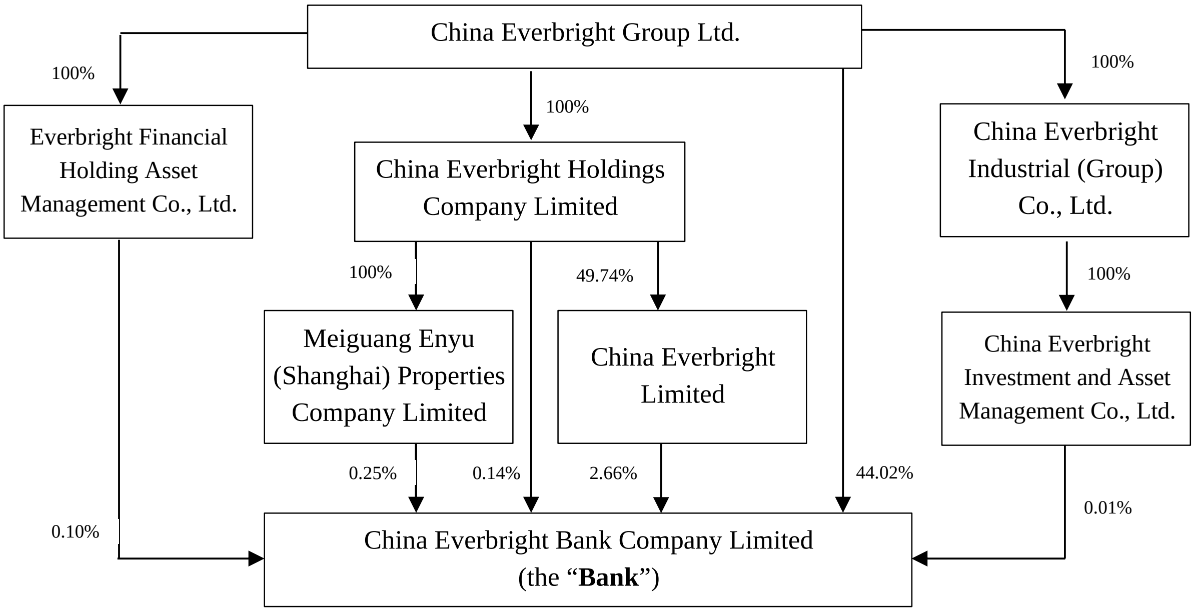
The Bank's principal business segments are corporate banking, retail banking and financial market business. The Bank's corporate banking business consists primarily of corporate deposits and loans, inclusive finance, investment banking and transaction banking. The Bank's retail banking business consists 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[1]:



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 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.

[1] 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.

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 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 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:

	For the year ended 31 December					
	2021 (restated)		2022		2023	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
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	153,366	100.00	151,865	100.00	145,735	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 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 bio-metrics 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 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 Offering Circular, there were no other material breaches and material incidents of regulatory non-compliance.

RISK MANAGEMENT

OVERVIEW

As a commercial bank, the Bank is subject to a number of risks, primarily including credit risk, market risk, operational risk, liquidity risk and compliance risk. In order to manage these risks, the Bank is committed to establishing a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting and control of such risks. The Bank has been dedicated to strengthening its risk management, with the NPL ratio of the Bank's total loans and advances to customers being 1.25 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.

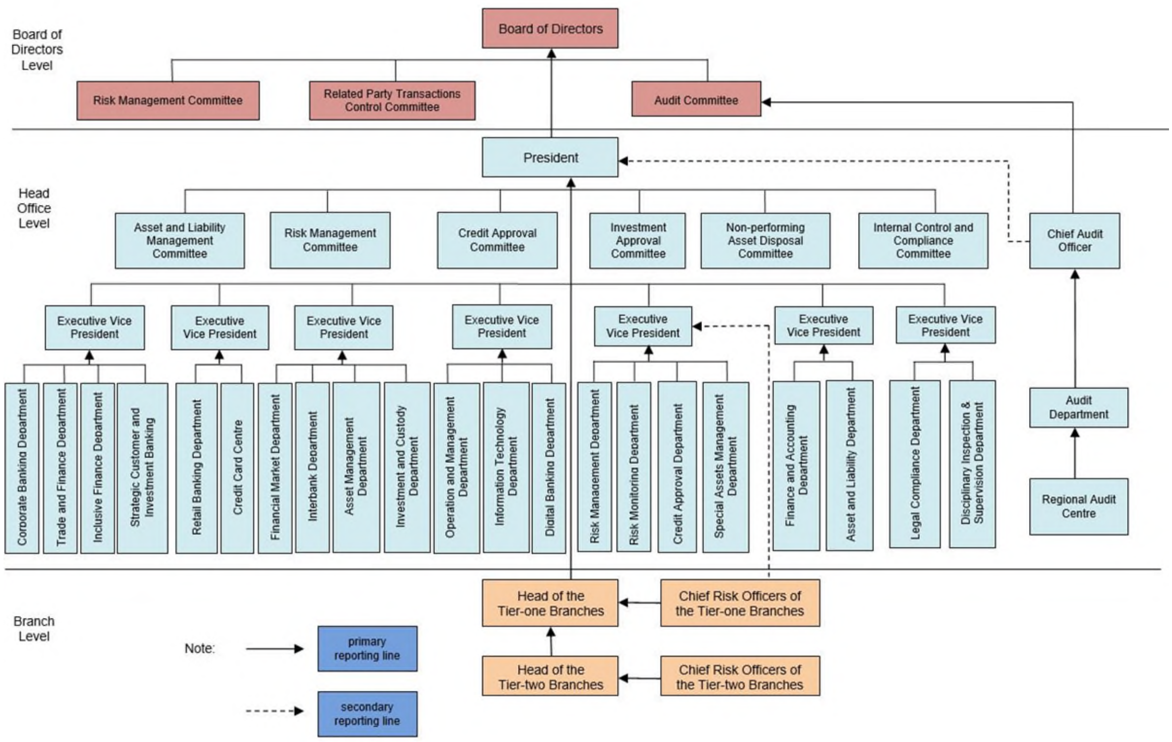
- During 2023, the Bank formulated the Management Measures for Liability Quality in accordance with relevant regulatory requirements, established its own liability quality management system, improved the organizational structure for liability quality management, clarified the responsibilities of the 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:

Major types of collateral	**Maximum loan-to-value ratio**
Land use right mortgage (assignment)	70%
Real estate	40%-60%
Machinery and equipment	30%-40%
Certificates of deposits, treasury bonds, financial bonds	80%-90%
Warehouse receipts, bill of lading	70%
Other rights [1]	40%-80%
Other movable assets	50%

Note:

(1) Mainly include other property rights that may be pledged pursuant to the laws and administrative regulations of the PRC, such as receivables, transferable fund shares and shareholder rights.

Where loans are to be guaranteed by a third party with joint and several liability, the Bank conducts an assessment of the guarantor's financial status, credit records and ability to repay for borrowers.

Credit Examination and Approval

Approval Authority

The Bank's Credit Approval Departments are independent from the Bank's business operation units. The examination and approval of credit follow the principles of objectivity and impartiality and opinions as to decision-making are given independently without any interference from internal or external factors. All credit projects are handled in conformity with the stipulations set by the Bank with respect to the investigation and granting of credit and the processes for examination and approval.

The Bank's normal-risk corporate loans are examined and approved by the Bank's authorised approval authorities and personnel, including the Bank's head office's Credit Approval Committee and Credit Approval Department, the Chief Risk Officer of the SME Business Department of the Bank's head office, the Chief Risk Officers of the branches, the general manager of the Risk Management Department of the branches as well as the heads of branch-level SME credit management centres and other authorised personnel, in each case according to the particular authorities granted to them. The Bank's low-risk corporate loans are examined and approved by authorised examination and approval officers in various business lines.

Examination and Approval Process

(i) Normal-risk corporate credit business

Generally, the credit approval process includes the following stages of review and approval:

(1) the customer relationship manager completes a credit investigation report and, upon approval from the persons in charge of the relevant operational units, submits the report to the branch risk manager for review and issuance of a review report;

(2) upon review by the branch-level risk manager, any matter within the authority of the general manager of the branch-level Risk Management Department will be sent to him/her for review and approval. The general manager of the branch-level Risk Management Department directly issues rejections of credit applications and sends accepted applications to the head of the branch-level corporate banking business, who holds veto power, for review and as part of the dual approval process. The head of the branch-level corporate banking business then signs his or her opinion and issues the decision;

(3) upon review by the branch-level risk manager, any matter that exceeds the authority of the general manager of the branch-level Risk Management Department must be submitted as a separate review report to the branch-level Credit Review Committee for comments (certain applications are not subject to this review process and can be directly submitted to branch-level risk officer). Credit applications not approved by the Credit Review Committee are submitted to the Chief Risk Officer, who then issues the rejections. Credit applications that have been reviewed and approved by the Credit Review Committee are submitted to the branch's Chief Risk Officer for approval within the limits of his authority as part of the dual approval process, and then submitted to the branch head, who holds veto power, for review and approval; and

(4) credit applications accepted by the Chief Risk Officer but that exceed the Chief Risk Officer's approval authority may only be submitted to the Bank's head office if the branch head signs a written consent. All credit applications submitted to the head office by the branches and relevant departments of the head office are initially examined for preliminary approval by a junior examination officer of the Credit Approval Department, and then submitted to the competent higher-level review officer or institution for final approval. In accordance with the different features of credit applications, such applications may be approved by meetings or by authorised officers of the Credit Approval Department of the Bank's head office.

(ii) Examination and approval of credit applications from SMEs

For the Bank's SME customers, the approval process generally follows the above process for credit applications. However, an SME applicant of a tier-one branch shall also undergo credit investigation by the SME credit management centre of the Risk Management Department of that branch, followed by a report issued on the investigation. Any applications approved at this stage will then be examined for approval by the head of the branch-level SME credit management centre, unless such approval would exceed his authority, in which case the application will be referred to the general manager of the branch-level Risk Management Department or the branch-level Chief Risk Officer for examination and approval within the limits of his authority. An application which has been approved by the head of the branch-level SME credit management centre within the limits of his authority will then require the issuance of a signed opinion from the general manager of the SME Business Department, who holds a veto right.

For tier-two branches, cross-city sub-branches and county-level sub-branches that have a Chief Risk Officer, an application by an SME customer must be investigated by the risk manager of the branch or sub-branch and then submitted to the Chief Risk Officer of the branch or sub-branch for examination and approval within the limits of his authority. Where the approval of an application requires higher authority, the application will be referred to the tier-one branch Chief Risk Officer for examination and approval within the limits of his authority.

Since 2012, the Bank has implemented various measures in order to proactively address potential risks in connection with the downturn in macroeconomic conditions, as well as strengthen the Bank's risk management and improve asset quality. First, the Bank implemented improved business modelling and improved risk mitigation functions. Second, the Bank strengthened its risk monitoring system and conducted real-time surveillance and on-site examinations. Third, the Bank maintained monitoring of risks associated with SMEs, enhanced monitoring of customers with NPL and increased the Bank's clearing and recovery efforts.

(iii) LGFV credit business

For the Bank's LGFV credit business, the Bank has implemented a risk management system that governs the whole process of the extension of such credit by adhering to commercial principles and by standardising the Bank's operations. In conducting risk assessments to ensure that the borrowers (particularly with respect to new loans) meet the Bank's credit standards, the Bank takes into account the overall solvency of the LGFVs and their debt servicing ability so as to prudently evaluate the risks associated with granting loans to such entities, including collateral risk and maturity risk. In the post-disbursement stage, the Bank continuously monitors factors that may affect repayment and the Bank uses a comprehensive early warning system to identify, categorise, report and address maturity risk. The Bank has developed rating tools that classify the underlying risks of loans to such entities in a more accurate and objective manner and analytical tools to strengthen maturity risk analysis and monitoring.

CBRC requires PRC banks to classify LGFV loans in accordance with the level of cash flow coverage, which refers to a borrower's cash flow divided by the total loan principal and the interest incurred. As at 31 December 2017, the cash flow of the majority of the Bank's LGFV borrowers was sufficient to cover 100 per cent. (or above) of the principal and the interest incurred. The remaining loans were secured by valid guarantees or collaterals or those originated from economically developed regions equivalent to or above the prefectural level.

(iv) Corporate real estate loan business

The Bank requires the implementation of credit life cycle process management for the Bank's corporate real estate loan business, which means that the Bank focuses on mid-to high-end customers and have put in place a specialised and centralised management system for the Bank's entire corporate real estate loan business. The Bank has established the real estate finance centre under the Corporate Banking Department of the Bank's head office, which is responsible for coordinating the Bank's corporate real estate loan operations and reviewing relevant project proposals. The Credit Approval Committee of the Bank's head office, the real estate credit approval centre of the Credit Approval Department and the Chief Risk Officers at the branch level are authorised to carry out the examination and approval of loan applications. After credit extension, the Bank requires that the utilisation of credit match the construction progress of a real estate development project. During the post-disbursement stage, the Bank requires that management, control and risk investigation for loans be strengthened by strictly monitoring the source of funds for repayment and conducting regular reappraisals of the value of collateral and pledged assets. Since 2008, the Bank has been conducting special stress tests on real estate loans and loans granted to industries related to real estate and developing risk measurement tools for loans granted to industries related to real estate.

(v) Low-risk corporate credit business

The Bank's low-risk corporate credit business is conducted through a special credit approval process, and applications are examined and approved by authorised approval officers from the corporate banking business line within the limits of their authority. Low-risk corporate credit applicants are required to fulfil the following conditions: (1) the collateral and pledged assets are cash-equivalent assets or guarantees provided by financial institutions recognised by the Bank; (2) the security provided can discharge in full the obligations relating to the Bank's creditor's rights (including principal, interest and service fees); and (3) the security is not legally defective and there is no associated policy risk.

Opening of Credit Lines and Post-disbursement Management

Opening of Credit Lines

The opening of credit lines involves fulfilling prerequisites for the granting of credit, entering into relevant contracts, loan reviews and making necessary accounting entries. After a credit application is approved, a credit line can be opened only after a disbursement approval centre at the branch level has determined upon examination that the prerequisites for the granting of credit have been fulfilled, the credit contract has been signed by an authorised person, the relevant legal procedures have been completed and the validity of any security has been confirmed. Substantially all of the Bank's credit contracts are in the standard form prescribed by the Bank's Legal and Compliance Department, and those that are not are subject to approval by the Bank's Legal and Compliance Department.

Post-disbursement Management

The Bank has established a post-disbursement management system with defined responsibilities and standardised methods to continuously monitor factors that may affect repayment. The Bank conducts off-site and on-site inspections and applies risk modelling techniques on the basis of the Bank's experience in order to detect the potential risks associated with a specific borrower, issue early warnings and adopt remedial measures. Customer relationship managers are responsible for the day-to-day credit check on the operating conditions and use of credit by their respective borrowers, so as to detect any signs of potential credit default and to adopt risk mitigation measures as soon as possible. Risk monitoring centres of the Risk Management/Credit Management Departments at the branch level are responsible for post-disbursement organisation, supervision, guidance, inspection and reporting. The Bank emphasises monitoring factors that may have a negative impact on the ability of borrowers to make repayment, mainly including (i) the operating and overall credit risk status of a borrower, including its receivables and inventory, changes in operating cash flow and unusual cash outflows; (ii) the status of projects into which loans are injected; and (iii) the condition of assets collateralised or pledged as security for credit, as well as the condition of guarantors.

Early Warning

Following the principles of prompt reporting and quick response, the Bank has established a comprehensive early warning system that sets out early warning processes, including identification, categorisation, verification, reporting, handling and cancellation. The Bank has three types of early warnings based on their degree of urgency and have designed action plans to deal with different types of early warnings so that business units are able to take the necessary measures to deal with risks promptly. The Bank's head office maintains a Risk Management Committee, and each branch has early warning committees, which coordinate the early warning work of the Bank's head office and the branches, respectively. The Bank's head office's Risk Management Committee and the branch-level early warning committees are responsible for early warning management at their respective levels and hold regular meetings to review the status of systematic risk and individual risk in order to deal with early warning signals promptly and to assess the results of response measures.

Loan Classification and Provision of Reserve

In 1999, in accordance with the requirements of regulatory authorities, the Bank started to apply a five-category loan classification system. The Bank carries out loan classification and makes provisions for losses in accordance with the relevant requirements of PRC regulations as well as the requirements of PRC and international accounting standards.

The classification of loan risks and estimation of expected losses are carried out at different levels. Customer relationship managers are responsible for the preliminary classification of risks as well as for estimating the losses of NPL, the results of both of which are then subject to review by risk managers. At the credit application stage, reports are submitted to the upper level following credit granting procedure to obtain determination from the relevant examination and approval institutions, and the scope of authority for determination is the same as the scope of authority for examination and approval. For the day-to-day management of existing credit, the Bank's head office Credit Management Departments, Chief Risk Officers at the branch level and branch risk managers make the final determination within the limits of their authority.

At the beginning of 2007, on the basis of the Bank's existing five-category classification system and internal rating-based approach, the Bank adopted a 12-category loan classification system that refined the Bank's loan classification in accordance with the default risks of a corporate borrower and facility risk arising from the loan. Based on the varying degrees of credit asset risk, the Bank's 12-category loan classification further expands the "normal" grade under the original five-category loan classification system into seven grades, which are expressed from P1 to P7. The original "special mention" class is further broken down into two grades, which are expressed by SM1 and SM2. Loans under "sub-standard", "doubtful", and "loss" classes remain unchanged and are collectively referred to as non-performing credit assets.

12-Category Loan Classification	Names under the Five Category Classification	Names under the 12-Category Loan Classification
1	Normal	Grade 1 Pass (P1)
2	Normal	Grade 2 Pass (P2)
3	Normal	Grade 3 Pass (P3)
4	Normal	Grade 4 Pass (P4)
5	Normal	Grade 5 Pass (P5)
6	Normal	Grade 6 Pass (P6)
7	Normal	Grade 7 Pass (P7)
8	Special Mention	Grade 1 Special Mention (SM1)
9	Special Mention	Grade 2 Special Mention (SM2)
10	Sub-standard	Sub-standard (SS)
11	Doubtful	Doubtful (DF)
12	Loss	Loss (LS)

Through this loan classification system, the Bank classifies corporate loans on the basis of both quantitative and qualitative factors by analysing the default risk of a corporate borrower and facility risk arising from the loan and considering the estimated impairment losses.

The Bank's loan classification system is designed to help the Bank to better monitor changes in the Bank's asset quality, detect potential credit risks and more effectively conduct post-disbursement management of the Bank's loan portfolio. The Bank believes that this system has helped the Bank strengthen its loan monitoring capabilities.

The Bank makes provision for losses arising from different types of its corporate credit assets in two ways: individually assessed provisions and collectively assessed provisions. Loss estimation is carried out on an individual basis for non-performing credit assets, whereas collective loss provisions are applied to credit assets classified as "normal" and "special mention".

Termination of loans to potential high-risk customers

The Bank has established an exit management mechanism for potential high-risk customers in order to optimise the Bank's portfolio of borrowers and prevent potential risks from materialising. Potential high-risk customers are those who are expected to suffer an adverse impact on their repayment ability or to experience adverse changes in their financial condition. For such customers, the Bank normally reduces credit limits, terminates credit lines, ceases the renewal of credit facilities and requests the provision of additional risk mitigation and other measures in accordance with the relevant provisions of their respective loan contracts.

NPL Management

The Bank proactively manages NPL to reduce the associated risks to its loan portfolio, promptly write off doubtful debts and improve its recovery on disposals.

The Non-performing Asset Disposal Committees at the Bank's head office and branch level are responsible for managing and recovering the Bank's NPL. They are also responsible for approving disposal and recovery plans for non-performing assets, including asset restructuring, settlement of loans by taking collateral, write-off of loans and other related issues. Steps taken for the recovery of NPL mainly include collection, foreclosure on collateral, legal proceedings, reduction or waiver of interest, loan restructuring, write-offs and collection by third parties.

Credit Risk Management for Retail Credit Business (Excluding Credit Cards)

Acceptance of Credit Applications and Credit Investigation

When handling a new business, a customer relationship manager of the Bank's retail credit business is required to have a face-to-face interview with the credit applicant, and all documents must be signed by the applicant in the presence of the manager. The applicant will be requested to sign an application form and provide his or her identity card, proof of income, transaction contracts, certification of ownership of assets collateralised or pledged as security, a written undertaking from the guarantor (if any) and materials proving the guarantor's creditworthiness. The Bank mainly relies on income, credit history and loan repayment ability to assess the applicant.

The Bank's retail credit business customer relationship managers are responsible for assessing retail credit applicants and completing the reporting materials required for approval. The assessment mainly focuses on the credit risk of the applicant and the valuation of the loan collateral. The Bank conducts its credit investigations through on-site investigations, telephone interview and information inquiries as well as through other channels and methods to verify the authenticity of loan-related information. For mortgage loans that are doubtful or that are particularly large, customer relationship managers may take additional verification steps by making "home visits". The appraisal of the collateral for retail loans is similar to the appraisal of the collateral for corporate loans. In the case of secured loans, the Bank usually requests an independent appraiser approved by it to appraise the security provided.

On the basis of the results of inquiries made with the personal credit database of PBOC, and in light of the results of the assessment of the applicant's risk profile and the risk mitigation factors, retail customer relationship managers will prepare reporting materials for approval.

Credit Approval

The Bank's retail credit approval is carried out by branch Chief Risk Officers or persons authorised by them within the limits of their authority, except for high-risk retail credit business applicants, which must go through panel examination and approval. The Bank's retail credit business is mainly approved by authorised individuals.

Loan Disbursement and Post-disbursement Management

After the loan applications of individual customers are approved, the authorised signatory of the Bank's business units, the borrower and the guarantor (if any), jointly enter into retail loan contracts and a disbursement will be made after the loan prerequisites are satisfied. In the Bank's retail loan monitoring, the Bank focuses on the repayment ability of the borrower and the status of assets collateralised or pledged as security and any change in their value. The Bank adopts a five-category classification for retail loans by reference to the risks associated with the loans.

Once a loan becomes overdue, the customer relationship manager or specific collectors will, in the context of the individual circumstances leading to the overdue balance and the accompanying risks, demand repayment through various actions, including the use of telephone, e-mail, letters and home visits.

Based on the actual conditions of non-performing retail loans, repayment will be demanded from the borrowers and guarantors by one or several of the following ways: collection, litigation, appointment of factoring agents or repayment of loans by assets.

Credit Card Risk Management

Identification of Credit Risk

The Credit Card Centre imposes different criteria for credit cards granted to different types of customers, making full use of risk measurement methods such as application grading models, behaviour assessment models, initial credit line models and dynamic management of credit lines so as to manage credit card risk in a quantitative manner, which enables the Bank to carry out differential management of customers with differing risk profiles and income statuses.

On this basis, the Bank decides whether a card should be issued and, if so, what type of card should be issued and what credit limit should be granted. The Bank's Credit Card Centre has 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 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 100033, PRC.

Name	Age	Position	Appointment Time
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	April 2024
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 Offering Circular:

Name	Age	Position	Appointment Time
Mr. WU Junhao........................	58	Shareholder Supervisor	November 2009
Mr. LI Yinzhong	59	Shareholder Supervisor	December 2021
Mr. WANG Zhe[(1)]	63	External Supervisor	November 2016
Mr. QIAO Zhimin....................	71	External Supervisor	September 2019
Ms. CHEN Qing	63	External Supervisor	September 2022

Name	Age	Position	Appointment Time
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 Offering Circular:

Name	Age	Position
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

Name	Age	Position
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

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:

	Renminbi per U.S. dollar Noon Buying Rate (1)			
Period	**End**	**Average (2)**	**High**	**Low**
	(RMB per U.S.$1.00)			
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.8878	7.1681	6.5208
2021	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
March	7.2203	7.2015	7.2289	7.1804

Period	Renminbi per U.S. dollar Noon Buying Rate [1] End	Average [2]	High	Low
	(RMB per U.S.$1.00)			
April	7.2401	7.2374	7.2464	7.2305
May (through 10 May 2024)	7.2260	7.2264	7.2405	7.2071

Notes:

(1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

HONG KONG

Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Notes can be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is required to be withheld in Hong Kong in respect of any gains arising from resale of the Notes.

Stamp Duty

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

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

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable it is payable by the relevant Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes, it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

Profits Tax

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

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum is revenue in nature and has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

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 ("**SAT**") issued the Circular of Full Implementation of Business Tax to VAT Reform（關於全面推開營業稅改徵增值稅試點的通知）(Caishui [2016] No. 36, "Circular 36") which confirms that business tax was replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the relevant Issuer.

(i) In the event that the Issuer is the Bank

In the event that the Issuer is the Bank, the Bank will be subject to withhold PRC income tax on the payment of interest of the Notes to non-resident Noteholders. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest, in each case, unless a lower rate is available under an applicable tax treaty. For example, the tax so charged on interests paid on the Notes to non-resident Noteholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the arrangement between the mainland China and Hong Kong for purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to such arrangement. Further, given that the Bank is located in the PRC, in the event that the Issuer is the Bank, holders of the Notes would be regarded as providing the financial services within China and consequently, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. Given that the Bank pays interest income to Noteholders who are located outside of the PRC, the Bank, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT from the payment of interest income to Noteholders who are located outside of the PRC. The Bank has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "Terms and Conditions of the Notes".

(ii) In the event that the Issuer is a Branch Issuer

In the event that the Issuer is a Branch Issuer, the relevant Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non- resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the relevant Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the relevant Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Conditions. If the Bank shall perform the obligation of paying interest of the Notes in the event and only when the relevant Branch Issuer fails to perform its obligations of paying the interest of the Notes, the Bank will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) (unless a lower rate is available under an applicable tax treaty) and PRC VAT tax at the rate of 6 per cent. of the interest component of the amount payable by the Bank to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if such capital gains are determined as income sourced in the PRC, accordingly such capital gains would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable, such as those provided under the arrangement for avoidance of double taxation between the PRC and Hong Kong. There is uncertainty as to whether gains realized on the transfer of the Notes by individual holders who are not PRC citizens or residents will be treated as income sourced within the PRC which as a result will be subject to PRC individual income tax.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically VAT prescribed under Circular 36 does not apply and the relevant Branch Issuer does not have the obligation to withhold the VAT. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC. The above statements on VAT may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law, IIT Law and the VAT reform detailed above, in the case of (i) and (ii), the relevant Branch Issuer or the Bank shall withhold EIT or IIT, (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC-resident Noteholder and the relevant Branch Issuer or the Bank shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside of the PRC. However, in the event that such relevant Branch Issuer and the Bank are required to make such a deduction or withholding (whether by way of EIT, IIT or VAT otherwise), each relevant Branch Issuer and the Bank have agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "Terms and Conditions of the Notes – Condition 14 (Taxation)".

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The relevant Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining “foreign passthru payment” and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

BANKING REGULATION AND SUPERVISION IN THE PRC

The banking industry is heavily regulated in the PRC, with NAFR and PBOC acting as the principal regulatory authorities. NAFR is primarily responsible for supervising and regulating banking institutions, and PBOC, as the central bank of the PRC, is primarily responsible for formulating and implementing monetary policies. The applicable laws and regulations governing activities in the PRC banking industry consist principally of the Law of PRC on the People's Bank of China (中國人民銀行法, the "**PBOC Law**"), the PRC Commercial Banking Law（中華人民共和國商業銀行法）, the Law on Supervision and Administration of Banking Sector（中華人民共和國銀行業監督管理法）, and rules and regulations promulgated thereunder.

Principal Regulators

Prior to April 2003, PBOC acted as both the PRC's central bank and the principal supervisor and regulator of the banking industry in the PRC. In April 2003, China Banking Regulatory Commission (the "**CBRC**") was established to serve as the primary banking industry regulator and it assumed the majority of bank regulatory functions from PBOC. PBOC retained its role as the central bank but now has a smaller role in the regulation of banking institutions. In March 2018, the PRC Government announced the merger of the CBRC with the China Insurance Regulatory Commission (the "**CIRC**"), to form the CBIRC. On 18 May 2023, the National Administration of Financial Regulation (the "**NAFR**") was officially established directly under the State Council as the primary financial industry regulator (with the exception of the securities sector) and was formed on the basis of the CBIRC.

NAFR

Functions and Powers

NAFR is the primary supervisory authority responsible for the regulation of banking institutions operating in the PRC, including branches and representative offices established by foreign financial institutions in the banking sector in the PRC.

According to the Law on Supervision and Administration of Banking Sector, the main responsibilities of CIRC include:

(i) formulating and promulgating rules and regulations governing banking institutions and their business activities;

(ii) reviewing and approving the establishment, change, dissolution and business scope of banking institutions, as well as granting banking licences for commercial banks, their branches and subsidiaries, branches and representative offices of foreign banks in the PRC;

(iii) regulating the business activities of banking institutions, including the products and services they offer;

(iv) setting qualification requirements for, and approving or overseeing the nomination of, directors and senior management personnel of banking institutions;

(v) setting guidelines and standards for internal controls, risk exposure and corporate governance of, and disclosure requirements for, banking institutions;

(vi) conducting on-site inspection and off-site surveillance of the business activities and risk exposure status of banking institutions;

(vii) monitoring the financial condition of banking institutions, including establishing standards or requirements for capital adequacy, asset quality and other financial metrics;

(viii) imposing corrective and punitive measures for violations of applicable banking regulations;

(ix) formulating prudential regulation principles of banking sector in accordance with laws and administrative regulations;

(x) working with authorities (including the PBOC and the Ministry of Finance);

(xi) to establish emergency disposal mechanisms and to deal with any emergencies in the banking sector;

(xii) guiding and conducting surveillance on the activities of banking self-disciplinary organisations; and

(xiii) carrying out international communication and cooperation activities related to supervisions of the banking sector.

Banks are also subject to the regulation of CIRC in conducting bancassurance business.

According to Institutional Reform Plan of the State Council (2018) promulgated by the National People's Congress of the PRC on 18 March 2018 and became effective on the same date, the duties of the CBRC and the CIRC are integrated to form the CBIRC as a public institution directly under the State Council.

According to Institutional Reform Plan of the State Council (2023) promulgated by the National People's Congress of the PRC on 10 March 2023 and became effective on the same date, the NAFR was formed on the basis of the CBIRC.

Examination and Supervision

NAFR, through its head office in Beijing and offices in each province, provincial-level municipality and autonomous region, monitors the operations of commercial banks and their branches through on-site inspections and off-site surveillance. On-site inspections generally include visiting the banks' premises, interviewing bank employees, senior management and directors, as well as reviewing documents and materials maintained by the banks. NAFR also conducts off-site surveillance by reviewing financial and other reports regularly submitted by the banks. Off-site surveillance generally includes the surveillance of banks' business activities and risk exposure status to evaluate and analyze the operational risk of the banks. If a banking institution is not in compliance with a regulation, NAFR has the power to issue corrective and punitive measures, including imposition of fines, suspension of certain business activities, restrictions on distributions of dividends and other income and asset transfers, closure of the institution and other penalties.

PBOC

As the central bank of the PRC, PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the financial markets. According to the PBOC Law, PBOC is empowered to:

(i) drafting and enforcing relevant rules and regulations that are related to fulfilling its functions;

(ii) formulating and implementing monetary policy in accordance with law;

(iii) issue the Renminbi and administering its flow;

(iv) regulating the inter-bank lending market and the inter-bank bond market;

(v) implementing foreign exchange management, supervising inter-bank foreign exchange market;

(vi) supervising and regulating gold market;

(vii) holding, managing and operating the state foreign exchange and gold reserves;

(viii) managing the State treasury as fiscal agent;

(ix) ensuring normal operation of the payment and settlement systems;

(x) providing guidance to anti-money laundering work in the financial sector and monitoring money-laundering related suspicious fund movement;

(xi) developing statistics system for the financial industry and responsible for the consolidation of financial statistics as well as the conduct of economic analysis and forecast for the financial industry;

(xii) participating in international financial activities at the capacity of the central bank; and

(xiii) participating financial business as prescribed by the PBOC Law to carry out monetary policies.

Other Regulatory Authorities

In addition to NAFR and PBOC, commercial banks in the PRC are also subject to the supervision and regulation by other regulatory authorities including, among others, SAFE, CSRC and NDRC. For example, in conducting foreign exchange business, banks are subject to the regulation of SAFE; in dealing with securities-related matters such as distributing securities investment funds or acting as the custodians of investment assets of securities institutional investors, banks are subject to the regulation of CSRC; and in issuing the notes overseas by the domestic banks, the domestic banks are subject to the regulation of NDRC.

Regulations Regarding Capital Adequacy

Capital Adequacy Guidelines

On 26 October 2023, the NAFR issued the Administrative Measures on the Capital of Commercial Banks (商業銀行資本管理辦法, the "**Capital Measures**") which came into effect on 1 January 2024, regulating capital adequacy ratios ("**CAR**") of PRC commercial banks. The Capital Measures, which are intended to reflect the Basel III regulatory capital requirements, set out minimum CAR requirements for commercial banks and provide detailed guidelines on the calculation of capital and risk-weighted assets. Commercial banks in the PRC are required to have a CAR of not less than 8 per cent., Tier 1 CAR of not less than 6 per cent. and Core Tier 1 CAR of not less than 5 per cent. The CARs are calculated in accordance with the Capital Measures as follows:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Tier 1 Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital - deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

$$\text{Common Equity Tier 1 Capital Adequacy Ratio} = \frac{\text{Common Equity Tier 1 Capital – deductions from corresponding capital instruments}}{\text{Risk-weighted Assets}} \times 100 \text{ per cent.}$$

In November 2012, the then CBRC further released the Guiding Opinion on Commercial Banks' Innovation on Capital Instruments (中國銀監會關於商業銀行資本工具創新的指導意見, the "2012 Guiding Opinions"), setting out the general principles of the innovation of capital instruments of commercial banks and criteria of qualified capital instruments. In 22 November 2019, the 2012 Guiding Opinions was abolished by the then CBIRC and was superseded by the Guiding Opinions on Innovation of Capital Instruments of Commercial Banks issued by CBIRC (Revised) (中國銀保監會關於商業銀行資本工具創新的指導意見(修訂).

PRC CURRENCY CONTROLS

CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled under in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow have been increased in September 2015. The PBOC permits enterprises in the Shanghai FTZ may establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pooling programme. In November 2016, PBOC Shanghai Headquarters further allowed banks in Shanghai to provide multinational enterprise groups with services of full-function onshore cash pooling, which will enable broader scope for utilising pooled cash.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as “**foreign debt**”) and lend Renminbi-denominated loans to foreign borrowers (which are referred to as “**outbound loans**”), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as “**cross-border security**”). Under current rules promulgated by SAFE and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financing denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening up. In January 2016, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There can be no assurance that the PRC Government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 8 September 2023, agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Forms of the Notes*" and "*Terms and Conditions of the Notes*". The Bank (or the relevant Branch Issuer) will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Where the relevant Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the "**Issue Price**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The relevant Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement. The relevant Issuer may agree to pay, through the Dealers, a commission to certain private banks on certain tranches of Notes based on the principal amount of Notes purchased by the clients of such private banks. Any such commissions will be described in the relevant Pricing Supplement.

The relevant Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of the relevant Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Dealer Agreement provides that the relevant Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the relevant Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies from time to time for which they have received, or will receive, fees and expenses. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the relevant Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of the Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes, which could adversely affect the trading price and liquidity of the Notes.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the relevant Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilisation or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities may only be carried on by the Stabilisation Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the relevant Issuer or its subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

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)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs 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 relevant Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the relevant Issuer, the CMI or the relevant group company. CMIs 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 relevant Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs 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.

CMIs 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 CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs 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. CMIs should not place “X-orders” into the order book.

CMIs 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.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the relevant Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are 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, CMIs (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 CMIs and investors is personal and/or confidential in nature, CMIs (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 relevant 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. CMIs 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 CMIs (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 CMIs (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.

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:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of 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.

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) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the EU Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, **provided that** any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the EU Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the relevant Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation,

provided that no such offer of Notes referred to in paragraphs (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**EU Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Prohibition of Sales to UK Retail Investors

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,

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or

  (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

If the Pricing Supplement in respect of any Notes 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:

(a) if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Article 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, **provided that** any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the relevant Issuer has consented in writing to its use for the purpose of that Public Offer;

(b) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(d) at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Notes referred to in (b) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe 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

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

(a) in relation to any Notes having a maturity of less than one year:

   (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

   (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

   - whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses; or

   - or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

   where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the relevant Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer; and

it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (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 relevant Issuer under the Programme, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

PRC

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the offer of the Notes is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of China and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent 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 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.

Taiwan

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Notes have not been, and shall not be, offered, sold or re-sold, directly or indirectly, in Taiwan, to investors other than "professional institutional investors" as defined under Paragraph 2, Article 19-7 of the Regulations Governing Securities Firms of Taiwan, currently including overseas or domestic banks, insurance companies, bills finance companies, securities firms, fund management companies, government investment institutions, government funds, pension funds, mutual funds, unit trusts, securities investment trust enterprises, securities investment consulting enterprises, trust enterprises, futures commission merchants, futures service enterprises, and other institutions approved by the Financial Supervisory Commission of Taiwan.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required.

These selling restrictions may be modified by the agreement of the relevant Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. LISTING

Application has been made to the 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 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). Admission to the HKSE and quotation of any Notes on the HKSE is not to be taken as an indication of the merits of the Programme, the Notes, the relevant Issuer, the Bank or the Group. The HKSE assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

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 relevant Issuer has obtained, or will obtain from time to time, all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of their respective obligations under the Notes. In connection with Notes issued by the relevant Issuer, the relevant Issuer will apply for all necessary registration with respect to the use of proceeds of Notes or the payment of principal and interest in accordance with applicable laws. The repayment of the principal and/or interest of the notes by such Issuer may be adversely affected in the event any required registration is not obtained. Each of the Bank and the relevant Issuer does not however expect that any registration would be refused.

3. LEGAL AND ARBITRATION PROCEEDINGS

None of the relevant Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the relevant Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

4. SIGNIFICANT/MATERIAL CHANGE

Other than as set out above, 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 relevant Issuer, the Bank or the Group.

5. AUDITOR

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2022 and 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 Bank 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 2022 and 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; and

(vii) the Agency Agreement (which contains the forms of the Notes in global and definitive form).

7. CLEARING OF THE NOTES

The Legal Entity Identifier of the Bank is 549300U6PKQ4H1P34E17. The Notes may be accepted for clearance through Euroclear, Clearstream and CMU. The appropriate CMU instrument number, common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

8. NATIONAL DEVELOPMENT AND REFORM COMMISSION FILINGS

Where applicable for a relevant Tranche of Notes, registration will be completed or caused to be completed by the relevant Issuer pursuant to the NDRC Measures. After the issuance of such relevant Tranche of Notes, the relevant 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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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.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses for loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans and advances with longer remaining periods to maturity; • Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights; • 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. 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. Relevant disclosures are included in Note III 1, Note V 16 and Note V 50(a) to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • In response to the macroeconomic changes, 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. • 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 • 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.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses for loans and advances to customers (continued)	
	2. Design and operating effectiveness of key controls: • 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 • 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. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and the impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 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. Relevant disclosures are included in Note III 2 and Note V 51(c) to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to the valuation of financial instruments. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of and disclosures about structured entities	
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. 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. Relevant disclosures are included in Note III 6 and Note V 43 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. We assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

Certified Public Accountants
Hong Kong
27 March 2024

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2023	2022
Interest income		250,809	241,309
Interest expense		(143,329)	(127,654)
Net interest income	1	107,480	113,655
Fee and commission income		26,724	30,077
Fee and commission expense		(3,026)	(3,333)
Net fee and commission income	2	23,698	26,744
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		1,784	1,189
Operating income		145,735	151,865
Operating expenses	5	(43,909)	(45,227)
Credit impairment losses	8	(52,075)	(50,600)
Other impairment losses		(30)	(9)
Operating profit		49,721	56,029
Gains/(losses) on investment of joint ventures		36	(63)
Profit before tax		49,757	55,966
Income tax	9	(8,681)	(10,926)
Net profit		41,076	45,040
Net profit attributable to:			
Equity shareholders of the Bank		40,792	44,807
Non-controlling interests		284	233
		41,076	45,040
Earnings per share			
Basic earnings per share (in RMB/share)	10	0.62	0.74
Diluted earnings per share (in RMB/share)	10	0.61	0.67

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	2023	2022
Net profit		41,076	45,040
Other comprehensive income, net of tax:			
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)	(2)	–
Subtotal		(188)	(135)
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		49	180
Subtotal		3,024	(3,605)
Other comprehensive income, net of tax		2,836	(3,740)
Total comprehensive income		43,912	41,300
Total comprehensive income attributable to:			
Equity shareholders of the Bank		43,627	41,065
Non-controlling interests		285	235
		43,912	41,300

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

Consolidated Statement of Financial Position

As at 31 December 2023
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2023	31 December 2022
Assets			
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
Total assets		6,772,796	6,300,510
Liabilities and equity			
Liabilities			
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
Total liabilities		6,218,011	5,790,497

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

	Note V	31 December 2023	31 December 2022
Equity			
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		199,282	179,299
Total equity attributable to equity shareholders of the Bank		552,391	507,883
Non-controlling interests		2,394	2,130
Total equity		554,785	510,013
Total liabilities and equity		6,772,796	6,300,510

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.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

(Expressed in millions of Renminbi, unless otherwise stated)

2023		Attributable to equity shareholders of the Bank											
			Other equity instruments										
	Note V	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 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

2022		Attributable to equity shareholders of the Bank											
			Other equity instruments										
	Note V	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 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.

Consolidated Cash Flow Statement

For the year ended 31 December 2022
(Expressed in millions of Renminbi, unless otherwise stated)

	2023	2022
Cash flows from operating activities		
Profit before tax	49,757	55,966
Adjustments for:		
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
	64,587	72,140
Changes in operating assets		
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
	(261,807)	(354,707)
Changes in operating liabilities		
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	(1,612)	17,371
	193,606	226,169
Net cash used in operating activities	(3,614)	(56,398)

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

Consolidated Cash Flow Statement

For the year ended 31 December 2023
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2023	2022
Cash flows from investing activities			
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		(5,154)	(4,667)
Net cash used in investing activities		(205,825)	(103,094)
Cash flows from financing activities			
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)
Net cash from financing activities		196,019	70,566
Effect of foreign exchange rate changes on cash and cash equivalents		658	3,007
Net decrease in cash and cash equivalents	46(a)	(12,762)	(85,919)
Cash and cash equivalents as at 1 January		136,664	222,583
Cash and cash equivalents as at 31 December	46(b)	123,902	136,664
Interest received		192,339	186,631
Interest paid (excluding interest expense on debt securities issued)		(116,483)	(92,068)

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 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.

(Expressed in millions of Renminbi, unless otherwise stated)

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	*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*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

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.

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.

II MATERIAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2023 (continued)

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.

1.2 Standards and amendments that are not yet effective and have not been early adopted by the Group in 2023

		Effective for annual periods beginning on or after
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*	1 January 2024
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*	1 January 2024
Amendments to IAS 21	*Lack of Exchangeability*	1 January 2025
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	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.

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)

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.

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.

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.

II MATERIAL ACCOUNTING POLICIES (CONTINUED)

4 Foreign currency translation (continued)

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.

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.

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.

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 MATERIAL 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)).

II MATERIAL 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 MATERIAL 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.

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.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

II MATERIAL 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 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.

II MATERIAL 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.

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.

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 MATERIAL 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.

II MATERIAL 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 MATERIAL 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 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.

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.

18.3 Other income

Other income is recognised on an accrual basis.

II MATERIAL 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 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.

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.

II MATERIAL ACCOUNTING POLICIES (CONTINUED)

20 Deferred tax (continued)

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
- 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.

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

	Note	2023	2022
Interest income arising from			
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		57,568	53,358
Subtotal		250,809	241,309
Interest expenses arising from			
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		25,040	23,120
Subtotal		143,329	127,654
Net interest income		107,480	113,655

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).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2023	2022
Fee and commission income		
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
Subtotal	26,724	30,077
Fee and commission expense		
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
Subtotal	3,026	3,333
Net fee and commission income	23,698	26,744

3 Net trading gains

	2023	2022
Trading financial instruments		
– Derivatives	368	191
– Debt securities	2,825	2,155
Subtotal	3,193	2,346
Precious metal contracts	40	124
Total	3,233	2,470

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	2023	2022
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	146	(774)
Total	8,926	6,416

5 Operating expenses

	Note	2023	2022
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		2,356	2,392
Subtotal		21,716	22,237
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		341	336
Subtotal		7,638	7,327
Tax and surcharges		1,716	1,766
Other general and administrative expenses	(a)	12,839	13,897
Total		43,909	45,227

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).*

(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 for directors and supervisors who held office during the reporting year are as follows:

		2023							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors									
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
Non-executive directors									
Wu Lijun	(ii)	–	–	–	–	–	–	–	–
Cui Yong	(ii)	–	–	–	–	–	–	–	–
Yao Wei		–	–	–	–	–	–	–	–
Zhu Wenhui	(ii)	–	–	–	–	–	–	–	–
Li Wei		–	–	–	–	–	–	–	–
Independent non-executive directors									
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)	–	–	–	–	–	–	–	–

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)

		2023							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Supervisors									
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
Former non-executive directors									
Wang Jiang	(ii)	–	–	–	–	–	–	–	–
Yao Zhongyou	(ii)	–	–	–	–	–	–	–	–
Liu Chong	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive director									
Wang Liguo	(ii)	350	–	–	–	350	–	–	350
Former supervisor									
Lu Hong	(ii)	–	939	282	–	1,221	112	126	1,459

(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 for directors and supervisors who held office during the reporting year are as follows: (continued)

	2022							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors								
Qu Liang	–	1,537	551	–	2,088	141	139	2,368
Wang Zhiheng	–	–	–	–	–	–	–	–
Non-executive directors								
Wang Jiang	–	–	–	–	–	–	–	–
Wu Lijun	–	–	–	–	–	–	–	–
Yao Zhongyou	–	–	–	–	–	–	–	–
Yao Wei	–	–	–	–	–	–	–	–
Liu Chong	–	–	–	–	–	–	–	–
Li Wei	–	–	–	–	–	–	–	–
Independent non-executive directors								
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

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							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Supervisors								
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
Former executive director								
Fu Wanjun	–	292	219	–	511	41	127	679
Former non-executive director								
Li Xiaopeng	–	–	–	–	–	–	–	–
Former independent non-executive director								
Xu Hongcai	36	–	–	–	36	–	–	36
Former supervisors								
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 Liguo 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.

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

	2023	2022
Salaries and other emoluments	2,693	2,749
Discretionary bonuses	22,872	23,275
Contributions to pension schemes	296	273
Others	964	933
Total	26,825	27,230

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:

	2023	2022
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

	2023	2022
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)
Total	52,075	50,600

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Income tax

(a) Income tax:

	Note V	2023	2022
Current tax		11,113	22,286
Deferred tax	23(b)	(2,260)	(11,607)
Adjustments for prior year	9(b)	(172)	247
Total		8,681	10,926

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2023	2022
Profit before tax		49,757	55,966
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		12,439	13,992
Effect of different tax rates applied by certain subsidiaries		(5)	(2)
Non-deductible expenses and others		3,896	2,725
Non-taxable gains			
– Non-taxable income	(i)	(7,477)	(6,036)
Subtotal		8,853	10,679
Adjustments for prior year		(172)	247
Income tax		8,681	10,926

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.

	2023	2022
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)

	2023	2022
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

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.

	2023	2022
Net profit attributable to ordinary shareholders of the Bank	35,981	39,996
Add: Interest expense on convertible bonds, net of tax	272	794
Net profit used to determine diluted earnings per share	36,253	40,790
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)	1,484	6,817
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,306	60,849
Diluted earnings per share (in RMB/share)	0.61	0.67

(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 2023	31 December 2022
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		2,717	3,522
Subtotal		349,045	356,285
Accrued interest		139	141
Total		349,184	356,426

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 2023	*31 December 2022*
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 2023	31 December 2022
Deposits in Chinese Mainland		
– Banks	28,412	17,532
– Other financial institutions	709	1,022
Deposits overseas		
– Banks	11,192	13,935
Subtotal	40,313	32,489
Accrued interest	64	19
Total	40,377	32,508
Less: Provision for impairment losses	(435)	(435)
Net balances	39,942	32,073

13 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2023	31 December 2022
Placements in Chinese Mainland		
– Banks	8,243	6,068
– Other financial institutions	111,172	85,049
Placements overseas		
– Banks	22,782	38,727
Subtotal	142,197	129,844
Accrued interest	371	379
Total	142,568	130,223
Less: Provision for impairment losses	(326)	(244)
Net balances	142,242	129,979

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting

(a) Analysed by nature of contract

	31 December 2023		
		Fair value	
	Notional amount	Assets	Liabilities
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)
Total	1,849,459	13,324	(13,946)

	31 December 2022		
		Fair value	
	Notional amount	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	–	–
Total	1,729,758	15,730	(14,261)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amount

	31 December 2023	31 December 2022
Counterparty default risk-weighted assets		
– Interest rate derivatives	475	1,390
– Currency derivatives	1,418	2,652
Credit value adjustment risk-weighted assets	2,309	4,443
Total	4,202	8,485

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.

(Expressed in millions of Renminbi, unless otherwise stated)

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 2023	31 December 2022
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	67,500	28

(b) Analysed by type of collateral held

	31 December 2023	31 December 2022
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	67,500	28

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers

(a) Analysed by nature

	31 December 2023	31 December 2022
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	2,068,722	1,838,407
Discounted bills	636	497
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	433,547	463,729
Subtotal	1,512,616	1,519,119
Loans and advances to customers at fair value through other comprehensive income		
Corporate loans and advances	97,118	93,043
Discounted bills	107,862	121,210
Subtotal	204,980	214,253
Total	3,786,954	3,572,276
Accrued interest	11,342	10,255
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	(85,371)	(83,180)
Net loans and advances to customers	3,712,925	3,499,351
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(690)	(776)

(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 2023		
	Amount	Percentage	Loans and advances secured by collateral
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	2,165,840	57.19%	560,380
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	11,342		
Gross loans and advances to customers	3,798,296		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(85,371)		
Net loans and advances to customers	3,712,925		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(690)		

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by industry (continued)

	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)		

(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 (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	8,564	(2,564)	(1,099)	(2,932)	2,061	4,030

(c) Analysed by type of collateral

	31 December 2023	31 December 2022
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	325,857	346,090
Total	3,786,954	3,572,276
Accrued interest	11,342	10,255
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	(85,371)	(83,180)
Net loans and advances to customers	3,712,925	3,499,351
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(690)	(776)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Analysed by geographical distribution

	31 December 2023		
	Loan balance	Percentage	Loans and advances secured by collateral
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
Total	3,786,954	100.00%	1,536,402

	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
Total	3,572,276	100.00%	1,534,818

(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 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)
Total	29,233	(21,465)	(15,179)	(17,379)

	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)
Total	28,763	(30,714)	(14,079)	(17,895)

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 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.

(Expressed in millions of Renminbi, unless otherwise stated)

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 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	3,600,805	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	3,578,207	116,559	18,159	3,712,925	

	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	3,389,741	90,710	18,900	3,499,351	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	Total
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	(30,599)	(23,766)	(31,006)	(85,371)

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	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	(36,726)	(17,680)	(28,774)	(83,180)

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).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	31 December 2023	31 December 2022
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 2023	31 December 2022
Finance lease receivables	115,776	126,223
Less: Unearned finance lease income	(12,943)	(14,945)
Present value of finance lease receivables	102,833	111,278
Accrued interest	837	1,122
Less: Impairment losses	(4,512)	(4,388)
Net balance	99,158	108,012

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2023	31 December 2022
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	10,059	8,303
Total	115,776	126,223

18 Financial investments

	Notes	31 December 2023	31 December 2022
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)	1,246,387	1,192,273
Total		2,241,462	2,046,612

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 2023	31 December 2022
Debt instruments held for trading	(i)	106,408	109,640
Other financial assets at fair value through profit or loss	(ii)	326,488	293,977
Total		432,896	403,617

(i) Debt instruments held for trading

	Notes	31 December 2023	31 December 2022
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.

(Expressed in millions of Renminbi, unless otherwise stated)

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 2023	31 December 2022
Fund investments	296,565	214,031
Equity instruments	4,341	5,059
Others	25,582	74,887
Total	326,488	293,977

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	31 December 2023	31 December 2022
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)	561,047	449,596
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		561,047	449,596

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			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	Total
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	(433)	(107)	(753)	(1,293)

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	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)

(c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2023	31 December 2022
Listed	(i)	30	24
Unlisted		1,102	1,102
Total	(ii)	1,132	1,126

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).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost

	Notes	31 December 2023	31 December 2022
Debt securities and asset-backed instruments	(i)	1,199,678	1,105,621
Others	(ii)	43,327	79,789
Subtotal		1,243,005	1,185,410
Accrued interest		18,679	17,745
Total		1,261,684	1,203,155
Less: Provision for impairment losses		(15,297)	(10,882)
Net balance		1,246,387	1,192,273
Listed	(iii)	205,136	217,335
Of which: listed in Hong Kong		25,104	29,541
Unlisted		1,022,572	957,193
Subtotal		1,227,708	1,174,528
Accrued interest		18,679	17,745
Net balance		1,246,387	1,192,273

(i) Debt securities and asset-backed instruments measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	31 December 2023	31 December 2022
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		1,214,074	1,118,734
Fair value		1,241,475	1,135,161

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).

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:***

	2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	Total
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	(711)	(130)	(14,456)	(15,297)

	2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL (without credit impairment)	Stage 3 Lifetime ECL (with credit impairment)	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)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investment in subsidiaries and joint ventures

(a) Investments in subsidiaries

	31 December 2023	31 December 2022
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

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

	2023	2022
As at 1 January	165	256
Decreased investment	–	(47)
Investment gains/(losses) under the equity method	36	(63)
Foreign currency conversion difference	3	19
As at 31 December	204	165

20 Property and equipment

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
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	16,450	11,510	1,603	10,226	5,001	44,790
Accumulated depreciation						
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	(5,832)	(1,807)	–	(7,208)	(3,942)	(18,789)
Provision for impairment						
As at 1 January 2023	(163)	–	–	–	–	(163)
As at 31 December 2023	(163)	–	–	–	–	(163)
Net book value						
As at 31 December 2023	10,455	9,703	1,603	3,018	1,059	25,838

(Expressed in millions of Renminbi, unless otherwise stated)

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
Cost						
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
Accumulated depreciation						
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)
Provision for impairment						
As at 1 January 2022	(163)	–	–	–	–	(163)
As at 31 December 2022	(163)	–	–	–	–	(163)
Net book value						
As at 31 December 2022	8,778	9,687	2,832	3,699	1,178	26,174

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 2023	31 December 2022
Held in Chinese Mainland		
– Medium term leases (10 to 50 years)	9,846	8,173
– Short term leases (less than 10 years)	609	605
Total	10,455	8,778

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Right-of-use Assets

	Premises	Transportation and others	Total
Cost			
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	18,926	36	18,962
Accumulated depreciation			
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	(8,535)	(19)	(8,554)
Net book value			
As at 31 December 2023	10,391	17	10,408

	Premises	Transportation and others	Total
Cost			
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
Accumulated depreciation			
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)
Net book value			
As at 31 December 2022	10,254	27	10,281

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Goodwill

	31 December 2023	31 December 2022
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 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:

	31 December 2023	31 December 2022
Deferred income tax assets	36,153	34,855
Deferred income tax liabilities	(2,179)	(2,152)
Total	33,974	32,703

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	23,623	5,906	22,183	5,546
Total	144,699	36,153	139,419	34,855
Deferred income tax liabilities				
– Fair value changes	(2,787)	(697)	(32)	(8)
– Others	(5,927)	(1,482)	(8,576)	(2,144)
Total	(8,714)	(2,179)	(8,608)	(2,152)

(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	29,550	–	4,424	33,974

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax (continued)

	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

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.*

24 Other assets

	Note	31 December 2023	31 December 2022
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)	2,946	3,147
Total		28,438	34,508

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.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

26 Due to the central bank

	31 December 2023	31 December 2022
Due to the central bank	98,552	63,142
Accrued interest	1,081	244
Total	99,633	63,386

(Expressed in millions of Renminbi, unless otherwise stated)

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 2023	31 December 2022
Deposits in Chinese Mainland		
– Banks	153,897	160,959
– Other financial institutions	396,375	376,763
Deposits overseas		
– Banks	798	2,019
Subtotal	551,070	539,741
Accrued interest	1,256	927
Total	552,326	540,668

28 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2023	31 December 2022
Placements in Chinese Mainland		
– Banks	111,593	115,365
– Other financial institutions	5,495	6,605
Placements overseas		
– Banks	76,212	65,745
Subtotal	193,300	187,715
Accrued interest	905	886
Total	194,205	188,601

29 Financial liabilities at fair value through profit or loss

	31 December 2023	31 December 2022
Short position in debt securities	–	27
Total	–	27

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 2023	31 December 2022
In Chinese Mainland		
– Banks	51,038	74,624
– Other financial institutions	–	74
Overseas		
– Banks	21,616	17,947
– Other financial institutions	274	215
Subtotal	72,928	92,860
Accrued interest	187	120
Total	73,115	92,980

(b) Analysed by collateral

	31 December 2023	31 December 2022
Debt securities	71,916	89,892
Bank acceptances	1,012	2,968
Subtotal	72,928	92,860
Accrued interest	187	120
Total	73,115	92,980

31 Deposits from customers

	31 December 2023	31 December 2022
Demand deposits		
– Corporate customers	965,167	823,302
– Individual customers	249,402	254,332
Subtotal	1,214,569	1,077,634
Time deposits		
– Corporate customers	1,451,942	1,552,167
– Individual customers	945,213	807,037
Subtotal	2,397,155	2,359,204
Pledged deposits	412,129	409,978
Other deposits	1,019	1,078
Subtotal deposits from customers	4,024,872	3,847,894
Accrued interest	69,656	69,274
Total	4,094,528	3,917,168

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32 Accrued staff costs

	Notes	31 December 2023	31 December 2022
Salary and welfare payable		16,051	15,528
Pension and annuity payable	(a)	313	319
Supplementary retirement benefits payable	(b)	3,700	3,159
Total		20,064	19,006

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.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary, Wills Towers Watson Management Consulting (Shenzhen) Co., Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2023	*31 December 2022*
Present value of supplementary retirement benefits liability	*3,700*	*3,159*

(ii) Movements of SRB of the Group are as follows:

	2023	*2022*
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	*(20)*	*(22)*
As at 31 December	*3,700*	*3,159*

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)

Notes: (continued)

(b) *Supplementary retirement benefits ("SRB") (continued)*

(iii) *Principal actuarial assumptions of the Group are as follows:*

	31 December 2023	*31 December 2022*
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:

	31 December 2023	
	Increases	*Decreases*
Discount rate (1% movement)	*(1,097)*	*1,209*
Medical cost growth rate (1% movement)	*1,186*	*(832)*

	31 December 2022	
	Increases	*Decreases*
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.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Taxes payable

	31 December 2023	31 December 2022
Income tax payable	4,334	7,542
Value added tax payable	2,554	3,068
Others	416	531
Total	7,304	11,141

34 Lease liabilities

	31 December 2023	31 December 2022
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	11,575	11,439
Lease liabilities	10,349	10,151

35 Debt securities issued

	Notes	31 December 2023	31 December 2022
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		4,366	3,354
Total		1,099,326	875,971

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(a) Financial bonds issued

	Notes	31 December 2023	31 December 2022
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		233,363	130,346

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.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(a) Financial bonds issued (continued)

Notes: (continued)

(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) 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).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(b) Tier-two capital bonds issued

	Notes	31 December 2023	31 December 2022
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	–
Total		61,593	46,596

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 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).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(c) Convertible bonds issued

	31 December 2023	31 December 2022
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:

	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 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 year		(7,152)	(1,251)	(8,403)
Conversion amount during the year	(ii)	(16,930)	(2,912)	(19,842)
Balance as at 31 December 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).*

(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).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(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.

(f) Medium term notes

	Notes	31 December 2023	31 December 2022
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		30,792	20,476

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).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other liabilities

	Notes	31 December 2023	31 December 2022
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
Total		53,215	57,137

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 2023	*31 December 2022*
Expected credit losses on off-balance sheet items	*1,845*	*1,598*
Litigation losses	*133*	*157*
Others	*90*	*128*
Total	*2,068*	*1,883*

The reconciliation of the provision was as follows:

	2023	*2022*
As at 1 January	*1,883*	*2,213*
Net charge for the year	*186*	*(319)*
Payments for the year	*(1)*	*(11)*
As at 31 December	*2,068*	*1,883*

(Expressed in millions of Renminbi, unless otherwise stated)

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 2022	The number of shares increased by conversion of convertible bonds into A shares	31 December 2023
Ordinary shares listed in Chinese Mainland (A share)	41,353	5,054	46,407
Ordinary shares listed in Hong Kong (H share)	12,679	–	12,679
Total	54,032	5,054	59,086

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 2023	31 December 2022
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))		39,993	39,993
Total		104,899	109,062

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1 2015-6-19	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	

(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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(b) Main clauses of preference shares (continued)

(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 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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(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

(d) Main clauses of perpetual bonds

With the approvals by the relevant regulatory authorities in China, the Bank issued RMB40 billion of non-dated capital bonds (the "Bonds") which are written down in the domestic interbank bond market on 18 September 2020, and completed the issuance on 22 September 2020. The denomination of the Bonds is RMB100 each, and the annual coupon rate of the Bonds for the first five years is 4.60%, which is reset every 5 years.

The duration of the above bonds is the same as the period of continuing operation of the Bank. Subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, the Bank may redeem the above bonds in whole or in part on each distribution payment date 5 years after the issuance date of the above bonds. Upon the occurrence of a trigger event for the write-downs, with the consent of the CBIRC and without the consent of the bondholders, the Bank has the right to write down all or part of the above bonds issued and existing at that time in accordance with the total par value. The claims of the holders of the above bonds will be subordinated to the claims of depositors, general creditors and subordinated creditors; and shall rank in priority to the claims of shareholders and will rank pari passu with the claims under any other additional tier 1 capital instruments of the Bank that rank pari passu with the above bonds.

The above bonds are paid with non-cumulative interest. The Bank shall have the right to cancel distributions on the above bonds in whole or in part and such cancellation shall not constitute a default. The Bank may at its discretion utilise the proceeds from the cancelled distributions to meet other obligations of maturing debts. But the Bank shall not distribute profits to ordinary shareholders until the resumption of full interest payment.

Capital raised from the issuance of the above bonds, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier one capital and to increase its capital adequacy ratio.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other equity instruments (continued)

(e) Interests attributable to equity instruments' holders

Items	31 December 2023	31 December 2022
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 2023	31 December 2022
Share premium	74,473	58,434

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Other comprehensive income

	31 December 2023	31 December 2022
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	20	16
Remeasurement of a defined benefit plan	(895)	(703)
Subtotal	(875)	(687)
Items that will be reclassified to profit or loss		
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	1,529	1,544
Cash flow hedge	4	–
Exchange differences on translation of financial statements	65	16
Subtotal	3,120	97
Total	2,245	(590)

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 4.80%;

– 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.

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.

(Expressed in millions of Renminbi, unless otherwise stated)

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 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.

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).

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 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.

(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.

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.

(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 2023	31 December 2022
Total common equity tier-one capital	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
Common equity tier-one capital deductions	(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)
Net common equity tier-one capital	443,100	399,396
Additional tier-one capital	105,059	105,063
Additional tier-one capital instruments	104,899	104,899
Qualifying portions of non-controlling interests	160	164
Tier-one capital net	548,159	504,459
Tier-two capital	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
Net capital base	651,382	593,218
Total risk-weighted assets	4,824,278	4,579,772
Common equity tier-one capital adequacy ratio	9.18%	8.72%
Tier-one capital adequacy ratio	11.36%	11.01%
Capital adequacy ratio	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 2023	31 December 2022
Cash and cash equivalents as at 31 December	123,902	136,664
Less: Cash and cash equivalents as at 1 January	136,664	222,583
Net decrease in cash and cash equivalents	(12,762)	(85,919)

(b) Cash and cash equivalents

	31 December 2023	31 December 2022
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	18,686	34,417
Total	123,902	136,664

(c) Reconciliation of liabilities arising from financing activities

	Debt securities issued	Lease liabilities	Dividend payables	Total
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	1,099,326	10,349	23	1,109,698

	Debt Securities issued	Lease liabilities	Dividend payables	Total
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	875,971	10,151	23	886,145

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., Ltd.
- 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)

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).

(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:

	2023	2022
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 2023	31 December 2022
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
Total	378,991	375,694
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
Total	257,847	315,957

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	Affiliated companies	Others	Total
Transactions with related parties for year ended 31 December 2023:				
Interest income	–	1,383	982	2,365
Interest expense	260	658	605	1,523

(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)

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
Total	222	28,768	42,162	71,152
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
Total	14,304	26,965	19,436	60,705
Significant other sheet items with related parties as at 31 December 2023:				
Guarantee granted (Note)	180	–	–	180

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Related party relationships and transactions (continued)

(b) Related party transactions (continued)

(iii) Affiliated companies and other related parties (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting year are summarised as follows: (Continued)

	China Everbright Group	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
Total	272	28,503	12,408	41,183
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
Total	5,164	31,537	41,028	77,729
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.

(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

	2023 RMB'000	2022 RMB'000
Remuneration	21,085	24,427
– 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 2023 RMB'000	31 December 2022 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	4,581	8,199
Maximum aggregate amount of relevant loans outstanding during the year	4,956	8,308

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Statement of financial position of the Bank

	Note V	31 December 2023	31 December 2022
Assets			
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
Total assets		6,618,931	6,169,066

(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 2023	31 December 2022
Liabilities and equity		
Liabilities		
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
Total liabilities	6,079,600	5,670,690
Equity		
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
Total equity	539,331	498,376
Total liabilities and equity	6,618,931	6,169,066

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities

	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)	22,057	(10,455)	(11,602)	–	–
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	1,715	21	1	47	1,784
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	23,999	6,741	20,133	(1,116)	49,757
Other segment information					
– Depreciation and amortisation	3,024	3,443	263	–	6,730
– Capital expenditure	1,967	2,998	189	–	5,154

	31 December 2023				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,637,211	1,676,631	2,418,605	5,094	6,737,541
Segment liabilities	3,050,710	1,338,226	1,826,215	2,837	6,217,988

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	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/(Losses) 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

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2023	31 December 2022
Segment assets		6,737,541	6,266,526
Goodwill	22	1,281	1,281
Deferred tax assets	23	33,974	32,703
Total assets		6,772,796	6,300,510
Segment liabilities		6,217,988	5,790,474
Dividend payables	36	23	23
Total liabilities		6,218,011	5,790,497

(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
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))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas	Total
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.

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 stablished standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, 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.

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.

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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
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

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:

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)

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.

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;

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.

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

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 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.

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
Assets					
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
Total	6,069,557	134,083	30,341	132,087	6,366,068

	31 December 2022				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
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
Total	5,648,358	105,946	37,289	145,593	5,937,186

Note: Others comprise derivative financial assets and assets from wealth management business, deposit margin, interests receivable and other receivables recorded in other assets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(a) Credit risk (continued)

(ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2023	31 December 2022
Impaired		
Carrying amount	300	300
Provision for impairment losses	(196)	(166)
Subtotal	104	134
Neither overdue nor impaired		
– grade A to AAA	244,359	158,470
– grade B to BBB	285	900
– unrated (Note)	4,936	2,576
Subtotal	249,580	161,946
Total	249,684	162,080

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 2023	31 December 2022
Impaired		
Carrying amount	26,018	27,292
Provision for impairment losses	(14,456)	(9,501)
Subtotal	11,562	17,791
Neither overdue nor impaired		
Bloomberg Composite		
– 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	80,541	74,517
Other agency ratings		
– 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	1,834,094	1,679,424
Total	1,926,197	1,771,732

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.

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 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.

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						
	Effective interest rate (*)	Total	Non-Interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.50%	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
Total assets	N/A	6,772,796	485,453	3,392,260	1,187,155	1,329,104	378,824

	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
Liabilities							
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
Total liabilities	N/A	6,218,011	148,591	3,031,826	1,712,958	1,313,036	11,600
Asset-liability gap	N/A	554,785	336,862	360,434	(525,803)	16,068	367,224

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023
(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: (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
Assets							
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
Total assets	N/A	6,300,510	450,736	3,206,348	1,132,266	1,084,118	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
Liabilities							
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
Total liabilities	N/A	5,790,497	162,732	3,112,997	1,454,743	1,054,917	5,108
Asset-liability gap	N/A	510,013	288,004	93,351	(322,477)	29,201	421,934

* *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 RMB2,404 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.

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.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows:

	31 December 2023			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
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
Total assets	6,414,066	223,355	135,375	6,772,796
Liabilities				
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
Total liabilities	5,876,305	248,292	93,414	6,218,011
Net position	537,761	(24,937)	41,961	554,785
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			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
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
Total assets	5,935,701	242,225	122,584	6,300,510
Liabilities				
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
Total liabilities	5,418,246	286,354	85,897	5,790,497
Net position	517,455	(44,129)	36,687	510,013
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.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group 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 2023	31 December 2022
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.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2023							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	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
Total assets	424,825	827,879	304,382	334,398	1,382,424	2,248,695	1,250,193	6,772,796

	31 December 2023							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Liabilities								
Due to the central bank	–	–	–	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
Total liabilities	–	1,853,251	557,050	682,756	1,706,993	1,403,859	14,102	6,218,011
Net position	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

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							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	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
Total assets	442,432	781,048	245,527	294,704	1,304,207	1,929,880	1,302,712	6,300,510

	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
Liabilities								
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
Total liabilities	–	1,716,117	537,470	798,116	1,486,815	1,241,396	10,583	5,790,497
Net position	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

(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 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
Non-derivative financial liabilities								
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
Total non-derivative financial liabilities	6,174,629	6,296,180	1,823,910	560,551	691,081	1,747,786	1,455,451	17,401
Derivative financial liabilities								
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)	–
Total derivative financial liabilities		168,657	–	108,435	44,009	15,986	227	–

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
Non-derivative financial liabilities								
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
Total non-derivative financial liabilities	5,744,206	5,843,998	1,684,491	541,148	816,686	1,524,955	1,263,136	13,582
Derivative financial liabilities								
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)	–
Total derivative financial liabilities		192,530	–	107,383	34,621	50,527	(1)	–

This analysis of the financial instruments by contractual undiscounted cash flows might diverge from actual results.

(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 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			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	376,524	525	2,261	379,310
Guarantees, acceptances and other credit commitments	914,859	42,911	1,101	958,871
Total	1,291,383	43,436	3,362	1,338,181

	31 December 2022			
	Within one year	Between one year and five years	More than five years	Total
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
Total	1,329,822	46,996	2,606	1,379,424

(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;

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.

(Expressed in millions of Renminbi, unless otherwise stated)

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, equity instruments at fair value through other comprehensive income and derivative financial assets 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 2023	31 December 2022	31 December 2023	31 December 2022
Financial assets				
Debt securities and asset-backed instruments measured at amortised cost	1,214,074	1,118,734	1,241,475	1,135,161
Financial liabilities				
Debt securities issued	1,099,326	875,971	1,088,390	859,788

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.

(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

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			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	8,468	–	8,468
– Interest rate derivatives	–	4,856	–	4,856
Loan and advances to customers	–	204,980	–	204,980
Financial assets at fair value through profit or loss				
– 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
Total	237,087	964,948	11,344	1,213,379
Liabilities				
Derivative financial liabilities				
– Currency derivatives	–	9,231	–	9,231
– Interest rate derivatives	2	4,713	–	4,715
Total	2	13,944	–	13,946

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 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,961	–	10,961
– Interest rate derivatives	1	4,768	–	4,769
Loan and advances to customers	–	214,253	–	214,253
Financial assets at fair value through profit or loss				
– 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	274,741	800,464	9,117	1,084,322
Liabilities				
Financial liabilities at fair value through profit or loss	27	–	–	27
Derivative financial liabilities				
– Currency derivatives	–	9,743	–	9,743
– Interest rate derivatives	–	4,518	–	4,518
Total	27	14,261	–	14,288

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2023 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 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	–	–

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			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities and asset-backed instruments measured at amortised cost	–	1,241,463	12	1,241,475
Financial liabilities				
Debt securities issued	–	1,088,390	–	1,088,390

	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities and asset-backed instruments measured at amortised cost	217,623	917,538	–	1,135,161
Financial liabilities				
Debt securities issued	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.

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 2023	31 December 2022
Entrusted loans	89,823	92,724
Entrusted funds	89,823	92,724

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2023	31 December 2022
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	347,576	345,112
Subtotal	379,310	367,128
Acceptances	669,058	724,330
Letters of guarantee	128,239	116,297
Letters of credit	161,394	171,484
Guarantees	180	185
Total	1,338,181	1,379,424

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 2023	31 December 2022
Credit risk-weighted amount of credit commitments	402,069	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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Commitments and contingent liabilities (continued)

(c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2023	31 December 2022
Contracted but not paid		
– Purchase of property and equipment	2,330	3,939
Approved but not contracted for		
– Purchase of property and equipment	6,286	5,708
Total	8,616	9,647

(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 2023	31 December 2022
Redemption commitments	4,022	4,320

(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 2023
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 2023	Average for the year ended 31 December 2023	As at 31 December 2022	Average for the year ended 31 December 2022
RMB current assets to RMB current liabilities	76.71%	67.23%	74.44%	70.72%
Foreign current assets to foreign current liabilities	77.51%	91.29%	123.89%	136.46%

* *Liquidity ratio is calculated in accordance with the banking level.*

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%.

Indicators	31 December 2023
Available and stable funds	3,914,733
Required stable funds	3,575,681
Net stable funding ratio	109.48%

Unaudited Supplementary Financial Information

(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	361	7,837	38,582	46,780
Net structural position	–	344	197	541

	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	(357)	6,711	21,945	28,299
Net structural position	–	201	107	308

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.

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.

3 INTERNATIONAL CLAIMS (CONTINUED)

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			
	Banks and other financial institutions	Public sector entities	Others	Total
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
Total	106,351	18,041	141,305	265,697

	As at 31 December 2022			
	Banks and other financial institutions	Public sector entities	Others	Total
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
Total	161,594	35,463	125,765	322,822

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segment

	31 December 2023	31 December 2022
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	41,853	37,721

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(b) By overdue day

	31 December 2023	31 December 2022
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	41,853	37,721
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	1.10%	1.06%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(c) Collateral of loans and advances past due but not impaired

	31 December 2023	31 December 2022
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.

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
Expected credit losses for loans and advances to customers	
The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans and advances with longer remaining periods to maturity; • Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions; • Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact on expected credit losses under multiple economic scenarios given different weights; • 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. 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. Relevant disclosures are included in Note III 1, Note V 16 and Note V 50(a) to the consolidated financial statements.	We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • In response to the macroeconomic changes, 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. • 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 • 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.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Expected credit losses for loans and advances to customers (continued)	
	2. Design and operating effectiveness of key controls: • 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 • 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. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and the impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 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. Relevant disclosures are included in Note III 2 and Note V 51(c) to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to the valuation of financial instruments. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of, and disclosures about structured entities	
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. 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. Relevant disclosures are included in Note III 6 and Note V 43 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls a structured entity. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. We assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 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.

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)
Net interest income	1	113,655	112,155
Fee and commission income		30,077	30,131
Fee and commission expense		(3,333)	(2,817)
Net fee and commission income	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
Operating income		151,865	153,366
Operating expenses	5	(45,227)	(45,540)
Credit impairment losses	8	(50,600)	(54,772)
Other impairment losses		(9)	(23)
Operating profit		56,029	53,031
Losses on investment of joint ventures		(63)	(90)
Profit before tax		55,966	52,941
Income tax	9	(10,926)	(9,302)
Net profit		45,040	43,639
Net profit attributable to:			
Equity shareholders of the Bank		44,807	43,407
Non-controlling interests		233	232
		45,040	43,639
Earnings per share			
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
Net profit		45,040	43,639
Other comprehensive income, net of tax:			
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
Other comprehensive income, net of tax		(3,740)	1,759
Total comprehensive income		41,300	45,398
Total comprehensive income attributable to:			
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
Assets			
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
Total assets		6,300,510	5,902,069
Liabilities and equity			
Liabilities			
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
Total liabilities		5,790,497	5,417,703

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
Equity			
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
Total equity		510,013	484,366
Total liabilities and equity		6,300,510	5,902,069

Approved and authorised for issue by the board of directors on 24 March 2023.

Wang Jiang	**Wang Zhiheng**	**Sun Xinhong**
Chairman,	*President,*	*General Manager of*
Non-executive Director	*Executive Director*	*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		Attributable to equity shareholders of the Bank											
			Other equity instruments										
	Note V	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 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		Attributable to equity shareholders of the Bank											
			Other equity instruments										
	Note V	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 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
Cash flows from operating activities		
Profit before tax	55,966	52,941
Adjustments for:		
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
Changes in operating assets		
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)
Changes in operating liabilities		
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
Net cash used in operating activities	(56,398)	(112,242)

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

	Note V	2022	2021
Cash flows from investing activities			
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)
Net cash used in investing activities		(103,094)	(93,410)
Cash flows from financing activities			
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)
Net cash from financing activities		70,566	286,039
Effect of foreign exchange rate changes on cash and cash equivalents		3,007	(2,880)
Net (decrease)/increase in cash and cash equivalents	46(a)	(85,919)	77,507
Cash and cash equivalents as at 1 January		222,583	145,076
Cash and cash equivalents as at 31 December	46(b)	136,664	222,583
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	*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*
Annual Improvements to IFRSs 2018-2020	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*

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.

(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	*Insurance Contracts*	1 January 2023
Amendments to IAS 8	*Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting policies*	1 January 2023
Amendments to IAS 12	*Deferred tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*	1 January 2024
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	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.

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.

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.

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)).

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.

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.

(Expressed in millions of Renminbi, unless otherwise stated)

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.

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.

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.

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.

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.

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
Interest income arising from			
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
Subtotal		241,309	229,334
Interest expenses arising from			
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
Subtotal		127,654	117,179
Net interest income		113,655	112,155

Note:

(a) *The interest income arising from impaired financial assets for the year ended 31 December 2022 amounted to RMB758 million (2021: RMB907 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2022	2021
Fee and commission income		
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
Fee and commission expense		
Bank card transaction fees	1,735	1,835
Settlement and clearing fees	183	192
Others	1,415	790
Subtotal	3,333	2,817
Net fee and commission income	26,744	27,314

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
Total	6,416	10,092

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
Subtotal		22,237	21,990
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
Subtotal		7,327	6,743
Tax and surcharges		1,766	1,620
Other general and administrative expenses	(a)	13,897	15,187
Total		45,227	45,540

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).*

(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:

		2022							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors									
Qu Liang		–	1,537	551	–	2,088	141	139	2,368
Wang Zhiheng	(i)	–	–	–	–	–	–	–	–
Non-executive directors									
Wang Jiang	(ii)	–	–	–	–	–	–	–	–
Wu Lijun		–	–	–	–	–	–	–	–
Yao Zhongyou		–	–	–	–	–	–	–	–
Yao Wei		–	–	–	–	–	–	–	–
Liu Chong		–	–	–	–	–	–	–	–
Li Wei		–	–	–	–	–	–	–	–
Independent non-executive directors									
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)

		2022							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Supervisors									
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
Former executive directors									
Fu Wanjun	(ii)	–	292	219	–	511	41	127	679
Former non-executive directors									
Li Xiaopeng	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive directors									
Xu Hongcai	(ii)	36	–	–	–	36	–	–	36
Former supervisors									
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

(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							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors								
Fu Wanjun	–	186	139	–	325	26	76	427
Qu Liang	–	1,525	788	–	2,313	245	130	2,688
Non-executive directors								
Li Xiaopeng	–	–	–	–	–	–	–	–
Wu Lijun	–	–	–	–	–	–	–	–
Liu Chong	–	–	–	–	–	–	–	–
Yao Wei	–	–	–	–	–	–	–	–
Yao Zhongyou	–	755	397	–	1,152	174	64	1,390
Li Wei	–	–	–	–	–	–	–	–
Independent non-executive directors								
Li Yinquan	430	–	–	–	430	–	–	430
Wang Liguo	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							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Supervisors								
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	–	–	–	–	–	–	–	–
Former executive directors								
Yao Zhongyou	–	–	–	–	–	–	–	–
Lu Hong	–	1,555	707	–	2,262	245	130	2,637
Liu Jin	–	50	37	–	87	34	21	142
Former non-executive directors								
Yu Chunling	–	–	–	–	–	–	–	–
Fu Wanjun	–	27	20	–	47	4	11	62
Former supervisors								
Li Xin	–	133	61	–	194	113	11	318
Yin Lianchen	–	–	–	–	–	–	–	–

Notes:

(i) On 13 March 2023, the CBIRC approved Mr. Wang Zhiheng's qualification as the executive director and the president of the Bank.

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
Total	27,230	29,215

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)
Total	50,600	54,772

(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)
Total		10,926	9,302

(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)
Subtotal		10,679	9,378
Adjustments for prior year		247	(76)
Income tax		10,926	9,302

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

(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

(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		
		Fair value	
	Notional amount	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	–	–
Total	1,729,758	15,730	(14,261)

	31 December 2021		
		Fair value	
	Notional amount	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	–
Total	1,883,368	13,705	(13,337)

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
Total	8,485	5,652

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.

(Expressed in millions of Renminbi, unless otherwise stated)

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).

(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)		

(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 (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
Total	3,572,276	100.00%	1,534,818

	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
Total	3,307,304	100.00%	1,464,850

(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.

(Expressed in millions of Renminbi, unless otherwise stated)

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			
	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	(36,726)	(17,680)	(28,774)	(83,180)

	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)

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).

(Expressed in millions of Renminbi, unless otherwise stated)

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
Total		403,617	383,666

(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
Total	(2)	109,640	50,891
Listed	(3)	1,542	2,051
Of which: listed in Hong Kong		670	881
Unlisted		108,098	48,840
Total		109,640	50,891

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.*

(Expressed in millions of Renminbi, unless otherwise stated)

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).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost

	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.

(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)

(Expressed in millions of Renminbi, unless otherwise stated)

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
Total	12,983	12,983

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd. (Everbright Financial Leasing)	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
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
Cost						
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
Accumulated depreciation						
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)
Provision for impairment						
As at 1 January 2022	(163)	–	–	–	–	(163)
As at 31 December 2022	(163)	–	–	–	–	(163)
Net book value						
As at 31 December 2022	8,778	9,687	2,832	3,699	1,178	26,174

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)

20 Property and equipment (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
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
Accumulated depreciation						
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)
Provision for impairment						
As at 1 January 2021	(163)	–	–	–	–	(163)
As at 31 December 2021	(163)	–	–	–	–	(163)
Net book value						
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
Cost			
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
Accumulated depreciation			
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)
Net book value			
As at 31 December 2022	10,254	27	10,281

	Premises	Transportation and others	Total
Cost			
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
Accumulated depreciation			
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)
Net book value			
As at 31 December 2021	10,921	32	10,953

(Expressed in millions of Renminbi, unless otherwise stated)

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.*

(Expressed in millions of Renminbi, unless otherwise stated)

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
Total		34,508	40,968

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
Total	63,386	101,180

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

(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

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
Total		19,006	16,777

Notes:

(a) *Pension scheme*

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) *Supplementary retirement benefits ("SRB")*

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary, Wills Towers Watson Management Consulting (Shenzhen) Co., Ltd..

(i) *The details of the Group's supplementary retirement benefits are as follows:*

	31 December 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.

(Expressed in millions of Renminbi, unless otherwise stated)

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
Total	11,141	6,535

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
Total undiscounted lease liabilities	11,439	12,179
Lease liabilities	10,151	10,736

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
Subtotal		872,617	760,573
Accrued interest		3,354	2,959
Total		875,971	763,532

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(a) Subordinated debts issued

	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).*

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	–
Total		46,596	41,434

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).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(d) Convertible bonds issued

	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.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Debt securities issued (continued)

(g) Medium term notes

	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
Total		20,476	25,127

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
Total		57,137	43,311

(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
Total	54,032	54,032

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

(Expressed in millions of Renminbi, unless otherwise stated)

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
Total		109,062	109,062

(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.

(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

(Expressed in millions of Renminbi, unless otherwise stated)

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
Items that will not be reclassified to profit or loss		
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)
Items that will be reclassified to profit or loss		
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	Remeasure – ment 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.

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.

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
Total	485,755	485,755	586,822	586,822

(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).

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).

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
Total common equity tier-one capital	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
Common equity tier-one capital deductions	(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)
Net common equity tier-one capital	399,396	374,792
Additional tier-one capital	105,063	105,062
Additional tier-one capital instruments	104,899	104,899
Qualifying portions of non-controlling interests	164	163
Tier-one capital net	504,459	479,854
Tier-two capital	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
Net capital base	593,218	562,254
Total risk-weighted assets	4,579,772	4,204,733
Common equity tier-one capital adequacy ratio	8.72%	8.91%
Tier-one capital adequacy ratio	11.01%	11.41%
Capital adequacy ratio	12.95%	13.37%

(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 Innotive Buyout Fund

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).

(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
Total	386,276	359,721
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
Total	316,033	246,487

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

(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	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
Total	104	60,007	18,373	78,484
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
Total	3,137	23,288	45,099	71,524
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.

(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

	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
Assets			
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
Total assets		6,169,066	5,781,399

(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
Liabilities and equity		
Liabilities		
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
Total liabilities	5,670,690	5,306,141
Equity		
Share capital	54,032	54,032
Other equity instrument	109,062	109,062
of which: Preference shares	64,906	64,906
Perpetual bonds	39,993	39,993
Capital reserve	58,434	58,434
Other comprehensive income	(453)	3,390
Surplus reserve	26,245	26,245
General reserve	77,429	72,821
Retained earnings	173,627	151,274
Total equity	498,376	475,258
Total liabilities and equity	6,169,066	5,781,399

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities

	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				
	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

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 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.

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 stablished 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.

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.

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;

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.

(Expressed in millions of Renminbi, unless otherwise stated)

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
Assets					
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
Total	5,652,380	105,946	37,289	145,593	5,941,208

	31 December 2021				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
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
Total	5,274,922	124,593	32,183	81,889	5,513,587

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 2022	31 December 2021
Impaired		
Carrying amount	300	300
Provision for impairment losses	(166)	(166)
Subtotal	134	134
Neither overdue nor impaired		
– 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
Impaired		
Carrying amount	27,292	18,814
Provision for impairment losses	(9,501)	(7,649)
Subtotal	17,791	11,165
Neither overdue nor impaired		
Bloomberg Composite		
– 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
Other agency ratings		
– 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	1,771,732	1,519,409

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.

(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
Assets							
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
Total assets	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
Liabilities							
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
Total liabilities	N/A	5,790,497	162,732	3,112,997	1,454,743	1,054,917	5,108
Asset-liability gap	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
Assets							
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
Total assets	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
Liabilities							
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
Total liabilities	N/A	5,417,703	148,194	2,817,077	1,516,178	936,160	94
Asset-liability gap	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.*

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)
Assets				
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
Total assets	5,935,701	242,225	122,584	6,300,510
Liabilities				
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
Total liabilities	5,418,246	286,354	85,897	5,790,497
Net position	517,455	(44,129)	36,687	510,013
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

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows: (continued)

	31 December 2021			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
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
Total assets	5,534,780	262,633	104,656	5,902,069
Liabilities				
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
Total liabilities	5,009,292	331,842	76,569	5,417,703
Net position	525,488	(69,209)	28,087	484,366
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.

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
Assets								
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
Total assets	442,432	781,048	245,527	294,704	1,304,207	1,929,880	1,302,712	6,300,510

	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
Liabilities								
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
Total liabilities	–	1,716,117	537,470	798,116	1,486,815	1,241,396	10,583	5,790,497
Net position	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

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year: (continued)

	31 December 2021							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	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
Total assets	418,551	857,111	270,871	309,054	1,127,732	1,604,110	1,314,640	5,902,069

	31 December 2021							
	Overdue/ indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Liabilities								
Due to the central bank	–	–	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
Total liabilities	–	1,673,322	487,479	703,791	1,512,734	1,003,499	36,878	5,417,703
Net position	418,551	(816,211)	(216,608)	(394,737)	(385,002)	600,611	1,277,762	484,366
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
Non-derivative financial liabilities								
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
Total non-derivative financial liabilities	5,744,206	5,843,998	1,684,491	541,148	816,686	1,524,955	1,263,136	13,582
Derivative financial liabilities								
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)	–
Total derivative financial liabilities		192,530	–	107,383	34,621	50,527	(1)	–

(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
Non-derivative financial liabilities								
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
Total non-derivative financial liabilities	5,378,841	5,488,020	1,648,295	491,387	714,961	1,540,690	1,054,495	38,192
Derivative financial liabilities								
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)	–
Total derivative financial liabilities		144,077	–	102,261	28,129	13,692	(5)	–

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			
	Within one year	Between one year and five years	More than five years	Total
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
Total	1,329,822	46,996	2,606	1,379,424

	31 December 2021			
	Within one year	Between one year and five years	More than five years	Total
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
Total	1,320,032	45,541	4,031	1,369,604

(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;

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
Financial assets				
Debt securities and asset–backed instruments measured at amortised cost	1,118,734	991,472	1,135,161	1,003,770
Financial liabilities				
Debt securities issued	875,971	763,532	859,788	751,799

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
Assets				
Derivative financial assets				
– Currency derivatives	–	10,961	–	10,961
– Interest rate derivatives	1	4,768	–	4,769
Loan and advances to customers	–	214,253	–	214,253
Financial assets at fair value through profit or loss				
– 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	274,741	800,464	9,117	1,084,322
Liabilities				
Financial liabilities at fair value through profit or loss	27	–	–	27
Derivative financial liabilities				
– Currency derivatives	–	9,743	–	9,743
– Interest rate derivatives	–	4,518	–	4,518
Total	27	14,261	–	14,288

(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			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	7,234	–	7,234
– Interest rate derivatives	–	6,470	–	6,470
– Credit derivatives	–	–	1	1
Loans and advances to customers	–	155,647	–	155,647
Financial assets at fair value through profit or loss				
– 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
Debt instruments at fair value through other comprehensive income	56,912	268,716	67	325,695
Equity instruments at fair value through other comprehensive income	23	–	1,102	1,125
Total	314,668	553,682	11,488	879,838
Liabilities				
Financial liabilities at fair value through profit or loss	67	–	–	67
Derivative financial liabilities				
– Currency derivatives	–	6,614	–	6,614
– Credit derivatives	–	6,723	–	6,723
Total	67	13,337	–	13,404

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)	–	–

(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
Financial assets				
Debt securities and asset-backed instruments measured at amortised cost	217,623	917,538	–	1,135,161
Financial liabilities				
Debt securities issued	21,583	838,205	–	859,788

	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities and asset-backed instruments measured at amortised cost	184,283	819,487	–	1,003,770
Financial liabilities				
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.

(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.

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 2022
Liquidity coverage ratio	130.24%
High Quality Liquid Assets	972,725
Net cash outflows in 30 days from the end of the reporting period	746,886

Liquidity Ratio*

	As at 31 December 2022	Average for the year ended 31 December 2022	As at 31 December 2021	Average for the year ended 31 December 2021
RMB current assets to RMB current liabilities	74.44%	70.72%	75.58%	67.88%
Foreign current assets to foreign current liabilities	123.89%	136.46%	125.41%	128.12%

* *Liquidity ratio is calculated in accordance with the banking level.*

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Leverage Ratio

	31 December 2022
Leverage Ratio	6.81%

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 2022, the Group met the supervision requirement with the net stable funding ratio standing at 105.63%.

Indicators	31 December 2022
Available and stable funds	3,632,315
Required stable funds	3,438,630
Net stable funding ratio	105.63%

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	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	(357)	6,711	21,945	28,299
Net structural position	–	201	107	308

	31 December 2021			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	262,633	50,166	54,490	367,289
Spot liabilities	(331,842)	(44,668)	(31,901)	(408,411)
Forward purchases	460,290	5,443	4,393	470,126
Forward sales	(391,155)	(8,186)	(25,778)	(425,119)
Net long/(short) position	(74)	2,755	1,204	3,885
Net structural position	–	110	82	192

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.

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties overseas and claims in foreign currencies on third parties within the Mainland China as international claims.

International claims include loans and advances to customers, deposits with central banks, deposits and placements with banks and other financial institutions and debt investments.

3 INTERNATIONAL CLAIMS (CONTINUED)

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 2022			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	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
Total	161,594	35,463	125,765	322,822

	As at 31 December 2021			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	89,050	6,376	45,153	140,579
– of which: attributed to Hong Kong	31,603	2,244	17,000	50,847
Europe	22,187	–	25,917	48,104
North and South America	22,569	797	16,710	40,076
Total	133,806	7,173	87,780	228,759

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segment

	31 December 2022	31 December 2021
Pearl River Delta	8,542	8,017
Yangtze River Delta	4,589	4,068
Central	4,264	3,579
Northeastern	4,034	5,363
Bohai Rim	3,953	3,869
Western	3,200	2,685
Overseas	1,656	8
Head Office	7,483	8,276
Total	37,721	35,865

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(b) By overdue day

	31 December 2022	31 December 2021
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	11,769	10,715
– between 6 months and 1 year (inclusive)	12,454	13,624
– over 1 year	13,498	11,526
Total	37,721	35,865
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.33%	0.32%
– between 6 months and 1 year (inclusive)	0.35%	0.41%
– over 1 year	0.38%	0.35%
Total	1.06%	1.08%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(c) Collateral of loans and advances past due but not impaired

	31 December 2022	31 December 2021
Covered portion of loans and advances past due but not impaired	10,392	11,643
Uncovered portion of loans and advances past due but not impaired	19,137	17,062
Total loans and advances past due but not impaired	29,529	28,705
Current market value of collateral	22,226	23,474

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in Mainland China. As at 31 December 2022, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.

THE BANK

China Everbright Bank Company Limited
China Everbright Center
No.25 Taipingqiao Avenue
Xicheng District
Beijing 100033, PRC

ARRANGERS AND DEALERS

CEB International Capital Corporation Limited
35/F, Everbright Centre
108 Gloucester Road, Wan Chai
Hong Kong

China Everbright Bank Co., Ltd., Hong Kong Branch
23/F, Everbright Centre
108 Gloucester Road, Wan Chai
Hong Kong

Citigroup Global Markets Limited
Citigroup Centre, Canada Square
Canary Wharf
London E14 5LB, United Kingdom

CLSA Limited
18/F, One Pacific Place
88 Queensway
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, 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 Bank and the Branch Issuers as to Hong Kong law

Linklaters
11th Floor, Alexandra House
Chater Road
Hong Kong

To the Bank and the Branch Issuers as to PRC law

King & Wood Mallesons
18th Floor, East Tower, World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District
Beijing 100020, PRC

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, PRC

2008661617