国家开发银行
China Development Bank

China Development Bank Hong Kong Branch

(formerly known as China Development Bank Corporation Hong Kong Branch)
(a limited liability company incorporated under the laws of the People's Republic of China)

EUR500,000,000 0.375 per cent. Notes due 2022

Issue Price for the Notes: 99.727 per cent.

These admission particulars (the "**Admission Particulars**") are prepared in connection with the issue of EUR500,000,000 0.375 per cent. notes due 2022 (the "**Notes**") by China Development Bank Hong Kong Branch (the "**Issuer**") under the US$30,000,000,000 Debt Issuance Programme (the "**Programme**") of China Development Bank (formerly known as China Development Bank Corporation).

Application will be made to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's International Securities Market ("**ISM**"). The ISM is not a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU (as amended).

The ISM is a market designated for professional investors. Notes admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of these Admission Particulars.

Application will also be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of and permission to deal in the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only.

The expected effective listing date of the Notes on the Hong Kong Stock Exchange, and the expected effective date on which the Notes will be admitted to trading on the ISM, is 25 January 2019. Listing of the Notes on the Hong Kong Stock Exchange, and admission of the Notes to trading on the ISM, are not to be taken as an indication of the commercial merits or credit quality of the Notes or the Issuer.

For the purposes of the Notes only, these Admission Particulars are supplemental to, and should be read in conjunction with, the offering circular dated 30 November 2018 relating to the Programme (the "**Offering Circular**") attached as the Annex to these Admission Particulars, and all documents which are incorporated by reference herein (see "*Documents Incorporated by Reference*" below).

Words and expressions defined in the Offering Circular shall have the same meanings where used in these Admission Particulars unless the context otherwise requires or unless otherwise stated herein.

Investing in the Notes involves risks. See "*Risk Factors*" in the Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes.

Investors should also be aware that the Issuer is a branch, not a subsidiary, of China Development Bank (the "Bank") and does not comprise a legal entity separate from it. As a result, in the case of any default by the Issuer under the Notes and any subsequent enforcement of an arbitral award in connection therewith, all claims of the holders of the Notes against the Issuer shall ultimately rank *pari passu* with the claims of other senior unsecured creditors of the Bank (except for any statutory preference or priority applicable in the winding-up of the Bank). Please see "*About this Document*" for further details. Notwithstanding that the Issuer does not have separate legal personality from the Bank, the Issuer conducts its banking business as an entity separate from the Bank from an operational perspective, and is regulated and subject to taxation in Hong Kong on this basis. Its funding activities, including the issue of the Notes and any other notes from time to time under the Programme, are part of its ordinary banking business and should be viewed accordingly.

The date of these Admission Particulars is 23 January 2019.

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DOCUMENTS INCORPORATED BY REFERENCE

The section entitled "*Documents Incorporated by Reference*" found on page iv of the Offering Circular set out in the Annex hereto shall not form part of these Admission Particulars.

ABOUT THIS DOCUMENT

In the event of any conflict between the description of the Notes in these Admission Particulars and the description of the Notes in the Offering Circular, the description of the Notes in these Admission Particulars shall prevail.

The Issuer accepts responsibility for the information contained in these Admission Particulars. Having taken all reasonable care to ensure that such is the case, the information contained in these Admission Particulars is, to the best of the Issuer's knowledge, in accordance with the facts and does not omit anything likely to affect its import.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with these Admission Particulars or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Bank. Neither these Admission Particulars nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or the Bank that any recipient of these Admission Particulars or any other information supplied in connection with the Notes should purchase any Notes. Neither these Admission Particulars nor any other information supplied in connection with the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or the Bank to any person to subscribe for or to purchase any Notes. Neither the Issuer nor the Bank makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Neither the delivery of these Admission Particulars nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer or the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

A branch of a bank incorporated outside Hong Kong having a place of business in Hong Kong must register with the Registrar of Companies pursuant to section 776 of the Companies Ordinance of the Laws of Hong Kong (Cap. 622). On 4 August 2009, the Bank registered its Hong Kong branch as a registered non-Hong Kong company under the name "國家開發銀行股份有限公司香港分行 China Development Bank Corporation Hong Kong Branch" pursuant to a valid business registration certificate issued under section 6(3) of the Business Registration Ordinance of the Laws of Hong Kong (Cap. 310). In April 2017, as approved by CBIRC and with the completion of the registration of the Bank's name change with the competent Administration for Industry and Commerce, the Bank's registered name was changed from China Development Bank Corporation (國家開發銀行股份有限公司) to China Development Bank (國家開發銀行). China Development Bank Hong Kong branch is registered as a registered non-Hong Kong company under CR No. F0017015. The name "國家開發銀行香港分行 China Development Bank Hong Kong Branch" is merely the business name of the Bank in Hong Kong, and the Issuer has no separate legal personality from the Bank. As a result of the foregoing, in the case of any default by the Issuer under the Notes and any subsequent enforcement of an arbitral award in connection therewith, all claims of the holders of the Notes against the Issuer shall rank *pari passu* with the claims of other senior unsecured creditors of China Development Bank (except for any statutory preference or priority applicable in the winding-up of the Bank).

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of its obligations under the Notes.

Since 31 December 2017, there has been no significant change in the financial or trading position of the Issuer and/or the Bank and its subsidiaries taken as a whole.

USE OF PROCEEDS

The section entitled "*Use of Proceeds*" of the Offering Circular shall be deleted and replaced in its entirety with the following:

The net proceeds from the sale of the Notes shall be used for the Hong Kong Branch's working capital and general corporate purposes.

ISSUE TERMS OF THE NOTES

*The terms and conditions in respect of the Notes described in these Admission Particulars shall consist of the terms and conditions set out in the section entitled "Terms and Conditions of the Notes" on pages 11 to 34 of the Offering Circular (the "**Conditions**"), which form part of these Admission Particulars, as amended and/or supplemented by the Pricing Supplement below. References in the Conditions to "Pricing Supplement" shall be deemed to refer to the terms set out below.*

PRICING SUPPLEMENT FOR THE NOTES

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

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined and hereby notifies the relevant persons as defined under the SFA the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

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

Pricing Supplement dated 17 January 2019

China Development Bank Hong Kong Branch

Issue of EUR500,000,000 0.375 per cent. Notes due 2022
under the US$30,000,000,000 Debt Issuance Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the offering circular dated 30 November 2018 (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 30 November 2018.

1	Issuer:		China Development Bank Hong Kong Branch (LEI code: 300300C1020111000029)
2	(i)	Series Number:	040
	(ii)	Tranche Number	001
3	Specified Currency or Currencies:		Euro ("**EUR**")
4	Aggregate Principal Amount:		
	(i)	Series:	EUR500,000,000
	(ii)	Tranche:	EUR500,000,000
5	Issue Price:		99.727 per cent. of the Aggregate Principal Amount
6	(i)	Specified Denominations:	EUR100,000 and integral multiples of EUR1,000 in excess thereof
	(ii)	Calculation Amount:	EUR1,000
7	(i)	Issue Date:	24 January 2019
	(ii)	Interest Commencement Date:	Issue Date
8	Maturity Date:		24 January 2022
9	Interest Basis:		0.375 per cent. Fixed Rate (further particulars specified below)
10	Redemption/Payment Basis:		Redemption at par
11	Change of Interest or Redemption/Payment Basis:		Not Applicable
12	Put/Call Options:		Not Applicable
13	Listing:		Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. The expected effective listing date is 25 January 2019. Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange plc's

			International Securities Market with effect from 25 January 2019.
14	(i)	Date of Board approval for the issuance of Notes obtained:	26 November 2018
	(ii)	Date of NDRC certificate:	9 February 2018
15	Method of distribution:		Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions:		Applicable
	(i)	Rate of Interest:	0.375 per cent. per annum payable annually in arrear
	(ii)	Interest Payment Date:	24 January in each year, commencing on 24 January 2020 up to and including the Maturity Date
	(iii)	Fixed Coupon Amount (Applicable to Notes in definitive form):	EUR3.75 per Calculation Amount
	(iv)	Broken Amount: (Applicable to Notes in definitive form)	Not Applicable
	(v)	Day Count Fraction (Condition 5(h)):	Actual/Actual-ICMA
	(vi)	Determination Date(s) (Condition 5(h)):	Not Applicable
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
17	Floating Rate Note Provisions:		Not Applicable
18	Zero Coupon Note Provisions:		Not Applicable

PROVISIONS RELATING TO REDEMPTION

19	Call Option:	Not Applicable
20	Put Option:	Not Applicable
21	Final Redemption Amount of each Note:	EUR1,000 per Calculation Amount
22	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	EUR1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23	Forms of Notes:	**Registered Notes**: Global Certificate exchangeable for definitive Certificates in the limited circumstances described in the Global Certificate

24	Additional Financial Centre(s) (Condition 7(h)) or other special provisions relating to payment dates:	Hong Kong
25	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No
26	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
27	Consolidation provisions:	Not Applicable
28	Other terms or special conditions:	Not Applicable

DISTRIBUTION

29	(i) If syndicated, names of Managers:	Agricultural Bank of China Limited, Singapore Branch, Bank of China Limited, Bank of Communications Co., Ltd. Hong Kong Branch, China Construction Bank (Europe) S.A., CMB Wing Lung Bank Limited, Commerzbank Aktiengesellschaft, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt AM Main, MUFG Securities Asia Limited and The Hongkong and Shanghai Banking Corporation Limited (together the "**Managers**", and each a "**Manager**")
	(ii) Stabilisation Manager (if any):	Each of the Managers
30	If non-syndicated, name of Dealer:	Not Applicable
31	U.S. Selling Restrictions:	Reg. S Category 2; TEFRA Not Applicable
32	Prohibition of Sales to EEA Retail Investors:	Not Applicable
33	Additional selling restrictions:	Not Applicable

OPERATIONAL INFORMATION

34	ISIN Code:	XS1937266077
35	Common Code:	193726607
36	CMU Instrument Number:	Not Applicable
37	FISN:	CHINA DEVELOPME/EMTN 20220124
38	CFI:	DTFXFR
39	Any clearing system(s) other than Euroclear, Clearstream and the CMU Service and the relevant identification number(s):	Not Applicable
40	Delivery:	Delivery against payment
41	Additional Paying Agents (if any):	Not Applicable

GENERAL

42	The aggregate principal amount of Notes issued has been translated into US$ at the rate of	US$569,350,000

	US$1.1387:EUR1.00, producing a sum of (for Notes not denominated in US$):	
43	Expected Rating:	S&P: A+

STABILISATION

In connection with this issue, each of the Managers (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

LISTING APPLICATION

This Pricing Supplement comprises the final terms required for the issue and admission to trading of Notes described herein pursuant to the US$30,000,000,000 Debt Issuance Programme of China Development Bank.

SELLING RESTRICTION

The selling restriction in relation to Singapore on page 90 of the Offering Circular shall be deleted in its entirety and replaced by the following:

"**Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018."

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ___________________________
Duly authorised

ANNEX – OFFERING CIRCULAR DATED 30 NOVEMBER 2018

CHINA DEVELOPMENT BANK

(formerly known as China Development Bank Corporation)

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

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

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

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

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

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the annual foreign debt quota granted to the Bank by the NDRC pursuant to the Reply of the National Development and Reform Commission on the Foreign Debt Scale of the Enterprise of Foreign Debt Scale Management Reform of 2018 (國家發展改革委關於2018年度外債規模管理企業外債規模的批覆)(發改外資[2018]307號) on 9 February 2018, unless otherwise specified in the relevant Pricing Supplement. After the issuance of such relevant Tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the prescribed time period.

Application has been made to The Stock Exchange of Hong Kong Limited (the "SEHK") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on SEHK and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "Professional Investors") only during the 12-month period from the date of this document on the SEHK. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of Programme and the Notes on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuers or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

However, unlisted Notes may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK (or any other stock exchange).

The Programme is rated "A1" by Moody's Investors Service Hong Kong Ltd. ("Moody's"). Such rating is only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "*Summary of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Arrangers

HSBC **Standard Chartered Bank** **Barclays** **Bank of China (Hong Kong)**

Dealers

HSBC **Standard Chartered Bank** **Barclays** **Bank of China (Hong Kong)**

ABC International **Bank of Communications** **CCB International** **ICBC (Asia)** **ICBC International**

This Offering Circular is dated 30 November 2018.

IMPORTANT NOTICE

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

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

None of us, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited, Barclays Bank PLC and Bank of China (Hong Kong) Limited (together, the "Arrangers"), ABCI Securities Company Limited, Bank of Communications Co., Ltd. Hong Kong Branch, CCB International Capital Limited, ICBC International Securities Limited and Industrial and Commercial Bank of China (Asia) Limited (together with the Arrangers, the "Dealers") is making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this Offering Circular and the offering of the Notes under the Programme may in certain jurisdictions be restricted by law. None of us, the Arrangers and the Dealers represents that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering.

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

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

No representation or warranty, express or implied, is made by any Arranger, Dealer, fiscal agent, paying agent or any of their respective officers, employees, affiliates, advisors or agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or should be, relied upon as a promise or representation by any Arranger, Dealer, fiscal agent, paying agent or their officers, employees, affiliates, advisors or agents. The Arrangers, the Dealers, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors and agents have not independently verified the information contained herein (financial, legal or otherwise) and, to the fullest extent permitted by law, none of the Arrangers, the Dealers, the fiscal agent, the paying agents or their respective officers, employees, affiliates, advisors or agents accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arrangers or Dealers or on their behalf in connection with us or the Programme or the issue and offering of the Notes under the Programme. The Arrangers, the Dealers, the fiscal agent, the paying agents and their respective officers, employees, affiliates, advisors or agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Offering Circular or any such statement.

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

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

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

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

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

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

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

IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "PRIIPs Regulation – Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuers have, unless otherwise specified by the relevant Issuer before an offer of Notes, determined and hereby notifies the relevant persons as defined under the SFA the classification of the Notes to be issued under the Programme as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE (AS DEFINED IN "TERMS AND CONDITIONS OF THE NOTES") OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) (OR ANY PERSON ACTING FOR ANY OF THEM) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

FORWARD-LOOKING STATEMENTS

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

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

ROUNDING

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

CERTAIN DEFINITIONS AND CONVENTIONS

Unless otherwise indicated, all references in this Offering Circular to "the Bank", "we", "us", "our" and words of similar import are to China Development Bank itself or China Development Bank and its subsidiaries, as the context requires; all references in this Offering Circular to "China" or the "PRC" are to the People's Republic of China, for the information and data presentation purposes only, excluding Hong Kong SAR, the Macau Special Administrative Region and Taiwan; all references to "Hong Kong SAR" or "Hong Kong" are to the Hong Kong Special Administrative Region of China; and all statistical information in this Offering Circular relating to China or the PRC excludes information with respect to Hong Kong SAR, the Macau Special Administrative Region and Taiwan.

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

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

Solely for your convenience, we have translated amounts between different currencies for the purpose of consistent presentation in this Offering Circular. These translations follow the rates of exchange we use in preparing our accounts as described in note 3(7) to our financial statements on page F-16. We are not making any representation that Renminbi or any other currency referred to in this Offering Circular could have been or can be converted into any other currency at any particular rate or at all.

DOCUMENTS INCORPORATED BY REFERENCE

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

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SUMMARY OF CHINA DEVELOPMENT BANK

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

CHINA DEVELOPMENT BANK

We are a state-owned development finance institution established by the PRC government as an independent legal entity. Our operations are subject to the direct leadership of the State Council, in support of the development of key sectors and weak areas in the PRC economy.

We were established on 17 March 1994 pursuant to a special decree issued by the State Council (the "Special Decree"). On 11 December 2008, in accordance with the deployment of the State Council, we were converted into a joint stock company with limited liability pursuant to the PRC Company Law and other applicable laws and regulations. After our conversion, we continue to report directly to the State Council on important matters relating to our business and operations, and continue to be subject to the supervision and direction of China Banking and Insurance Regulatory Commission (the "CBIRC", formerly known as China Banking Regulatory Commission prior to merging with China Insurance Regulatory Commission) with respect to our banking operations. In March 2015, the State Council approved our reform deepening plan, affirming our position as a development finance institution and the relevant policy support, and stressing the need to strengthen our role and function as a development finance institution to provide financing to national priorities, weak areas in the economy and during critical periods. We are currently wholly owned, directly or indirectly, by the PRC government, with the Ministry of Finance of China ("MOF"), Central Huijin Investment Ltd. (中央匯金投資有限責任公司) ("Huijin"), Buttonwood Investment Holding Company Ltd. (梧桐樹投資平臺有限責任公司) ("Buttonwood") and the National Council for Social Security Fund each holding an equity interest of approximately 36.54%, 34.68%, 27.19% and 1.59%, respectively. In April 2017, as approved by China Banking Regulatory Commission and with the completion of the registration of the relevant changes with the competent Administration for Industry and Commerce, we have changed from a joint stock company to a limited liability company and our registered name has changed from "China Development Bank Corporation (國家開發銀行股份有限公司)" to "China Development Bank (國家開發銀行)". According to the CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%.

We are headquartered in Beijing, China and currently 38 primary branch offices in China (including one in Hong Kong SAR) and 10 representative offices. Our major subsidiaries include China Development Bank Capital Corporation Ltd. (國開金融有限責任公司) ("CDB Capital"), CDB Securities Co., Ltd. (國開證券股份有限公司) ("CDB Securities"), China Development Bank Financial Leasing Co., Ltd. (國銀金融租賃股份有限公司) ("CDB Leasing"), China-Africa Development Fund (中非發展基金有限公司) and CDB Development Fund Co., Ltd. (國開發展基金有限公司) ("CDB Development Fund"). Our place of business in China is No. 18 Fuxingmennei Street, Xicheng District, Beijing, People's Republic of China and our place of business in Hong Kong SAR is located at Suite 3307-3315, One International Finance Center, No. 1 Harbour View Street, Central, Hong Kong.

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

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

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

The following summary of our historical financial information as of or for the years ended 31 December 2016 and 2017 is derived from our audited consolidated financial statements included in this Offering Circular. We have prepared and presented our consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, our relevant audited consolidated financial statements and the notes thereto included elsewhere in this Offering Circular.

	For the year ended 31 December	
	2017	2016
	(in millions of RMB)	
Income Statement Data		
Interest income	560,484	501,193
Interest expense	(380,234)	(365,069)
Profit before income tax	140,648	140,821
Net profit	113,607	109,723

	As of 31 December	
	2017	2016
	(in millions of RMB)	
Balance Sheet Data		
Cash and balance with the central bank	264,868	275,469
Deposits with banks and other financial institutions	1,129,033	686,853
Loans and advances to customers, net	10,642,675	9,894,173
Total assets	15,958,709	14,339,903
Total liabilities	14,718,813	13,177,780
Total equity	1,239,896	1,162,123

THE HONG KONG BRANCH

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

We are a licensed bank (Licence No. B296) in Hong Kong and are regulated by the Hong Kong Monetary Authority (the "HKMA"). The core business strategy of the Hong Kong Branch is to develop and expand corporate banking services for the Bank's China-based clients and their overseas subsidiaries. As of 31 December 2017, the Hong Kong Branch had 175 employees.

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

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

OUR STRATEGIES

Committed to strengthening national competitiveness and improving people's livelihood, we align our business focus with China's major medium-and long-term financing and comprehensive financial services, so as to raise and channel economic resources in support of the following areas:

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

OUR COMPETITIVE STRENGTHS

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

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

OUR CHALLENGES

We face challenges in our business operations, including:

- uncertainties in macro-economic development;
- adjustments and changes in macro-control and regulatory policies;

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

CREDIT RATINGS

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

As at the date of this Offering Circular, Moody's assigns an A1 rating to our long-term foreign currency senior unsecured debt rating with a stable outlook. S&P Global Ratings assigns an A+ rating to our long-term issuer credit rating with a stable outlook.

The Programme is rated "A1" by Moody's. Such rating is only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "*Summary of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

SUMMARY OF THE PROGRAMME

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

Issuer	China Development Bank (the "Bank") or China Development Bank Hong Kong Branch (the "Hong Kong Branch"), as specified in the applicable Pricing Supplement
Description	Debt Issuance Programme
Size	Up to US$30,000,000,000 aggregate principal amount of Notes outstanding at any one time. The Bank may increase the aggregate principal amount of the Programme in accordance with the terms of the Dealer Agreement.
Arrangers	The Hongkong and Shanghai Banking Corporation Limited
	Standard Chartered Bank (Hong Kong) Limited
	Barclays Bank PLC
	Bank of China (Hong Kong) Limited
Permanent Dealers	The Hongkong and Shanghai Banking Corporation Limited
	Standard Chartered Bank (Hong Kong) Limited
	Barclays Bank PLC
	Bank of China (Hong Kong) Limited
	ABCI Securities Company Limited
	Bank of Communications Co., Ltd. Hong Kong Branch
	CCB International Capital Limited
	ICBC International Securities Limited
	Industrial and Commercial Bank of China (Asia) Limited
	References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Permanent Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated).

Dealers	The Bank may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers in respect of the whole Programme. The relevant Issuer may, in respect of any single Tranche of Notes, from time to time appoint additional Dealers. References in this Offering Circular to "Dealers" are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Tranches.
Fiscal Agent and Paying Agent . .	Bank of Communications Co., Ltd. Hong Kong Branch
Transfer Agent.	Bank of Communications Co., Ltd. Hong Kong Branch
Registrar	Bank of Communications Co., Ltd. Hong Kong Branch
CMU Lodging Agent	Bank of Communications Co., Ltd. Hong Kong Branch
Method of Issue.	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the applicable pricing supplement (the "Pricing Supplement").
Issue Price.	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Form of Notes	The Notes may be issued in bearer form ("Bearer Notes"), or in registered form ("Registered Notes"). Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a temporary Global Note or a permanent Global Note, in each case as specified in the applicable Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a common depositary or sub-custodian for Euroclear, Clearstream and/or, as the case may be, the CMU Service and/or any other relevant clearing system. Each temporary Global Note will be exchangeable for a permanent Global Note or, if so specified in the applicable Pricing Supplement, for definitive Notes. If the D Rules are specified in the applicable Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a temporary Global Note or receipt of any payment of interest in respect of a temporary Global Note. Each permanent Global Note will be exchangeable for definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Registered Notes will initially be represented by Certificates. Certificates representing Registered Notes that are registered in the name of a nominee for one or more of Euroclear, Clearstream and the CMU Service are referred to as "Global Certificates".

Clearing Systems . . . . The CMU Service, Clearstream and/or Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Fiscal Agent (or the CMU Lodging Agent, as the case may be) and the relevant Dealer.

Initial Delivery of Notes . . . . On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the CMU Service or any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.

Currencies . . . . Notes may be issued in any currency agreed between the relevant Issuer and the relevant Dealers, subject to compliance with all applicable legal and/or regulatory requirements.

Maturities . . . . Any maturity, subject to compliance with all applicable legal and/or regulatory requirements.

Specified Denomination . . . . Notes will be in such denominations as may be specified in the applicable Pricing Supplement.

Fixed Rate Notes . . . . Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Pricing Supplement.

Floating Rate Notes . . . . Floating Rate Notes will bear interest determined separately for each Series by reference to SHIBOR, CNH HIBOR, LIBOR, EURIBOR or HIBOR (or such other benchmark as may be specified in the applicable Pricing Supplement) as adjusted for any applicable margin. Interest periods will be specified in the applicable Pricing Supplement.

Zero Coupon Notes . . . . Zero Coupon Notes may be issued at their principal amount or at a discount to it and will not bear interest.

Interest Periods and Interest Rates . . . . The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the applicable Pricing Supplement.

Redemption and Redemption Amounts	The applicable Pricing Supplement will specify the basis for calculating the redemption amounts payable.
Optional Redemption	The applicable Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption. Otherwise Notes will not be redeemable at the option of the relevant Issuer prior to maturity. See "Terms and Conditions of the Notes – Redemption, Purchase and Options".
Status of Notes	The Notes and the coupons (if any) will constitute direct, unconditional, unsubordinated and (subject to the creation of any security permitted or approved in accordance with Condition 4 of "Terms and Conditions of the Notes") unsecured obligations of the Bank. The Notes and the coupons (if any) will at all times rank pari passu among themselves and at least pari passu with all other existing and future unsubordinated and unsecured obligations of the Bank from time to time outstanding (except for any statutory preference or priority applicable in the winding-up of the Bank).
Negative Pledge	See "*Terms and Conditions of the Notes – Negative Pledge*".
Events of Default	See "*Terms and Conditions of the Notes – Events of Default*".
Ratings	The Programme is rated "A1" by Moody's. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.
Taxation	Under existing Hong Kong SAR law, payments of principal and interest in respect of our Notes may be made without withholding or deduction for any Hong Kong SAR taxes. If we are required by PRC law to withhold or deduct taxes, duties or other charges from any payments of principal or interest on our Notes, we will make the withholding or deduction and remit the amount so withheld or deducted to the PRC tax authorities. We will, however, subject to some exceptions, increase the amounts paid so that investors receive the full amount of the scheduled payment. Please refer to the section entitled "*Taxation of Notes*" for detailed explanations.
Listing	Application has been made to the SEHK for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s). Notes listed on the SEHK will be traded on the SEHK in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, Japan, the People's Republic of China and Singapore, see "*Subscription and Sale*".
Governing Law	English law.
Arbitration	Any dispute, controversy or claim arising out of or relating to the Notes, including any question regarding the breach, termination, existence or invalidity thereof, shall be settled by arbitration administered by the Hong Kong International Arbitration Centre (the "HKIAC") in accordance with the HKIAC Administered Arbitration Rules then in force when the notice of arbitration is submitted in accordance with such Rules. The seat of arbitration shall be in Hong Kong and the language of the arbitration shall be English. The governing law of the arbitration agreement shall be English law.

TERMS AND CONDITIONS OF THE NOTES

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

The Notes are issued by the issuer specified in the applicable pricing supplement (the "Issuer") pursuant to an amended and restated agency agreement (as amended or supplemented as at the Issue Date, the "Agency Agreement") dated 3 November 2017 between China Development Bank (the "Bank"), China Development Bank Hong Kong Branch (the "Hong Kong Branch"), Bank of Communications Co., Ltd. Hong Kong Branch as fiscal agent, Bank of Communications Co., Ltd. Hong Kong Branch as CMU lodging agent and the other agents named in it and with the benefit of an amended and restated deed of covenant (as amended or supplemented as at the Issue Date, the "Deed of Covenant") dated 3 November 2017 executed by the Bank and the Hong Kong Branch in relation to the Notes. The fiscal agent, the paying agents, the registrar, the CMU lodging agent, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "Fiscal Agent", the "Paying Agents" (which expression shall include the Fiscal Agent), the "Registrar", the "CMU Lodging Agent", the "Transfer Agents" and the "Calculation Agent(s)". For the purposes of these Conditions, all references to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined herein), be deemed to be a reference to the CMU Lodging Agent (unless the context requires otherwise) and all such references shall be construed accordingly.

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

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

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

1 FORM, DENOMINATION AND TITLE

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

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

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

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

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

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

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

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

2 NO EXCHANGE OF NOTES AND TRANSFERS OF REGISTERED NOTES

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

(b) **Transfer of Registered Notes**: One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Bank), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

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

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

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

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

(f) **Closed Periods**: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(c) and Condition 6(d), (iii) after any such Note has been called for redemption, (iv) after the exercise of the option in Condition 6(e) of that Note, or (iv) during the period of seven days ending on (and including) any Record Date.

3 STATUS

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

4 NEGATIVE PLEDGE

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

In these Conditions:

(i) "Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China;

(ii) "Macau" means the Macau Special Administrative Region of the People's Republic of China;

(iii) "PRC" means the People's Republic of China excluding Hong Kong, Macau and Taiwan;

(iv) "Public External Indebtedness" means any indebtedness of the Bank for moneys borrowed (including indebtedness represented by bonds, notes, debentures or other similar instruments) or any guarantee by the Bank of indebtedness for moneys borrowed which, in either case, (i) has an original maturity in excess of one year, and (ii) is, or is capable of being, quoted, listed or traded on any stock exchange or over-the-counter or other similar securities market outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements); provided that Public External Indebtedness shall not include any such indebtedness for borrowed moneys owed to any financial institution in the PRC; and

(v) "Security Interest" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

5 INTEREST AND OTHER CALCULATIONS

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

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

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

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

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

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

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

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

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

(y) If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

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

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

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

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

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

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

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

(bb) if the Relevant Screen Page is not available or, if sub-paragraph (aa)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (aa)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, or, if the Reference Rate is HIBOR, the principal Hong Kong office of each of the Reference

Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

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

(xx) in no event shall the Rate of Interest be less than zero per cent. per annum.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Business Day" means:

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

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

(iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong and banks in Beijing, PRC are not authorised or obliged by law or executive order to be closed; and/or

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

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

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

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

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

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

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

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

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 such number would be 31, in which case D1 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 D_1 is greater than 29, in which case D_2 will be 30.

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

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

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 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.

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

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

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.

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

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

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

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

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

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

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

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

"Interest Amount" means:

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

2. in respect of any other period, the amount of interest payable per Calculation Amount for that period;

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

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

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

"Interest Period Date" means each Interest Payment Date unless otherwise specified hereon;

"ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

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

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

"Reference Rate" means the rate specified as such hereon;

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

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

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

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

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

6 REDEMPTION, PURCHASE AND OPTIONS

(a) **Final Redemption**:

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

(b) **Early Redemption**:

(i) *Zero Coupon Notes*:

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

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

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

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

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

(c) **Redemption for Taxation Reasons**: Where the Issuer is the Hong Kong Branch, the Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or, at any time, (if this Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Hong Kong, the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by an authorised representative of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

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

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

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

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

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

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

(f) **Purchases**: Subject to applicable laws and regulations, the Bank and the Hong Kong Branch may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

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

7 PAYMENTS AND TALONS

(a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and in the case of interest as specified in Condition 7(f)(v)), or Coupons (in the case of interest, save as specified in Condition 7(f)(v)), as the case may be:

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

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

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

(b) **Registered Notes**:

(i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates representing such Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for payment thereof (the "Record Date"). Payments of interest on each Registered Note shall be.

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

(y) in the case of Renminbi, by transfer to the registered account of the Noteholder. In this paragraph, "registered account" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

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

(d) **Payments Subject to Laws**: Save as provided in Condition 8, all payments are subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment or other laws and regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

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

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

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

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

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

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

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

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

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

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

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

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

(ii) (in the case of a payment in euro) which is a Business Day; or

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

8 TAXATION

All payments of principal and/or interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without deduction or withholding for, or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the PRC or Hong Kong (where the Issuer is the Hong Kong Branch only), or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon for or on account of:

(a) **Other connection**: a Noteholder who is subject to such taxes in respect of such Note or Coupon by reason of his being connected with the PRC or Hong Kong (where the Issuer is the Hong Kong Branch only) other than merely by holding such Note or Coupon or receiving principal or interest in respect of such Note; or

(b) **Claim for exemption**: a Noteholder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so; or

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

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

The obligation of the Issuer to pay additional amounts in respect of taxes, duties, assessments and other governmental charges shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of or interest on the Notes; provided the Issuer shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the PRC or any PRC political subdivision or taxing authority, with respect to the Agency Agreement or as a consequence of the issue of the Notes.

9 PRESCRIPTION

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

10 EVENTS OF DEFAULT

If any of the following events ("Events of Default") occurs and is continuing:

(a) **Non-Payment**: failure by the Bank to pay any amount of principal or interest in respect of any of the Notes on the due date for payment thereof and such default continues for 30 days or more or

(b) **Breach of Other Obligations**: default by the Bank in the performance or observance of any one of its other obligations under or in respect of the Notes or the Agency Agreement and such default remains unremedied for 60 days following receipt by the Bank of written notice of such default (with a copy to the Fiscal Agent) from holders of an aggregate principal amount of not less than 10 per cent. of the Notes outstanding, to remedy such failure; or

(c) **Cross-Default**: failure by the Bank to make any payment when due of principal or interest in excess of US$50,000,000 (or its equivalent in any other currency or currencies) (whether upon maturity, acceleration or otherwise) on or in connection with Public External Indebtedness (other than that represented by the Notes) or guarantees given by the Bank in respect of Public External Indebtedness of others, and such failure by the Bank to make payment or to validly reschedule the payment (with the consent of the persons to which such Public External Indebtedness is owed) of such Public External Indebtedness continues for 30 days or more after the expiry of any applicable grace period following the date on which such payment became due; or

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

(e) **Winding-up**: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Bank, or the Bank ceases to carry on all or a material part of its business or operations except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution (as defined below) of the Noteholders; or

(f) **Illegality**: it is or will become unlawful for the Bank to perform or comply with any one or more of its obligations under any of the Notes or the Agency Agreement, then each Noteholder may give written notice to the Bank and the Fiscal Agent at the specified office of the Fiscal Agent, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable unless prior to receipt of such demand by the Fiscal Agent, all such defaults have been cured. The Issuer shall notify Noteholders and the Fiscal Agent promptly upon becoming aware of the occurrence of any Event of Default, but will not be obliged to furnish any periodic evidence as to the absence of defaults.

11 MEETING OF NOTEHOLDERS AND MODIFICATIONS

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

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

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

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

The Issuer and the Fiscal Agent may, without the vote or consent of any holder of Notes, amend the Notes for the purpose of (i) adding to the covenants of the Issuer for the benefit of the holders of Notes, or (ii) surrendering any right or power conferred upon the Issuer in respect of the Notes, or (iii) providing security or collateral for the Notes, or (iv) curing any ambiguity in any provision, or curing, correcting or supplementing any defective provision, contained herein or in the Notes in a manner which does not adversely affect the interest of any holder of Notes, or (v) effecting any amendment which the Issuer and the Fiscal Agent mutually deem necessary or desirable so long as any such amendment is not inconsistent with the Notes and does not, and will not, adversely affect the rights or interests of any holder of Notes.

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

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

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

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

12 REPLACEMENT OF NOTES, CERTIFICATES, COUPONS AND TALONS

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

13 FURTHER ISSUES

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

14 NOTICES

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

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

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in the CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.

15 GOVERNING LAW AND JURISDICTION

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

(b) **Arbitration**:

(i) Any dispute, controversy or claim arising out of or relating to any Notes, Coupons or Talons, including any question regarding the breach, termination, existence or invalidity thereof, shall be settled by arbitration administered by the Hong Kong International Arbitration Centre (the "HKIAC") in accordance with the HKIAC Administered Arbitration Rules then in force when the Notice of Arbitration is submitted in accordance with such Rules (the "Rules") and as may be amended by the rest of this Condition.

(ii) The seat of arbitration shall be in Hong Kong and the language of the arbitration shall be English. The governing law of this arbitration agreement shall be English law.

(iii) The arbitral tribunal (the "Tribunal") shall consist of three arbitrators to be appointed in accordance with the Rules.

(iv) The parties agree that any provisions in the Rules relating to applications for emergency relief, consolidation of arbitrations and/or single arbitrations under multiple contracts shall apply to any arbitral proceedings commenced pursuant to this Condition and under any of the Associated Contracts.

(v) The award of the Tribunal shall be final and binding among the parties regarding any claims, counterclaims, issues, or accountings presented to the Tribunal. To the fullest extent allowed by applicable Laws, each party hereby waives any right to appeal such award.

(vi) By agreeing to arbitration, the parties shall not be prevented from seeking from any court of competent jurisdiction conservatory or interim relief including a pre-arbitral injunction, pre-arbitral attachment or other order in aid of arbitration proceedings and to enforce any award.

(vii) For the avoidance of doubt, the parties agree that Condition 15(b) is, and is to be treated as, an international arbitration agreement, and any dispute, controversy or claim arising out of or relating to the Notes, Coupons or Talons, including any question regarding the breach, termination, existence or invalidity thereof, is to be arbitrated as an international arbitration in accordance with Condition 15(b).

For the purposes of this Condition, "Associated Contract" means each of:

(i) the amended and restated dealer agreement dated 3 November 2017 between the Bank, the Hong Kong Branch and the arrangers and the dealers set out therein (as amended or supplemented as at the Issue Date);

(ii) the Agency Agreement; and

(iii) the Deed of Covenant.

(c) **Cost of Arbitration**: The costs of the arbitration shall be allocated between the relevant parties to the arbitration by the Tribunal and shall be set forth in the arbitral award in accordance with the Rules.

(d) **Waiver of Immunity**: To the extent that the Bank, or if the Issuer is the Hong Kong Branch, each of the Bank and the Hong Kong Branch may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to the Bank, or if the Issuer is the Hong Kong Branch, each of the Bank and the Hong Kong Branch or its assets such immunity (whether or not claimed), the Bank, or if the Issuer is the Hong Kong Branch, each of the Bank and the Hong Kong Branch hereby irrevocably agrees not to claim and hereby irrevocably waives and will waive such immunity in the face of the courts (if required) to the full extent permitted by the laws of such jurisdiction.

16 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

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

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

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

Our loan portfolio consists substantially of project financing and loans for infrastructure, basic and pillar industries and basic finance and international cooperation, including loans to local and international government entities. As of 31 December 2017, loans with a maturity of over one year accounted for 93.92% of our total outstanding loan balance. Although some of our projects were, and may continue to be, recommended by either PRC central or local governmental agencies and we evaluate each project in accordance with our evaluation standards before we approve a loan, we cannot assure you, however, that the creditworthiness of our borrowers will not change over time or that there will be no default by our borrowers to meet their payment and other obligations. Most of our loans are secured by security interests in the borrowers' assets and/or guarantees from the borrowers' sponsors or affiliates. The value of such collateral, however, may significantly fluctuate or decline during any given period of time and the creditworthiness of the guarantors may also change over time as their risk profiles change due to changes in their operating environment as well as global or national macro-economic situation. As of 31 December 2017, approximately 63.53% and 13.59% of our loans were secured by collateral or by guarantees, respectively, with some of the loans secured by both. With respect to collateral, any decline in the value of such collateral could reduce the amount we may recover in respect of the underlying loans. In addition, the procedures in China for liquidating or otherwise realising the value of collateral may be protracted, and it may be difficult to enforce claims in respect of such collateral. With respect to guarantees, our exposure to the guarantors is generally unsecured. Any significant deterioration in the financial condition of the guarantors could significantly reduce our comfort level and the amount we may recover under the guarantees. In addition, our credit evaluation is also subject to periodic reviews. If the quality of our loan portfolio should deteriorate or we fail to realise the full value of the collateral or the guarantees securing our loans on a timely basis, our business, financial condition and results of operations may be adversely affected.

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

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

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

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

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

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

Our overseas business grows rapidly as our cooperation with foreign governments, enterprises and financial institutions continuously deepens and the scope of services provided by us in assisting Chinese enterprises to "Go Global" continuously expands. Although at present the impacts of the subprime crisis and the European sovereign debt crisis are fading, the global economy growth remains slow. Certain governments implemented loose monetary policies to stabilise economy. Meanwhile, the Federal Reserve started gradually ending its quantitative easing programme and the markets in emerging market countries experienced relatively high volatility. Such uncertainties and instability in the global economy may adversely affect our business, financial condition and results of operations.

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

Net interest income is the main source of our income. We operate our business predominantly in China under the interest rate regime regulated by the People's Bank of China, or PBOC. Historically, interest rates in China were highly regulated, which over the years have gradually become much more liberalised. Interest rates of Renminbi-denominated loans could float up and down based on PBOC benchmark rates. Renminbi-denominated deposits are subject to the benchmark rates and floating range set by the PBOC as maximum rates, but generally are not subject to minimum rates. Although it has been the practice in China for the interest rates of both interest-earning assets and interest-bearing liabilities to move in the same directions, there is no guarantee that PBOC will continue this practice in the future or that the move for both interest-earning assets and interest-bearing liabilities will be of the same magnitude or in different magnitude in favour of the commercial banks.

As of 31 December 2017, approximately 85% of our total loans and 95% of our total indebtedness (including debt securities, subordinated bonds, tier-two capital bonds, asset-backed securities, inter-bank certificates of deposit and borrowings from governments and other financial institutions) were denominated in Renminbi and the remaining were denominated in foreign currencies. Changes in currency exchange rates, interest rates or other market factors could have a material adverse effect on our financial condition and results of operations. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

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

RISKS RELATING TO CHINA'S ECONOMIC AND SOCIAL DEVELOPMENTS

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

At present, PRC's economic and social development is generally stable with steady and positive progress: the economy is operating in a reasonable range; price level in general is stable; and people's living standards are improving. The PRC economy has continued with the supply-side structural reform and the economic reform, the profits of enterprises are continually increasing, the development of economy keeps in a steady pace and shifts towards consumer, services industry and domestic market, which has shown stability and long-term benefits. At the same time, the PRC economy faces some difficulties including deep-rooted problems from past economic development. Under current situation, we are facing new challenges arising from adjustment of the national macroeconomic polices including the deleveraging of financial institutions, regulating local government debts, and strengthening financial risks management.

We assisted in the implementation of the key medium-and long-term development strategies of China's economy through conducting finance business such as medium-and long-term lending and investment and carried out a large amount of policy-oriented and development businesses. Our businesses cover four major sectors, including the "Two Fundamental-One-Pillar" (namely, infrastructure, basic industries and pillar industries) sector, the consumer financing sector, the international cooperation sector and the integrated business sector. In 2017, we continued to concentrate on the supply-side structural reform, to support modern urbanization, urban renewal, poverty development and national major construction projects, to promote regional coordinated development and to support industry transform and upgrades. Loans denominated in Renminbi we extended for the year ended 31 December 2017 amounted to RMB2,784.2 billion. We continue to promote our international business, to support China's Belt and Road initiative and to maintain our position as the biggest Chinese bank for foreign investment and financing cooperation. In the meantime, we have continued to focus on improving our risk management standards through promoting a comprehensive risk management system, strengthening risks monitoring and risk warning, improving our risk assessment methodology and procedure and enhancing the dynamic management of assets quality and our risk management responsibility system. As at 31 December 2017, with total assets of RMB15,958.7 billion and a non-performing loan ratio of less than 1% which we had maintained for 51 consecutive quarters, we were one of the leading development finance institutions in the world.

If the PRC economy and social development or the industries in which our loans are concentrated experience any significant downturn, or the national macro-control policies, industry policies and financial regulatory policies are materially adjusted, our business, financial condition and results of operations could be adversely affected.

RISKS RELATING TO THE NOTES

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

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

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

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

The Notes may not be a suitable investment for all investors

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

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;

(ii) custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

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

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

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

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

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

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (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 that may be designated by the relevant resolution authorities (which may include the Bank to the extent it conducts licensed activities in Hong Kong). The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of Notes may become subject to and bound by the FIRO. As the implementation of FIRO remains untested and certain detail relating to FIRO may be set out through secondary legislation and supporting rules, the full impact of FIRO on the Bank, and in particular, the Hong Kong Branch, as well as holders of the Notes, cannot be fully assessed as at the date of this Offering Circular.

The trading market for the Notes is expected to be limited

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

The PRC government does not guarantee the Notes

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

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

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

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

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the relevant Issuer would be obligated to increase the amounts payable in respect of any Notes due to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong, or any political subdivision thereof or any authority therein or thereof having power to tax, such Issuer may redeem all outstanding Notes in accordance with the Conditions.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the relevant Issuer may elect to redeem such Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

RISKS RELATED TO NOTES WHICH ARE LINKED TO "BENCHMARKS"

The London Interbank Offered Rate ("LIBOR"), the Euro Interbank Offered Rate ("EURIBOR") and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "FCA Announcement"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

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

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

Inverse Floating Rate Notes are typically more volatile than conventional floating rate debt

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

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

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

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

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

RISKS RELATING TO RENMINBI-DENOMINATED NOTES ("RMB NOTES")

Your investment in RMB Notes is subject to exchange rate risks

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

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

Renminbi is not freely convertible at present. The government of the PRC continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services, as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

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

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

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

There is no assurance that the PRC government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the pilot scheme for Renminbi cross-border utilisation will not be discontinued or that new regulations in 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 outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Bank to source Renminbi to finance its obligations under Notes.

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

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

There are restrictions imposed by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obligated to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside 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 establishment of Renminbi clearing and settlement mechanisms outside the PRC will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Notes. To the extent the Bank is required to source Renminbi in the offshore market to service its Notes, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

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

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

CAPITALISATION

The following table sets forth our capitalisation as of 31 December 2017, prepared in accordance with IFRS, and should be read in conjunction with our audited consolidated financial statements and related notes included in this Offering Circular:

	31 December 2017
	(in millions of RMB)
Long-term Debt[(1)]:	
Bonds issued	7,202,663
Other debts[(2)]	470,663
Total long-term debt	7,673,326
Capital Accounts:	
Share capital	421,248
Capital reserve	169,448
Investment revaluation reserve	244
Surplus reserve	121,672
General reserve	213,934
Currency translation reserve	(1,132)
Retained earnings	293,454
Non-controlling interests	21,028
Total equity	1,239,896
Total capitalisation[(3)]	8,913,222

Notes:

(1) Long-term debt includes all debt with a maturity of one year or longer, excluding its current portion.

(2) Other debts include deposits from banks and other financial institutions, due to customers, placements from banks, financial assets sold under repurchase agreements and borrowings from governments and financial institutions.

(3) Total capitalisation equals the sum of total long-term debt and total equity.

There has been no material adverse change in our capitalisation since 31 December 2017.

USE OF PROCEEDS

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

(i) where the Issuer is the Bank, for the Bank's working capital and general corporate purposes; and

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

DESCRIPTION OF THE BANK

OVERVIEW

We are a state-owned development finance institution established by the PRC government as an independent legal entity. Our operations are subject to the direct leadership of the State Council, in support of the development of key sectors and weak areas in the PRC economy.

We were established on 17 March 1994 pursuant to the Special Decree. On 11 December 2008, in accordance with the deployment of the State Council, we were converted into a joint stock company with limited liability pursuant to the PRC Company Law and other applicable laws and regulations. After our conversion, we continue to report directly to the State Council on important matters relating to our business and operations, and continue to be subject to the supervision and direction of the CBIRC with respect to our banking operations. In March 2015, the State Council approved our reform deepening plan, affirming our position as a development finance institution and the relevant policy support, and stressing the need to strengthen our role and function as a development finance institution to provide financing to national priorities, weak areas in the economy and during critical periods. We are currently wholly owned, directly or indirectly, by the PRC government, with MOF, Huijin, Buttonwood and the National Council for Social Security Fund each holding an equity interest of approximately 36.54%, 34.68%, 27.19% and 1.59%, respectively. In April 2017, as approved by CBIRC and with the completion of the registration of the relevant changes with the competent Administration for Industry and Commerce, we have changed from a joint stock company to a limited liability company and our registered name has changed from "China Development Bank Corporation (國家開發銀行股份有限公司)" to "China Development Bank (國家開發銀行)". According to CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%.

We are headquartered in Beijing, China and currently have 38 primary branch offices in China (including one in Hong Kong SAR) and 10 representative offices. Our major subsidiaries include CDB Capital, CDB Securities, CDB Leasing, China-Africa Development Fund, CDB Development Fund. Our place of business in China is No. 18 Fuxingmennei Street, Xicheng District, Beijing, People's Republic of China and our place of business in Hong Kong SAR is located at Suite 3307-3315, One International Finance Center, No. 1 Harbour View Street, Central, Hong Kong.

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

- deposit taking from corporate customers;
- making short-, medium-and long-term loans;
- entrusted loans;
- making sub-loans with the support from small-and medium-size financial institutions;
- domestic and international settlement;
- acceptance and discount of negotiable instruments;
- issuance of financial bonds and other marketable securities;
- acting as agent for the issuance, repayment and underwriting of government bonds, financial bonds and credit bonds;
- trading in government bonds, financial bonds and credit bonds;

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

As of 31 December 2017, our total assets amounted to RMB15,958.7 billion, representing an increase of 11.29% from 31 December 2016, and our net loans and advances grew by RMB748.5 billion, representing an increase of 7.57% from 31 December 2016. Net interest income is the main source of our income. For each of the two years ended 31 December 2016 and 2017, our net interest income was RMB136.1 billion and RMB180.3 billion, respectively.

We calculate our capital adequacy ratio in accordance with the Capital Rules for Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) promulgated by CBIRC. As of 31 December 2017, our capital adequacy ratio was 11.57%.

STRATEGIES

Supporting "Two-Fundamental-One-Pillar" key sectors.

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

Improving areas relating to basic people's livelihood.

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

Assisting in China's "Go Global" strategy.

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

COMPETITIVE STRENGTHS

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

We are a development finance institution which is wholly owned by the PRC government. As a wholesale bank with expertise in medium-and long-term bond offerings, we play a significant role in medium-and long-term financing for infrastructure development, basic industries and pillar industries in China. In March 2015, the State Council approved our reform deepening plan, affirming our position as a development finance institution and the relevant policy support and stressing the need to strengthen our role and function as a development finance institution to provide financing to national priorities, weak areas in the economy and during critical periods. According to the CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%. Our foreign currency credit rating remains the same as the sovereign credit rating for China. In April 2017, as approved by CBIRC and with the completion of the registration of the Bank's name change with the competent Administration for Industry and Commerce, our registered name has been changed from China Development Bank Corporation (國家開發銀行股份有限公司) to China Development Bank (國家開發銀行).

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

Through our commitment to and years of experience in financing various projects to support infrastructure development, basic industries, pillar industries, hi-tech industry and national key projects in China, we have remained as one of the key banks in medium-and long-term investment and financing in China with the strength of providing comprehensive financing services including investment, loans, bonds, lease and securities. We supported a large number of national key projects, including the three gorges project, projects for diverting water from the country's south to the north, projects for transmission of natural gas from the country's west to the east, railway links between Beijing and Kowloon, high-speed railway links between Beijing and Shanghai, Shougang Corporation's relocation, Beijing Olympic stadiums, infrastructure for Shanghai World Expo, national oil reserves and coal base facilities. Our loan operations mainly involve industries such as poverty development, urban renewal, public infrastructure, strategic emerging industries and the "Belt and Road" construction.

In 2017, we adopted a prudent yet proactive approach and acted in line with the PRC government's new development philosophy, which staying focus on supporting the supply-side structural reform by leveraging its advantages as a development finance institution. We were fully involved in fighting the "three battles": forestalling and defusing major risks especially major financial risks, pursuing targeted poverty alleviation, and preventing and controlling pollution. In all these efforts, we kept in mind the imperative to forestall systemic financial risks. We made solid efforts to promote the initiatives to trim overcapacity, cut oversupply, deleverage, reduce corporate costs and shore up weak areas. Committed to serving the real economy, we increased our support to key areas and weak sectors and made new contributions to the transformation of the growth model and the improvement of development quality and efficiency. In the year ended 31 December 2017, we reduced credit lines to overcapacity industries such as coal and steel, provided approximately RMB880.0 billion loans for the redevelopment and reform of shantytowns. As our commitment to the principle of "Operate as One CDB, Deliver Customer Experience as One CDB and Deliver Services as One CDB", we provided diversified and comprehensive financial services to key sectors and weak areas, including approximately RMB313.3 billion loans for new urbanization, approximately RMB444.5 billion loans for poverty alleviation, and supported "Belt and Road" projects by granting related loans with a total amount of U.S.$13.4 billion during the year ended 31 December 2017. In 2017, in support of China's innovation-driven development strategy, the 13th Five-Year Period national technology innovation plan and the Made in China 2025 initiative, we provided RMB344.3 billion loans to strategic emerging industries, launched pilot programs to combine investments and loans to help technological start-up and innovative enterprises and have already made solid progress.

We are strategically positioned in the national economy of China and endowed with a quality customer base. We have built long-term relationships with customers or partners of high caliber, including China Railway Corporation, China National Petroleum, China Unicom, China Three Gorges Project Corporation and Huawei. We will continue to benefit from our strategic position in the national economy, our quality customer base and long-term customer relationships.

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

We are currently the largest bond house (excluding central bank bills) amongst Chinese banks with the most comprehensive bond offerings, and the terms of the bonds issued by us range from three months to 50 years. According to the CBIRC, the investment of financial institutions in the banking industry in our financial bonds (excluding subordinated bonds) shall be treated the same way as policy-oriented bonds, the risk weighting of which shall be at 0%. In 2017, we issued RMB denominated bonds in China with an aggregate principal amount of RMB1,650.5 billion and our outstanding bonds as at 31 December 2017 exceeded RMB8,258.8 billion which accounted for approximately 11% of the total outstanding bonds in the PRC interbank market according to the data published by Chinabond. In 2016, we issued US$4.2 billion bonds and EUR2 billion bonds outside of the PRC which were listed on the London Stock Exchange and/or the SEHK. In January 2017, we further issued US$2 billion bonds and EUR1.9 billion bonds outside of the PRC and listed on the SEHK. In November 2017, we issued US$500 million and EUR1 billion dual-currency green bonds in offshore markets, which were listed on the SEHK and admitted to trade on the China Europe International Exchange marketplace operated by Deutsche Börse AG.

We have combined the functions of bond offering, underwriting, investment and trading, and are one of the most influential bond houses with the most comprehensive functions. We were the first Chinese bank that tapped into the international capital markets, and remain one of the most active and frequent Chinese issuers. As a major player in the PRC bond market and a leader in financial innovation, we were the first to issue financial bonds with a term up to 50 years, the first to engage in Renminbi interest rate swaps, the first to issue Renminbi asset-backed securities, the first to issue OTC financial bonds through commercial banks, the first to publicly offer U.S. dollar-denominated bonds in China, the first to issue Renminbi-denominated bonds in Hong Kong SAR, the first to issue SHIBOR based floating rate bonds in Hong Kong SAR, the first to issue CHN HIBOR interbank rate based floating rate bonds, the first Chinese quasi-sovereign issuer to issue bonds which are listed on London Stock Exchange. We were also the first to concurrently adopt the book-building and the CMU Service bidding approaches in Renminbi-denominated bonds in Hong Kong SAR. In July 2017, we made the first public offering of RMB20 billion bonds under the Bond Connect scheme. For the seven months ended 31 July 2018, we have issued in aggregate principal amount of RMB35 billion bonds under the Bond Connect scheme, covering both domestic and international investors.

Sound risk management and quality assets

In 2004, we established a risk management board of governors as our highest risk management authority in charge of the overall planning and decision making, and comprehensive management of all types of risks throughout our bank. Since 2007, we have moved our focus on risk management from credit risk management to overall risk management, and have achieved substantial improvement in identifying, measuring, monitoring and reporting risks relating to loans, fund transactions and other investing activities. In 2009, we further improved our overall risk management organization structure covering all the business sectors and risks types of our head office and branches. We established a sound corporate governance structure. We achieved the integration of credit risk management, market risk management, operational risk management, compliance risk management and other types of risk management. At the same time, we perfected our comprehensive risk management reporting system. The system supports the analysis of information collected from our five major business areas, namely investment, lending, bonds, leasing and securities, and from our head office and all departments and branches. We also formulated a centralised risk management process and successfully undertook multi-dimensional overall risk assessments of our operations continuously over several prescribed periods.

We streamline the organization structure and responsibilities of the headquarters and branches in relation to compliance and risk management according to the CBIRC's Guidelines for Risk Management Compliance of Commercial Banks. Integrating the regulatory requirements and our practical situation, we continued to enhance our internal control management and established a sound internal control system and mechanism. We continued to operate our businesses in compliance with applicable laws and regulations, and strictly control related risks. We revised our compliance risk management frameworks to further improve the compliance risk management system, focusing on the cultivation of a compliance culture of NO to non-compliant behaviours and increasing the awareness of our employees of such culture and of the importance of taking compliance as the lifeline of business development and the untouchable bottom line. This is to improve the effectiveness of our internal compliance and ensure the steady development of our internal compliance.

Owing to our sound risk management system, our ratio of non-performing loans remained relatively low among the PRC banking industry in 2017, and has been kept at a level below 1% for 51 consecutive quarters as of 31 December 2017. We also made provisions for non-performing loans strictly in accordance with applicable accounting standards, which reflected our prudent risk management.

Reasonable and steady profitability and efficient operation management

We have maintained steady and strong profitability since 1998, and have engaged international accounting firms to conduct external auditing since 2000. Our loan volume has maintained a good momentum for growth and our return on assets and return on equity remained steady. In 2017, we continued to improve the quality of our asset and liability composition, rationally managed our risk levels, strengthened our operational synergies and steadily increased our profitability. Compared to 2016, our net profit increased by 3.54% in 2017 while our return on assets was 0.75% and our return on shareholders' equity was 9.45% (including minority interests). Owing to our streamlined corporate structure and competent staff as well as our efficient operations management, our cost to income ratio has been significantly lower than that of other major commercial banks in the PRC.

Experienced management team and well-trained workforce

Our executive management team has extensive experience in the banking and financial service industry, with an average of over 25 years of industry experience. Our directors include the persons-in-charge of relevant departments of the State Council and senior professionals in the banking industry. We also have an international advisory council consisting of 13 members who are distinguished members from political, financial and academic circles around the world. As of the end of 2017, approximately 66.67% of our staff have received master's or higher degrees.

LOAN OPERATIONS

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

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

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

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

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

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

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

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

We grant loans in Renminbi or in foreign currencies. We determine the interest rates on loans denominated in Renminbi mainly by reference to the Renminbi benchmark lending rates set by PBOC from time to time with respect to different types of loans of varying maturities. We may lend at rates higher or lower than these benchmark rates. Changes in the PRC government monetary policy or in the Renminbi benchmark lending rates would affect our lending operations. For loans denominated in foreign currencies, we use fixed interest rates or determine the interest rates in accordance with prevailing rates in the international capital markets plus a premium. In order to minimise our exposure to foreign exchange and interest rate risks, we seek to match our loans and guarantees to liabilities denominated in the same currencies and to engage in such economic hedging transactions through interest rate and cross currency swaps.

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

Outstanding Loans and advances by Currencies[(1)]

	31 December	
	2017	**2016**
	(in millions of RMB)	
Renminbi	9,025,935	8,110,721
Foreign Currencies	1,616,740	1,783,452
Total	10,642,675	9,894,173

Note:

(1) After deduction for allowance for impaired loans.

As of 31 December 2017, our total outstanding net loans in foreign currencies were equivalent to RMB1,616.7 billion, which consisted of outstanding net loans in U.S. dollar equivalent to approximately RMB1,444.1 billion and outstanding net loans in other foreign currencies equivalent to approximately RMB172.6 billion.

As of 31 December 2017, the total outstanding net loan amount of our 10 largest borrowers was RMB846.3 billion, representing 8.10% of the total outstanding loans. In future periods, we may provide loans that increase our overall credit exposure, as well as the concentration of such credit exposure relating to particular customers, industry sectors or geographic regions.

As of 31 December 2017, loans in eastern China region, central China region, western China region, northwestern China region and regions outside Mainland China accounted for approximately 42.6%, 18.0%, 30.0%, 7.0% and 2.4% of our loan portfolio, respectively.

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

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

Breakdown of Outstanding Renminbi and Foreign Currency Loans by Industrial Sector[(1)]

	31 December			
	2017		2016	
	Amounts	**% of Total**	**Amounts**	**% of Total**
	(in millions of RMB, except for percentages)			
Road transportation	1,792,708	16	1,694,640	16
Urban renewal	2,728,850	25	2,130,237	21
Water conservation, environmental protection and public utilities	860,768	8	949,813	9
Electric power, heating and water production and supply	1,048,395	9	964,109	9
Railway transportation	929,434	8	894,690	9
Petroleum, petrochemical and chemical industry	745,828	7	727,199	7
Manufacturing industry	551,846	5	570,188	6
Mining industry	300,629	3	433,376	4
Urban public transportation	412,919	4	353,912	3
Other transportation	208,577	2	186,960	2
Financial Industry	246,855	2	201,943	2
Education	129,289	1	108,356	1
Telecommunication and other information transmission service	95,688	1	100,630	1
Others[(2)]	985,046	9	1,002,094	10
Total	11,036,832	100	10,318,147	100

Notes:

(1) Including loans provided by our subsidiaries and associate companies.

(2) Including Renminbi and foreign currency loans computer software, leasing and commercial services, warehousing and other miscellaneous industrial segments.

For the year ended 31 December 2017, we issued foreign currency loans in the aggregate principal amount of U.S. $80.6 billion. Our net foreign currency loans had an aggregate principal amount of U.S.$262.5 billion outstanding as of 31 December 2017.

Our loans to finance overseas investments are focused on servicing the Belt and Road Initiative, overseas infrastructure construction, international industrial capacity cooperation and energy exploration. In 2017, we participated in multiple projects, including Brazil Petroleo Brasileiro SA Oil Trading Cooperation Project, UK HPC Nuclear Project and Credit Facilities to the Ministry of Finance of Oman.

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

FUND MANAGEMENT

As the earliest and largest institution in private equity fund investment and management in China in terms of the number and the total size of the funds which it manages, CDB Capital has supported the healthy and rapid development of the equity investment sector in China. CDB Capital has invested in and managed more than 100 equity investment funds totaling a size of RMB850 billion as of 31 December 2017 and is one of the most influential and best reputed fund investment management brands in China. With many years' practice experience in the investment management of various kinds of funds, CDB Capital has cultivated a professional team for parent funds in China and established sound and industry-leading investment evaluation, post-investment management and risk control systems. The fund management businesses of CDB Capital mainly include bilateral and multilateral cooperation funds, fund of funds, and CDB Development Series Funds.

Starting from 1998, we have been establishing, investing in and managing bilateral and multilateral cooperation funds and we are now the top brand in terms of bilateral and multilateral cooperation fund investment and management in China. As of 31 December 2017, we have invested in and managed 20 bilateral and multilateral cooperation funds with external investment commitments totaling more than RMB40 billion.

We are one of the earliest institutions to carry out fund of funds business. In December 2010, with the approval from State Council, we established Guochuang Kaiyuan Fund of Funds ("Guochuang FoF"), which is currently the largest and most prominent fund of funds in China. Guochuang FoF is the first of its kind in the equity investment fund industry in China and has significant influence and brand appeal. Its establishment set the new industry standard for institutional investors. As of 31 December 2017, Guochuang FoF, a platform principally managed by us that invests in marketized funds, has made external investment commitment of around RMB17.0 billion and successfully invested in 44 leading private equity funds and 34 equity projects in China. Guochuang FoF has a comprehensive investment portfolio including early-, middle- and late-stage investment funds and is focused on industries with high growth potentials, including the healthcare industry and modern service industry. At present the funds and projects that Guochuang FoF invested in have good financial and operational performances and are expected to bring relatively high investment returns to the investors of Guochuang FoF.

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

UNDERWRITING DEBT SECURITIES

We underwrite debt securities, including corporate bonds, short-term financing bonds, medium-term notes and commercial bank bonds in China. We are qualified to underwrite corporate bonds, short-term financing bonds and medium-term notes, and are the only bank in China qualified to underwrite all three types of these securities. In 2017, our bond underwriting maintained steady growth. By acting as a leading underwriter for 223 bonds for a total volume of RMB364.7 billion in 2017, we played a major role in channeling market resources to support the state's key areas and major projects. We had 99% of the new projects with an AA or above rating, and 98% of the enterprises we served consisted of central state-owned enterprises and large local state-owned enterprises, so our project quality is clearly higher than the market average. By drawing on our strength with respect to medium-and long-term bonds, as of 31 December 2017, we led the underwriting of RMB119.08 billion medium-and long-term bonds with a maturity of one year and above, enabling the Bank to complement with other commercial banks in orderly competitions. We also helped the Chinese bond markets to measure up against international standards and successfully implemented the results of the "Belt and Road" Forum for International Cooperation through acting as the lead manager and bookrunner for Maybank's issuance of RMB1 billion panda bonds. It became the first tranche of panda bonds issued under the Bond Connect scheme in the interbank market and the first tranche of panda bonds issued in the ASEAN region, and was awarded the "Renminbi Bond of the Year 2017" by IFR Asia and the "Best FIG Bond" by the Asset in 2017.

TREASURY BUSINESSES

We steadily developed our treasury businesses and obtained the qualifications of inter-bank bond market maker and primary dealer for open market operations in the PRC. We also acted as primary market maker for spot, forward and swap transactions within the PRC, providing daily uninterrupted quotes for major transaction products. In 2017 our treasury trading volume reached approximately RMB91 trillion. We maintained the top position in the spot trading business for several consecutive years and remained a front-runner in interest rate swap business in terms of trading volume. By the end of 2017, we have been awarded the first place among "Top 100 Dealers of the Interbank RMB Trading" by the National Interbank Funding Center for seven consecutive years.

DERIVATIVES TRANSACTIONS

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

INTERNATIONAL COOPERATION AND OTHER ACTIVITIES

International cooperation. In 2017, in light of the new conditions of China's opening-up, we expanded our collaborations with foreign governments, enterprises and financial institutions, in the key areas such as infrastructure, manufacturing, finance, agriculture, consumer products and energy. We proactively served the Belt and Road Initiative and international industrial capacity cooperation and have made progress in a number of key projects. We also expanded our multilateral financial cooperation under the Interbank Consortium of the Shanghai Cooperation Organisation, China-ASEAN Inter-Bank Association, and the BRICS Inter-bank Cooperation Mechanism. We continued supporting Chinese enterprises to "Go Global" and the internationalization of Renminbi. We improved our risk control system and our assets quality was maintained at a stable level, while our comprehensive competitive strength in international businesses has been increasing steadily. At the end of 2017, we had total outstanding foreign currency loans (before deduction of allowance for impaired loans) of U.S.$262.5 billion, and an offshore Renminbi-denominated loan balance of RMB83.4 billion. With such large-scale lending in place, we maintained our status as a global pillar of investment and financing.

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

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

Asset-backed securities. We are the first domestic financial institution to successfully issue asset-backed securities. As at 31 December 2017, we have issued 33 credit securitization products with an aggregate size of RMB304.5 billion.

RISK MANAGEMENT

We are a financial institution which introduced a comprehensive risk management system relatively early in China. As early as 2004, we established a risk management board of governors as our highest risk management authority in charge of the overall planning and decision making, and comprehensive management of all the types of risks throughout our bank. Since 2007, we have moved our focus on the risk management from credit risk management to overall risk management, undertaking overall identification, measurement, monitoring and reporting of the credit risk, market risk and operational risk we would be exposed to when granting loans and conducting fund transactions and other investment activities. In 2009, we further improved our overall risk management structure covering all the business sectors and risk types of our head office and branches. We established a sound corporate governance structure, in which our board of directors assumes the ultimate responsibility for the comprehensive risk management. The risk management committee was established under our board of directors to perform some of its comprehensive risk management duties in accordance with the authorisation of our board of directors. We established an effective risk management structure for modern banks, and achieved the integration of various risk management such as credit risk management, market risk management, operational risk management and compliance risk management.

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

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

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

We have established and continue to improve the overall risk management reporting system covering all the business sectors and risk types throughout the whole business procedure. The system supports the analysis of information collected from our five major business areas, namely investment, lending, bonds, leasing and securities and from our head office and all departments and branches. We have also undertaken multi-dimensional overall risk assessments of our operations continuously over several prescribed periods and reported to the shareholders meeting, the board of directors, the board of supervisors, the executive management, the relevant special committees and other related parties, realising the good interaction between the business development and the risk management. At the same time, we have paid high attention to the management of compliance and internal control. Pursuant to the requirement under the Guidelines for the Internal Control of Commercial Banks and the Guidelines for Risk Management Compliance of Commercial Banks issued by CBIRC, we carried out relevant work on internal control, compliance risk management frameworks, and carried out verifications tasks in relation to the compliance of internal regulations. We successfully established a regulatory interview mechanism between CBIRC and us, and have actively conducted related-party transaction management.

Our non-performing loan ratio continued to be relatively low among the PRC banking industry in 2017. As of 31 December 2017, our total non-performing loans were RMB76.8 billion, and our non-performing loan ratio was 0.70%. The non-performing loan ratio has remained at less than 1% for 51 consecutive quarters as of 31 December 2017.

Credit Risk

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

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

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

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

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

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

In 2017, we continued to optimise and adjust credit structure by carrying out works in various aspects, including model development and management, internal credit rating system construction, risk evaluation and monitoring, and IT system construction. We improved our credit rating standards and achieved better management of credit risk. We continued to refine the credit rating system and further improve the quality of credit risk reviews at the margins. We also enhanced asset quality classification management and strengthened the risk management of clients with large exposures or high risks and took measures such as credit analysis and risk alerts for key client groups. We have established a sound risk monitoring, evaluation and report framework, to strictly control credit risk in all respects.

Market Risk

Market risk refers to the risk of loss of our on-and off-balance sheet businesses caused by adverse changes in market prices (such as interest rates, foreign exchange rates and security or commodity prices). The market risks we face mainly include risks relating to interest rate risks and foreign exchange risks within our banking and trading books. For trading books, we measure and monitor our trading limits and sensitivity indicators, stop-loss and other risk limits on a daily basis to track and control various risk conditions. For banking books, we conduct sensitivity analysis of foreign exchange rates risk and interest rates risk on a regular basis, to monitor the market risk conditions comprehensively. In 2017, we formulated the China Development Bank's Market Risk Management Measures to refine our methods for market risk identification, measurement, monitoring and control, closely track changes in the international and domestic financial markets, and steadily enhance our capability of market risk management.

In 2017, we refined our methods for market risk identification, measurement, monitoring and control, and steadily enhanced our capability to manage our treasury trading risks. We set a host of market risk limits for our trading accounts, including indicators such as sensitivity, size, stop-loss and maturity. We also measured, monitored and reported our market risk exposures and position on a daily basis. We set risk monitoring indicators for our banking accounts, including market value revaluation and duration analysis, closely tracked changes in international and domestic financial markets, and carried out monthly analysis of the changes to risk exposures.

Liquidity Risk

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

Operational Risk

Operational risk is the risk of loss arising from failed internal control process on systems, people and IT system and/or external events. In 2017, we continued to improve our operational risk management mechanism and strengthen our management efforts including optimizing the personnel structuring and strengthening oversight and accountability in line with the regulatory requirements and internal and external situations. We further increased monitoring and assessment of our operational risks, conducted special inspections of key businesses and areas such as credit, operation and settlement and maintained our operational risk at a relatively low level.

Compliance Risk

Compliance risk is the risk of significant financial loss and reputational loss arising from legal or regulatory penalties due to our failure to comply with laws, regulations and rules. In 2017, we strengthened our identification and management of compliance risks as we further improved our compliance risk management system. We supported the CBIRC's off-site regulation, on-site inspections, regulatory interviews and researches and studies, and effectively addressed issues that had been identified in the process. We also increased our compliance review of rules and regulations as well as risk assessment of new products to effectively strengthen our compliance management.

LOAN EVALUATION AND MONITORING

Credit risk is one of the most significant risks faced by any bank. We have set up a credit management system that separates the function of evaluation from that of approval with respect to our lending activity, with a "firewall" erected in between and different scopes of authorisation. The loan committees at the head office level and at the branch level each constitute the highest credit evaluation organization within the authority of their respective levels. The head office loan committee consists of an executive management officer as rotating chairman, the credit review controller as vice-chairman, and standing committee members which include the heads of the treasury department, the legal department and the risk management department of the head office as well as full-time committee members (four of which are selected to attend each meeting by random selection). The head office loan committee reports to the rotating chairman of the committee, our president and our chairman of the board.

At present, our three head office credit appraisal departments, organised along industry lines, and our domestic and overseas branches are each responsible for appraising cases within their respective scope of authority. The credit appraisal activities of the head office are led by the appraisal administration department for further review for compliance, which in accordance with our internal regulations will consult with 11 to 15 independent appraisal committee members drawn at random (the independent appraisal committee being composed of 180 independent members within the bank and 95 external independent experts which include accountants, lawyers and industry specialists), the head office departments for determining risk limits (treasury department, risk management department and legal department) and independent risk assessment departments (which, depending on the industry and the type of activities, may include the three head office credit appraisal departments, the international finance department, the international business operation department, the credit administration department, the market and investment department, the operational center, etc.), consolidate the views of the above, and report and make recommendations to the head office loan committee, which will make the final decision.

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

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

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

- Normal: A borrower can perform a contract, and there lack sufficient reasons to suspect that the principal and interest of a loan cannot be fully repaid on time.

- Watch/special mention: A borrower has the ability to repay the principal and interest of a loan for the time being, but there are some factors that are likely to have an adverse effect on the repayment.

- Substandard: An obvious problem has appeared in a borrower's ability to repay, the principal and interest of a loan cannot be fully repaid by completely depending on the normal business revenue of the borrower, and, even if a security is executed, there might be some losses incurred.

- Doubtful: A borrower cannot fully repay the principal and interest of a loan, and, even if a security is executed, large losses are surely to be incurred.

- Bad/loss: After the adoption of all possible measures or all necessary legal proceedings, the principal and interest of a loan cannot be recovered, or only a very small part of it can be recovered.

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

LOAN QUALITY

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

	31 December	
	2017	**2016**
	(in billions of RMB, except for percentages)	
NPLs Amount	76.80	90.60
NPLs Ratio	0.70%	0.88%

The amounts of our loans to customers in the five regulatory categories as well as our treatment of non-performing loans and NPLs ratios are calculated in compliance with applicable PRC banking laws and regulations. We prepare these amounts and ratios for PRC regulatory and reporting purposes. They may not be comparable to loan classification and NPL treatment methods of financial institutions in other jurisdictions, which are formulated pursuant to different banking laws and regulations of these other jurisdictions. Our financial statements prepared under the IFRS may not rely solely on this asset classification and NPL treatment. For more information on our accounting treatment of impaired loans in accordance with IFRS, see the below section of this Offering Circular titled "*– Impaired Loans and Loan Loss Provision – Treatment Under IFRS*".

IMPAIRED LOANS AND LOAN LOSS PROVISION

Investment. We treat our non-performing loans in accordance with the relevant PRC laws and regulations for regulatory reporting purposes in China. We treat our impaired loans in accordance with the IFRS for the purpose of our annual reports to the public.

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

Treatment Under IFRS. In accordance with International Accounting Standard No. 39, we make provisions for impairment in our loan portfolio. We first assess financial assets which are individually significant by conducting individual impairment tests; and then we evaluate individually those financial assets which are not individually significant or include such financial assets in a group of loans with similar credit risk characteristics and collectively assess them for impairment. If no impairment was discovered for an individually assessed loan, whether significant or not, we include the loan in a group of loans with similar credit risk characteristics and collectively assess them for impairment. Loans that are individually assessed for impairment are not included in a collective assessment of impairment. If objective evidence of impairment exists for a loan, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the historical loss data for loans with credit risk characteristics similar to such a group of loans. For more information on our international financial reporting treatment and provision with respect to our impaired loans, see our consolidated financial statements beginning on page F-2 in this Offering Circular.

As of 31 December 2016 and 2017, we had a total provision for impaired loans of RMB424.0 billion and RMB394.2 billion, respectively. We believe that our provisions are sufficient to cover our impaired loans based on our current judgment of our loan portfolio performance.

SOURCES OF FUNDS

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

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

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

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

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

Sources of Funds for Renminbi Loans

	Year Ended 31 December	
	2017	**2016**
	(in millions of RMB)	
Renminbi-denominated bonds issued	1,657,110	1,473,650
Capital contributions by equity holders	–	–
Net increase in borrowings and deposits	982,337	1,021,962
Total	2,639,447	2,495,612

We issue our Renminbi-denominated bonds (including debt securities and subordinated debts) in the domestic bond market. Our Renminbi-denominated bonds cover a wide range of maturities from three months to 50 years. As of 31 December 2017, an aggregate principal amount of RMB8,266.80 billion of Renminbi-denominated bonds was outstanding.

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

- foreign currency capital contributed by our shareholders;
- foreign currency loans and foreign exchange loans obtained from foreign governments, domestic and international financial institutions, foreign export credit agencies and foreign commercial banks, including short-term loans on the international interbank market;

- the issuance of bonds denominated in foreign currencies in both domestic and international markets; and
- short-term borrowings from other institutions and deposits from financial institutions and customers.

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

Sources of Funds for Foreign Currency Loans

	Year Ended 31 December	
	2017	**2016**
	(in millions of US$)	
Issuance of foreign currency bonds and borrowings	6,254	9,242
Capital contribution by equity holders	–	–
Net increase in deposits	-2,046	3,048
Total	4,208	12,290

DEBT REPAYMENT RECORD

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

SUBSIDIARIES, BRANCHES AND REPRESENTATIVE OFFICES

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

CDB Capital. It is a highly integrated strategic investment platform that operates bilateral and multilateral cooperation funds, fund of funds, and CDB Development Series Funds.

CDB Securities. It specializes in securities brokerage, equity investment consulting, financial advisory related to securities trading and securities investment, securities underwriting and sponsorship, proprietary securities dealing, securities asset management, margin trading and other businesses approved by CSRC.

CDB Leasing. It engages in a wide range of businesses, including aviation, shipbuilding, automobile, construction machinery, urban infrastructure, large equipment manufacturing, highways and rail transportation, energy, affordable housing and small and medium enterprises.

China-Africa Development Fund. It provides support for economic and trade cooperation between China and African countries, focusing on a group of agricultural, infrastructure, manufacturing, industrial park and resource development projects.

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

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

As at 31 December 2016, we directly held interests in 15 rural banks, among which 13 were controlled by us and two were our associates. On 20 January 2017, our plan to transfer our interests in these 15 rural banks was approved by the MOF. We publicly offered these investments at Beijing Financial Assets Exchange Co., Ltd. following the listing procedures for trading of state-owned equity interests in unlisted financial enterprise pursuant to the relevant regulations. On 27 April 2017, we entered into an agreement with a consortium composed of Bank of China Limited and Fullerton Financial Holdings Pte. Ltd. to transfer these equity interests. On 20 December 2017, this transaction had been completed.

EMPLOYEES

As of 31 December 2017, we had 9,147 full-time employees.

PROPERTIES

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

DESCRIPTION OF THE HONG KONG BRANCH

BACKGROUND

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

BUSINESS ACTIVITIES

The Bank is a licensed bank (Licence No. B296) in Hong Kong and is regulated by the HKMA. The Bank operates its principal business in Hong Kong through its Hong Kong Branch, whose registered office is at 33/F, One International Finance Centre, Central, Hong Kong. The core business strategy of the Hong Kong Branch is to develop and expand corporate banking services for the Bank's China-based clients and their overseas subsidiaries. As of 31 December 2017, the Hong Kong Branch had 175 employees.

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

- multi-currency denominated lending services, including term loans, syndicated loans, commercial lending and mortgage lending;

- issuance of guarantees, standby guarantees and counter-indemnities;

- trade finance, including issuing letters of credit, shipping guarantees, trust receipts and inward collections, advising and confirming letters of credit, negotiation of letters of credit, outward collections, bill discounts and packing loans;

- deposit and remittance services; and

- issuance of certificates of deposit.

For the fiscal year ended 31 December 2017, the Hong Kong Branch extended an aggregate principal amount of RMB0.3 billion of loans denominated in Renminbi and an aggregate principal amount of U.S.$16.2 billion of loans denominated in foreign currencies.

As of 31 December 2017, the Hong Kong Branch's total outstanding amount of loans in foreign currencies was equivalent to U.S.$33.0 billion, which consisted of U.S.$25.3 billion of outstanding loans in U.S. dollars and equivalent to U.S.$7.7 billion of outstanding loans in other foreign currencies.

HONG KONG REGULATORY GUIDELINES

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE AND MANAGEMENT

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

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

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

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

1. SHAREHOLDERS

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

Our shareholders enjoy the following rights:

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

Our shareholders have the following obligations:

- complying with laws and regulations and our articles of association;
- having a fiduciary duty to us and our other shareholders, not abusing the shareholder's rights in order to gain improper benefits or not harming our legitimate rights or interests or those of any other shareholders;

- supporting any measure proposed by our board of directors to reasonably increase our capital adequacy ratios in the circumstance where our capital adequacy ratios fall below the regulatory standards; and

- assuming any other obligations in accordance with laws and regulations or as stipulated by the State Council.

2. DIRECTORS AND BOARD OF DIRECTORS

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

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

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

- considering and approving our medium-and long-term development strategies, annual business plans and investment plans;

- preparing plans for any adjustments to our business scope and business division, and submitting such plans to the State Council for approval according to relevant procedures;

- formulating our annual financial budget and final accounts;

- considering and approving our annual bond issuance plans;

- considering and approving plans for our capital management and issuances of capital instruments;

- formulating our profit distribution plans and loss make-up plans;

- preparing our registered capital increase or reduction plans, and submitting such plans to the State Council for approval according to relevant procedures;

- preparing amendment plans to our articles of association, and submitting such plans to the State Council for approval pursuant to relevant procedures;

- formulating rules of the procedures of the board of directors, and revision plans;

- considering and approving our material projects, including but not limited to material mergers and acquisitions, material investments, material asset acquisitions and disposals and material external guarantees (except for bank guarantee business);

- resolving on matters including the establishment, separation, merger/consolidation and change to the capital of our tier-one subsidiaries;

- preparing plans for our merger/consolidation, separation, dissolution or change to our organisational form, and submitting such plans to the State Council for approval according to relevant procedures;

- appointing or removing the president, the secretary of the board of directors and the chief auditing officer;
- appointing (according to the nomination of the president) or removing the vice presidents, and other executive management officers who shall be appointed or removed by the board of directors according to laws and regulations (except for the secretary of the board of directors and the chief auditing officer);
- determining matters relating to the executive management officers' remuneration, performance assessment and rewards and penalties according to the relevant requirements issued by the state;
- considering and approving plans for our internal remuneration and performance assessment system;
- determining the scope of authorities delegated to our chairman and executive management;
- considering and approving our basic management systems such as risk management and internal control;
- considering and approving our internal organisation structure, and plans for the establishment, adjustment and discontinuance of our domestic and overseas primary branches;
- considering and approving our internal audit protocols, annual work plans and internal audit units;
- determining the engagement, dismissal or non-reappointment of accounting firms as our auditors;
- formulating our information disclosure policy and system;
- considering and approving our annual reports;
- determining the directors (including the chairman), supervisors (including the chairman of the board of supervisors) and general managers (presidents) to be appointed in the subsidiaries;
- considering the articles of association of our subsidiaries;
- regularly listening to feedbacks provided by commercial financial institutions, corporations and government departments and other parties;
- proactively coordinating different departments; and
- other powers as stipulated by laws and regulations and granted by the State Council.

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

Directors	**Date of Birth**	**Position**
Mr. Zhao Huan	December 1963	Chairman and executive director
Mr. Zheng Zhijie	May 1958	Vice chairman, president and executive director
Mr. Zhou Qingyu	September 1962	Vice president and executive director
Mr. Lian Weiliang.	December 1962	Deputy director of the National Development and Reform Commission (the "NDRC") and government agency director

Directors	Date of Birth	Position
Mr. Shi Yaobin	June 1958	Director of the Budgetary Affairs Commission of the Standing Committee of the National People's Congress and government agency director
Mr. Li Chenggang	February 1967	Assistant minister of Ministry of Commerce and government agency director
Ms. Zhang Xiaohui	May 1956	Former assistant governor of the PBOC and government agency director
Mr. Mi Jingping	December 1959	Equity director
Mr. Liu Xiangdong	June 1969	Equity director
Mr. Zhang Shenghui	March 1966	Equity director
Mr. Chu Aiwu	April 1969	Equity director
Mr. Bian Ronghua	April 1964	Equity director

You may find additional biographical information on each of our current directors under the section entitled "– *Management Biographical Information – Directors*".

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

3. SPECIAL COMMITTEES OF BOARD OF DIRECTORS

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

- a strategy development and investment committee;
- an audit committee;
- a risk management committee;
- a related party transactions committee;
- a personnel and remuneration committee.

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

Supervisors and board of supervisors

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

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

Executive Management

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

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

Executive Management Officers	Date of Birth	Position
Mr. Zheng Zhijie	May 1958	President
Mr. Zhou Qingyu	September 1962	Vice President
Mr. Zhang Xuguang	October 1964	Vice President
Mr. Cai Dong	October 1968	Vice President
Mr. Wang Yungui	June 1963	Secretary of the CPC Discipline Inspection Commission
Mr. Ma Xin	November 1967	Vice President
Mr. Liu Jin.	February 1967	Vice President
Mr. Chen Min	July 1962	Secretary of the Board of Directors

You may find additional biographical information on each of our executive management members under the section entitled "*– Management Biographical Information – Executive management*".

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

- leading our operational management, and carrying out resolutions adopted by our board of directors;
- preparing our medium-and long-term development strategies, annual business plans and investment plans;
- preparing plans for any adjustments to our business scope and business division;

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

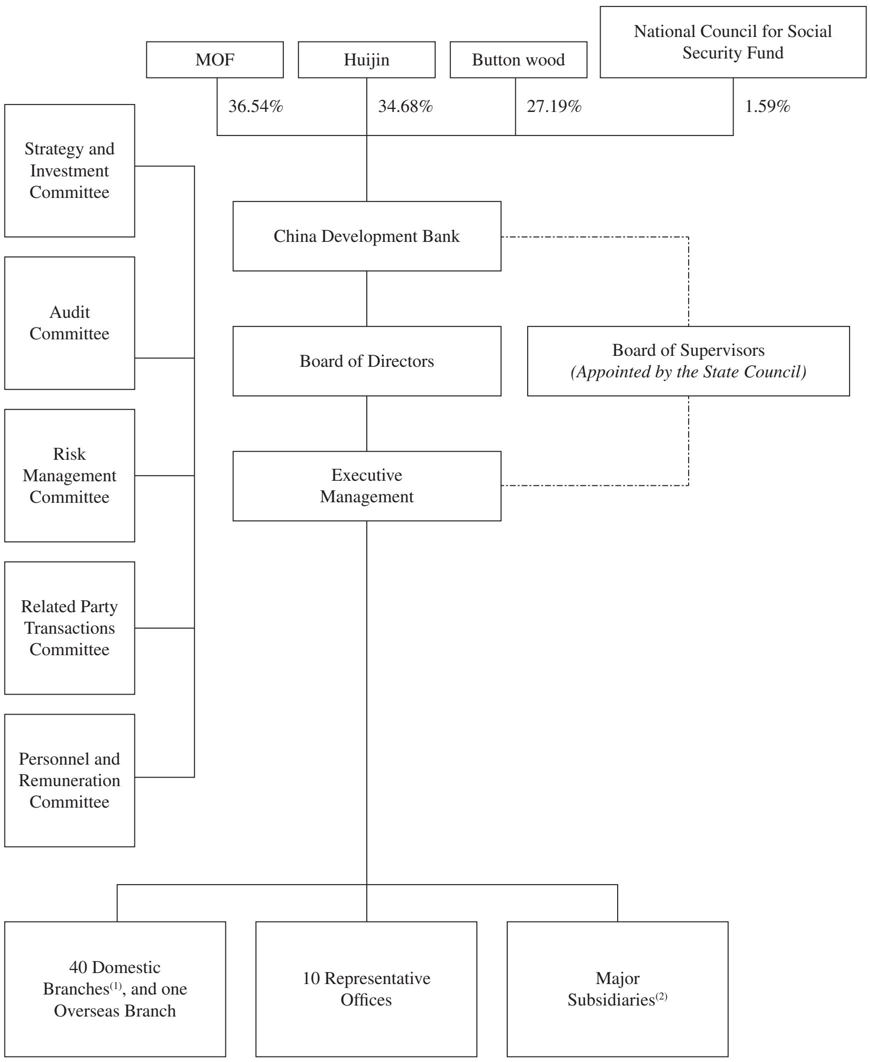
When our president is unable to perform his duties, such duties shall be performed by the executive director, vice president or other executive management officer designated by our board of director for such purpose.

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

CORPORATE ORGANISATION

The departments at our headquarter are established along three directions, namely risk control, business promotion and audit and supervision and the four major areas of our support and safeguard system. They include the general office, the research center (the financial research and development center), the policy research department, the planning department, the planning center, the business development department, the market development and equity investment department, the legal affairs department, the finance and accounting department, the treasury and financial market department, the risk management department, the project appraisal administration department, the project appraisal department I, the project appraisal department II, the loan management department, the international finance department, the global cooperation department, the large corporate client department, the information technology department, the operational management department, the internal audit department, the human resources department, the compliance department, the education and training department, the administrative affairs management department, the retired staff department and the procurement centre. At present, we also have a strategy and investment committee, an audit committee, a related party transactions committee, a risk management committee and a personnel and remuneration committee.

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



(1) Including 37 primary branches and 3 secondary branches in China (excluding Hong Kong SAR).

(2) Including CDB Capital, CDB Securities, CDB Leasing, China-Africa Development Fund and CDB Development Fund.

MANAGEMENT BIOGRAPHICAL INFORMATION

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

Directors

Mr. Zhao Huan – chairman and executive director. Mr. Zhao has served as our chairman and executive director since November 2018. Mr. Zhao served as vice chairman, president and executive director of Agricultural Bank of China Limited since January 2016, executive director of China Everbright Group Ltd. and China Everbright Co., Ltd and vice chairman and president of China Everbright Bank Co., Ltd. since December 2013, and vice president of China Construction Bank Corporation since December 2010. Mr Zhao held various positions prior to December 2010, including deputy head and head of Business Management of the Credit Department, head of General Corporate Business Management Department, deputy manager of Corporate Business Department in China Construction Bank Corporation. He was also the vice president of China Construction Bank Corporation's branch in Xiamen. Mr. Zhao received a bachelor degree in engineering from Xi'an Jiaotong University and is a Senior Economist in China.

Mr. Zheng Zhijie – vice chairman, president and executive director. Mr. Zheng has served as vice chairman, president and executive director since October 2012. From 2008 to 2012, Mr. Zheng served as our executive director and vice president. Between 2001 and 2008, Mr. Zheng served as vice president of China Construction Bank and president of China Jianyin Investment Limited. From 1997 to 2001, Mr. Zheng worked as the president of Beijing branch and the assistant to the president of China Construction Bank concurrently. Mr. Zheng received a doctorate degree in political economics from Nankai University.

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

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

Mr. Shi Yaobin – director of the Budgetary Affairs Commission of the Standing Committee of the National People's Congress and our government agency director. Mr. Shi has served as our government agency director since October 2017. Mr. Shi had served as deputy director and director of the Tax Policy Department of MOF, deputy secretary of the CPC Xiangtan Municipal Committee, mayor of Xiangtan in Hunan, director general of the Department of Finance of Hunan Province and the vice minister of the MOF. Mr. Shi obtained a doctorate degree in finance from China Research Institute for Fiscal Science.

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

Ms. Zhang Xiaohui – government agency director. Ms. Zhang has served as our government agency director since October 2017. Ms. Zhang had held various positions at the PBOC, including deputy director-general of the General Administration Office, director-general of the Financial Markets Department, director-general of the Monetary Policy Department, head of the Shanghai Open Market Operation Department and assistant governor, and also served as senior advisor of the Office of the Executive Director for China in International Monetary Fund. Ms. Zhang obtained a doctorate degree in monetary policy and banking from the PBOC Research Institute of Finance and Banking.

Mr. Mi Jingping – equity director. Mr. Mi has served as our equity director since May 2015 and as inspector in the General Office of MOF's Inspection Work Leading Team since 2015. From 1995 to 2015, Mr. Mi held various posts in MOF's Discipline Inspection Team and Supervision Bureau as designated by the Central Commission for Discipline Inspection and the Ministry of Supervision, including discipline inspector (bureau level), supervision specialist (bureau level), deputy director of the Supervision Bureau, and deputy director of the First Department. Mr. Mi obtained a bachelor's degree in foreign economy from Party School of the Central Committee of Communist Party of China in 1996.

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

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

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

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

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

Executive Management

Mr. Zheng Zhijie – president. You may find his biographical information under the section entitled "– *Management Biographical Information – Directors*".

Mr. Zhou Qingyu – vice president. You may find his biographical information under the section entitled "– *Management Biographical Information – Directors*".

Mr. Zhang Xuguang – vice president. Mr. Zhang is our vice president. Mr. Zhang worked as vice president of our Tianjing Branch, deputy director of our General Office, president of our Guangxi Branch, president of China Development Bank Capital Corporation Ltd., our chief investment officer and president of China Development Bank Capital Corporation Ltd. concurrently. Mr. Zhang received a master's degree in economic law from Peking University and a master's degree in corporate law from the University of Minnesota Law School.

Mr. Cai Dong – vice president. Mr. Cai is our vice president. Mr. Cai worked as the general of e-banking department and head of Tianjin branch of Industrial and Commercial Bank of China. Mr. Cai completed his doctoral study in electronic accounting of the Fiscal Science Research Institute of the MOF.

Mr. Wang Yungui – secretary of the CPC Discipline Inspection Commission. Mr. Wang is our secretary of the CPC Discipline Inspection Commission. Mr. Wang served as the general manager of the education department, head of the publicity department of the CPC committee, general manager of the human resources department and head of the organization department of the CPC Committee, of Industrial and Commercial Bank of China. Mr. Wang received a master's degree in international communist movement from Party School of the Central Committee of Communist Party of China and a Fudan-HKU IMBA degree.

Mr. Ma Xin – vice president. Mr. Ma is our vice president. Before serving as our vice president, Mr. Ma had held various positions in our Group, including the vice president and a member of the CPC Committee of Tianjin branch, the deputy director of the Planning Bureau, the president and the secretary of the CPC Committee of Qinghai branch, the president and the secretary of the CPC Committee of Guangxi branch and the director of the Business Development Bureau. Mr. Ma received a doctorate degree and is a senior engineer.

Mr. Liu Jin – vice president. Mr. Liu is our vice president. Mr. Liu held various positions in Industrial and Commercial Bank of China from July 1993 to April 2018, including the president and secretary of the CPC of Jiangsu branch, the general manager of the investment banking department of the headquarters, the vice chairman, executive director and general manager of ICBC Europe, the general manager of Frankfurt branch, the vice president and a member of the CPC Committee of Shandong branch, the general manager and the deputy director of the international business department of Shandong branch, and the representative of London representative office. Mr. Liu received a bachelor's degree and a master's degree in English Language and Literature from Shandong University.

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

INTERNATIONAL ADVISORY COUNCIL

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

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

Name	Position held
Paul Keating	Former Prime Minister of Australia
Henry Kissinger	Former Secretary of State, USA
Tony Blair	Former British Prime Minister
Jacob A. Frenkel	Former Governor of Central Bank of Israel and President of J.P. Morgan Chase International, USA
Jean Lemierre	Former president of the European Bank for Reconstruction and Development, Chairman of the Board of Directors of BNP Paribas
Maurice R. Greenberg	Former Chairman of American International Group and Chairman and CEO of C.V. Starr & Co. Inc.
Hans W. Reich	Former Chairman of Kreditanstalt für Wiederaufbau and Chairman of Citigroup Public Sector Group
Uli Sigg	Former Swiss Ambassador to China, Switzerland
Andrew L.T. Sheng	Former Chairman of the Securities and Futures Commission of Hong Kong SAR
Lawrence J. Lau	Former President of the Chinese University of Hong Kong and Former Chairman of China Investment Corporation International (Hong Kong) Co., Ltd.
Ng Kee Choe	Former Deputy Chairman of Development Bank of Singapore and Chairman of Singapore CapitaLand Limited
David Wright	Former Vice Chairman of Barclays
Toyoo Gyohten	President and Chief Executive Officer of Mitsubishi UFJ Financial Group, Inc. and Chairman of MUFG Bank, Ltd.
Jacques P.M. Kemp	Former Chief Executive Officer of ING Insurance International B.V. and Chairman of NextportChina

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

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

INITIAL ISSUE OF NOTES

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

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

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

RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

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

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

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

EXCHANGE

Temporary Global Notes

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

(i) if the applicable Pricing Supplement indicates that such Global Note is issued in compliance with US Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of section 4701 of the Code) (the "C Rules") or in a transaction to which TEFRA is not applicable (as to which, see "*Summary of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the applicable Pricing Supplement, for Definitive Notes.

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

Permanent Global Notes

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

(i) if the permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU Service or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; and

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent (or, in the case Notes lodged with the CMU Service, the CMU Lodging Agent) of its election for such exchange.

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

Global Certificates

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

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

(ii) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or

(iii) with the consent of the relevant Issuer,

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

Partial Exchange of Permanent Global Notes

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

Delivery of Notes

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

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

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

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

Exchange Date

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

AMENDMENT TO CONDITIONS

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

Payments

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

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

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

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

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

Prescription

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

Meetings

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

Cancellation

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

Purchase

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

Issuer's Option

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

Noteholders' Option

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note or Global Certificate may be exercised by the holder of the permanent Global Note or Global Certificate giving notice to the Fiscal Agent (or, in the case of Notes lodged with the CMU Service, the CMU Lodging Agent) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions, in accordance with the rules and procedures of Euroclear and Clearstream (or, in the case of Notes lodged with the CMU Service, substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Fiscal Agent (or, in the case of Notes lodged with the CMU Service, the CMU Lodging Agent) or a Paying Agent acting on its behalf, for notation.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.

TAXATION OF NOTES

The following is a general description of certain tax considerations relating to the Notes. It is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.

PRC TAXATION

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

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

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

According to the double taxation arrangement between China and Hong Kong SAR, residents of Hong Kong SAR will not be subject to PRC tax on any capital gains from a sale or exchange of the Notes. For other investors of our Notes, according to the PRC Enterprise Income Tax Law and its implementation rules, it is unclear whether the capital gains of non-PRC resident holders derived from a sale or exchange of the Notes will be subject to PRC income tax. If such capital gains are determined as income sourced in China by the PRC tax authority, the non-PRC resident Note holders other than Hong Kong residents may be subject to the enterprise income tax at a rate of 10% for non-PRC resident enterprises, or individual income tax at 20% for non-PRC resident individuals, respectively, unless otherwise provided in other preferential taxation policies under special taxation arrangements.

Value Added Tax ("VAT")

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

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

According to Circular 36, the entities and individuals providing the services within 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 funds for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes shall be treated as the holders of the Notes providing loans to the note issuer, which thus shall be regarded as financial services subject to VAT.

In the case of issuance of Notes by the Bank, given that the Bank is located in the PRC, the 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% when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the surcharges at approximately 12% of the VAT payment and consequently, the combined rate of VAT and surcharges would be around 6.72%. Given that the Bank pays interest income to Noteholders who are located outside of the PRC, the Bank, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and surcharges from the payment of interest income to Noteholders who are located outside of the PRC.

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

In the case of issuance of Notes by the Hong Kong Branch, Circular 36 does not apply if the provision of loans by individuals or entities located outside the PRC takes place outside the PRC. Neither the Hong Kong Branch nor the holders of the Notes are located in the PRC and if the provision of loans takes place outside the PRC, then no VAT is payable on interest payments under the Notes. This is, however, subject to the interpretation of Circular 36 by the relevant authority.

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

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

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

HONG KONG SAR TAXATION

Withholding Tax

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

Profits Tax

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

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

(i) interest on the Notes is 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; or

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "IRO")) 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 and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

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

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

Stamp Duty

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

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

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

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

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

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

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

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

FATCA WITHHOLDING

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuers may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong) 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 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

The Bank and the Hong Kong Branch have entered into an amended and restated dealer agreement with The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited, Barclays Bank PLC and Bank of China (Hong Kong) Limited (the "Arrangers"), ABCI Securities Company Limited, Bank of Communications Co., Ltd. Hong Kong Branch, CCB International Capital Limited, ICBC International Securities Limited and Industrial and Commercial Bank of China (Asia) Limited (together with the Arrangers, the "Dealers") dated 3 November 2017 in relation to the Notes (as amended and supplemented by a supplemental dealer agreement dated 30 November 2018 and as amended and/or supplemented and/or restated from time to time, the "Dealer Agreement") which sets out the basis upon which the Dealers or any of them may from time to time agree to subscribe for the Notes. Where the relevant Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the "Issue Price"), the Dealer(s)' subsequent offering of those Notes to investors may be at a price different from such Issue Price. The relevant Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it and the expenses incidental to the performance of its obligations under the Dealer Agreement as agreed between the relevant Issuer and the relevant Dealer(s).

The Dealer Agreement provides that the Bank and, if the relevant Issuer is the Hong Kong Branch, the Hong Kong Branch will indemnify the Dealers against certain liabilities in connection with any loss arising out of any misrepresentation made in this Offering Circular. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the relevant Issuer.

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

In connection with the issue of any Tranche (as defined in "*Terms and Conditions of the Notes*") of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or any person acting for any of them) in the applicable pricing supplement may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for us and/or our affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for us and/or our affiliates in the ordinary course of their business. The Dealers or certain of their affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Dealers or their respective affiliates may purchase the 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 the Notes and/or other securities of ours and/or our subsidiaries or associates at the same time as the offer and sale of the 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 Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

GENERAL

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

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

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

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

HONG KONG SAR

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that (i) it has not offered or sold and will not offer or sell in Hong Kong SAR, by means of any document, any Notes (except for Notes which are a structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong SAR) other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong SAR and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong SAR or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong SAR or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong SAR (except if permitted to do so under the securities laws of Hong Kong SAR) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong SAR or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong SAR and any rules made under that Ordinance.

UNITED STATES

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

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

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

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

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

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

(1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the relevant Issuer or a person acting on behalf of such an affiliate.

(2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) The relevant Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

(4) It understands that the Notes offered in reliance on Regulation S will be represented by a Global Certificate. Prior to the expiration of the distribution compliance period, before any interest in the Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Global Certificate, it will be required to provide the Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

THE PEOPLE'S REPUBLIC OF CHINA

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes will not be offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the laws of the People's Republic of China.

JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "Financial Instruments and Exchange Act"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

EUROPEAN ECONOMIC AREA

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA. For the purposes of this provision:

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

   (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

   (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

   (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "Prospectus Directive"); and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Public Offer Selling Restriction under the Prospectus Directive

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant 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 3(2) of the Prospectus Directive in that Relevant 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 Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the relevant Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

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

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), 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 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require any relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of this provision, the expression "an offer of Notes to the public" in relation to any Notes in any Relevant 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 the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

UNITED KINGDOM

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

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Bank or the relevant Issuer;

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

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

SINGAPORE

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivative contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

FORM OF PRICING SUPPLEMENT

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

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

[**PRIIPs REGULATION – PROHIBITION OF SALES TO EEA 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, "MiFID II")][MiFID II]; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[.]/[; or] [(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "Prospectus Directive").[2] Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuers have, unless otherwise specified by the relevant Issuer before an offer of Notes, determined and hereby notifies the relevant persons as defined under the SFA the classification of the Notes to be issued under the Programme as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

[This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "Professional Investors") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

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

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

The Hong Kong Stock Exchange has not reviewed the contents of this Pricing Supplement, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Pricing Supplement to Professional Investors only have been reproduced in this Pricing Supplement. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or quality of disclosure in this Pricing Supplement. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Pricing Supplement.

This Pricing Supplement, together with the Offering Circular (as defined below), includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.][3]

Pricing Supplement dated [●]

China Development Bank [Hong Kong Branch]

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

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "Conditions") set forth in the Offering Circular dated [*original date*] [and the supplemental Offering Circular dated [*date*]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated [*current date*] as so supplemented.

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

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

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

1	Issuer:	China Development Bank [Hong Kong Branch]
2	[(i)] Series Number:	[●]
	[(ii) Tranche Number	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)]	
	[(iii)] Tax Jurisdiction	[●]

[3] Applicable for Notes to be listed on the Hong Kong Stock Exchange only.

3	Specified Currency or Currencies:		[●]
4	Aggregate Principal Amount:		
	(i)	Series:	[●]
	[(ii)	Tranche:	[●]]
5	[(i)]	Issue Price:	[●] per cent. of the Aggregate Principal Amount [plus accrued interest from [insert date] (*in the case of fungible issues only, if applicable*)]
	[(ii)	Net proceeds:	[●] (*Required only for listed issues*)]
6	(i)	Specified Denominations:	[●][(1)]
	(ii)	Calculation Amount[(4)]:	[●]
7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[*Specify/Issue date/Not Applicable*]
8	Maturity Date:		[*specify date (for Fixed Rate Notes) or (for Floating Rate Notes) Interest Payment Date falling on or nearest to the relevant month and year*][(2)]
9	Interest Basis:		[[●] per cent. Fixed Rate] [*specify reference rate*] +/-[●] per cent. Floating Rate] [Zero Coupon] [Other (*specify*)] (further particulars specified below)
10	Redemption/Payment Basis:		[Redemption at par] [Other (*specify*)]
11	Change of Interest or Redemption/Payment Basis:		[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]
12	Put/Call Options:		[Put] [Call] [(further particulars specified below)]
13	Listing:		[Hong Kong/Specify Other/None] (*For Notes to be listed on the Hong Kong Stock Exchange, insert the expected effective listing date of the Notes*)
14	(i)	Date of [Board] approval for the issuance of Notes obtained:	[●] (*Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)
	(ii)	[Date of NDRC certificate]:	[●] (*Only relevant where registration with the NDRC is required for the particular tranche of Notes*)
15	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Rate [(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year(3) [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount(4)
	(Applicable to Notes in definitive form)		
	(iv)	Broken Amount:	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(Applicable to Notes in definitive form)		[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate*]
	(v)	Day Count Fraction (Condition 5(h)):	[30/360/Actual/Actual (ICMA/ISDA)/Other] (*Day count fraction should be Actual/Actual-ICMA for all fixed rate issues other than those denominated in US dollars or Hong Kong dollars, unless the client requests otherwise*)
	(vi)	Determination Date(s) (Condition 5(h)):	[●] in each year. [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*](5)
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
17	Floating Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]

(iv)	Business Centre(s) (Condition 5(i)):	[●]
(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
(vi)	Interest Period Date(s):	[Not Applicable/specify dates] (*Not applicable unless different from Interest Payment Date*)
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
(viii)	Screen Rate Determination (Condition 5(b)(ii)(A)):	
	• Reference Rate:	[●]
	• Interest Determination Date:	[[●] *[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]*]
	• Relevant Screen Page:	[●]
(ix)	ISDA Determination (Condition 5(b)(ii)(B)):	
	• Floating Rate Option:	[●]
	• Designated Maturity:	[●]
	• Reset Date:	[●]
	• ISDA Definitions: (if different from those set out in the Conditions)	[2000/2006]
(x)	Margin(s):	[+/-] [●] per cent. per annum
(xi)	Minimum Rate of Interest:	[●] per cent. per annum
(xii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiii)	Day Count Fraction (Condition 5(j)):	[●]
(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]

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

PROVISIONS RELATING TO REDEMPTION

19	Call Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period (if other than as set out in the Conditions):	[●]
20	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 (if other than as set out in the Conditions):	[●]
21	Final Redemption Amount of each Note:	[●] per Calculation Amount

22	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

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

DISTRIBUTION

29	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give name*]
30	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
31	U.S. Selling Restrictions:	[Reg. S Category 1/2(8); TEFRA D/TEFRA C/TEFRA Not Applicable]

32	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no Key Information Document will be prepared, "Applicable" should be specified.*)
33	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

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

GENERAL

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

[STABILISATION

In connection with this issue, [insert name of Stabilisation Manager] (the "Stabilisation Manager") (or persons acting on behalf of any Stabilisation Manager) may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Such stabilising shall be in compliance with all applicable laws, regulations and rules.]

[PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the HKSE of the Notes described herein pursuant to the US$30,000,000,000 Debt Issuance Programme.]

[LISTING APPLICATION

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

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ______________________
Duly authorised

Notes:

(1) Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies). If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording set out in the Guidance Note published by ICMA in November 2006 (or its replacement from time to time) as follows: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000".

(2) Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

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

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

(5) Only to be completed for an issue where the Day Count Fraction is Actual/Actual-ICMA.

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

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

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary." The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the Pricing Supplement.

(8) Reg. S Category 1 may be available subject to the Issuer having no substantial U.S. market interest.

GENERAL INFORMATION

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

Prior to each issue of Notes, the Bank or the Hong Kong Branch as the case may be, will have obtained all necessary consents, approvals and authorizations in connection with the issue of such Notes. In connection with Notes issued by the Bank, the Bank will apply for all necessary registration with respect to the use of proceeds of Notes or the payment of principal and interest in accordance with applicable laws. The repayment of the principal and/or interest of the Notes by the Bank may be adversely affected in the event any required registration is not obtained. The Bank does not however expect that any registration would be refused.

Where applicable for a relevant Tranche of Notes, the Notes will be issued within the annual foreign debt quota granted to the Bank by the NDRC pursuant to the Reply of the National Development and Reform Commission on the Foreign Debt Scale of the Enterprise of Foreign Debt Scale Management Reform of 2018 (國家發展改革委關於2018年度外債規模管理企業外債規模的批覆)(發改外資[2018]307號) on 9 February 2018, unless otherwise specified in the relevant Pricing Supplement. After the issuance of such relevant Tranche of Notes, the Bank intends to provide the requisite information on the issuance of such Notes to the NDRC within the prescribed time period.

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

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

- copies of the amended and restated agency agreement or an agreed form thereof before such agreement has been executed,

- copies of the amended and restated deed of covenant or an agreed form thereof before such agreement has been executed,

- conformed copies of the global bond or certificate of each Tranche of Notes with full terms and conditions,

- copies of this Offering Circular, and

- copies of our annual financial statements for the two years ended 31 December 2016 and 2017 prepared by us in accordance with IFRS and audited by PricewaterhouseCoopers Zhong Tian LLP (“PwC”), in accordance with the International Standards on Auditing (in English).

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

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

PwC, our independent accountants and auditors for the year ended 31 December 2017, has given and not withdrawn its written consent to the inclusion in this Offering Circular of its report dated 7 June 2018 in the form and context in which it is included. Its report was not prepared exclusively for incorporation in this Offering Circular. For the purpose of this Offering Circular, its report includes our consolidated financial statements as at, and for the year ended, 31 December 2017, and no consolidated management accounts have been prepared in respect of the period from 1 January 2018 to the date of this Offering Circular.

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition, financial or otherwise, or in our earnings, business affairs or business prospects since 31 December 2017, the date of our latest financial statements, that is material in the context of the issue of the Notes.

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

APPENDIX – AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS AT, AND FOR THE YEAR ENDED 31 DECEMBER 2017

附 录
APPENDICES

独立审计师报告 (按照国际财务报告准则编制的合并会计报表)

合并会计报表 (按照国际财务报告准则编制)

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED IFRS FINANCIAL STATEMENTS

CONSOLIDATED IFRS FINANCIAL STATEMENTS

普华永道

INDEPENDENT AUDITOR'S REPORT

TO CHINA DEVELOPMENT BANK

OPINION

What we have audited

The consolidated financial statements of China Development Bank (the "Bank") and its subsidiaries (the "Group") set out on pages 143 to 196, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment of loans and advances to customers and disclosure of estimated impact upon initial application of IFRS 9
- Consolidation of structured entities in relation to wealth management products, asset-backed securities, assets management plans and funds

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td>

Impairment of loans and advances to customers and disclosure of estimated impact upon initial application of IFRS 9

1. Impairment of loans and advances to customers – Incurred loss model under IAS 39

Refer to Note 3 (10) (b), Note 4 (1), Note 21 and Note 49 (2) (e) to the consolidated financial statements.

As at 31 December 2017, the Group's gross loans and advances to customers amounted to RMB11,036.8 billion, with the corresponding allowance for impairment losses of RMB394.2 billion.

Allowance for impairment losses represented management's best estimates of losses incurred within loans and advances to customers as at the balance sheet date. It was assessed individually or on a collective basis, where appropriate.

Management performed individual assessments for all loans, except for student loans, to assess if an objective evidence for impairment existed, so as to identify impaired loans and advances to customers. If a loan was identified as impaired, management regularly assessed the associated allowance for impairment losses based on estimation of future cash flows.

Non-impaired loans and student loans were included in homogenous groups with similar credit risk characteristics for impairment assessment on a collective basis.

Models were used for this purpose, applying key assumptions such as historical loss experience, loss identification period for incurred but unidentified impairment losses, macro-economic factors, sovereign rating of countries where borrowers or underlying projects were located, as well as special considerations for higher risk industries and geographical locations.

Management assessed these key assumptions on a periodic basis, and made adjustments where appropriate.

Identification and assessment of impairment of loans and advances to customers involved significant judgments by management, and as such, we focused on this area as a key audit matter.

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We evaluated and tested the relevant controls over the impairment identification and assessments for loans and advances to customers. These controls primarily included controls in post-lending review processes through which management timely identified impaired loans and advances to customers; reviews and approvals of the impairment assessment models, key assumptions applied and the results of the assessments.

We performed independent credit reviews of selected samples of loans, with reference to available financial information of borrowers and guarantors, underlying project information, latest collateral valuations, expected payment arrangements in borrowers' own capacity or with assistance from relevant institutions, changes of sovereign risk where borrowers or underlying projects were located and other relevant external evidence and factors, to ascertain whether management's identification of impaired loans was appropriate.

For impaired loans identified individually, we examined, on a sample basis, forecasted future cash flows prepared by the Group based on financial information of borrowers or underlying projects and guarantors, as well as latest collateral valuations and other available information.

We also tested discount rates in supporting the assessment of impairment allowance and the mathematical accuracy of calculations.

For collectively assessed impairment allowance, we performed independent testing on the appropriateness of the model used by management. We assessed the parameters and inputs used in the impairment models, including evaluation of the accuracy and completeness of source data, appropriateness of loan segmentation by similar risk characteristics, and mathematical accuracy of the calculations.

We discussed with management and scrutinized the appropriateness of those key assumptions applied in management's impairment assessment, and compared them with available external evidence and market practice where necessary.

Based on our procedures performed, in the context of the inherent uncertainties associated with impairment assessments, the assessment approaches, methodologies and key assumptions adopted by management were considered acceptable.

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2. Disclosure of estimated impact upon initial application of IFRS 9 – expected credit losses model

Refer to Note 2.2 (3) to the consolidated financial statements.

International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") requires disclosure in the financial statements of the reasonably estimable information relevant to assessing the possible impact of new standards issued but not yet effective. International Financial Reporting Standard 9: Financial Instruments ("IFRS 9" or "the standard") took effect on 1 January 2018 and its adoption is expected to reduce the Group's total equity as at 1 January 2018 by approximately 2.5%, mainly due to the application of the expected credit losses measurement models ("ECL models") in determining the loan loss reserve on its loans and advances to customers measured at amortized cost, certain loan commitments and financial guarantee contracts.

The implementation of IFRS 9 requires the Group to make considerable judgements, assumptions, and interpretation of the standard and requires the use of new parameters in the development of new models to estimate the loan loss reserve on loans and advances to customers measured at amortized costs, certain loan commitments and financial guarantee contracts using the expected credit losses concept. The Group has developed new controls in relation to the implementation of IFRS 9 and the disclosure of the estimated impact.

The Group's estimation of the possible impact upon initial application of IFRS 9 involves significant judgment, and the process is highly complex, accordingly, we included this as a key audit matter.

</td><td>

We performed the following procedures to assess the reasonableness of the Bank's disclosed possible impact of the initial adoption of IFRS 9:

- Understood the relevant controls over the selection and approval of the accounting policies and modelling methodologies;
- With the support of our credit loss and modelling specialists, we obtained an understanding of the ECL modelling methodologies and development processes through review of documentation and discussion with management; and assessed the reasonableness of related key judgements, parameters and assumptions made by management;
- Gained an understanding of the Group's key processes over the preparation of the disclosure made in accordance with IAS 8 and inspected the related approval documentation.

Based on the procedures we have performed, the estimated impact upon initial application of IFRS 9 disclosed by the Group is acceptable.

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Consolidation of structured entities in relation to wealth management products, asset-backed securities, assets management plans and funds

Refer to Note 3 (3), Note 4 (2) and Note 44 to the consolidated financial statements.

Structured entities primarily included wealth management products, asset-backed securities, assets management plans and funds that were issued, initiated, managed or invested by the Group. As at 31 December 2017, total assets of consolidated structured entities and total assets of unconsolidated structured entities, issued, initiated and managed by the Group, amounted to RMB211.6 billion and RMB226.4 billion, respectively. In addition, as at 31 December 2017, the carrying amount of unconsolidated structured entities invested by the Group which were issued and managed by other institutions included in the consolidated statement of financial position amounted to RMB38.8 billion.

Management had determined that the Group had control of certain structured entities based on their assessment of the following:

- its power over these structured entities;
- its exposure to variable returns from its involvement with these structured entities; and
- its ability to use its power to affect the amount of its variable returns from these structured entities.

The significant judgement exercised by management in assessing whether the Group had control of structured entities and the significant amount of such structured entities resulted in this matter being identified as a key area of audit focus.

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For different types of structured entities, we selected samples and performed the following tests:

- assessed the Group's contractual rights and obligations in light of the transaction structures, and evaluated the Group's power over the structured entities through review of related contracts and agreements;
- performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income earned and asset management fees earned as the asset manager or service provider, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities; and
- assessed whether the Group acted as a principal or an agent, through analysis of the scope of the Group's decision-making authority over the structured entities, the remuneration to which the Group was entitled for its role as the assets manager or service provider, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

Based on the procedures performed, we found management's consolidation judgment of these structured entities acceptable.

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OTHER INFORMATION

Management is responsible for the other information. The other information comprises all of 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 MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Wang Wei.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

7 June 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts in millions of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Notes	2017	2016
Interest income	6	560,484	501,193
Interest expense	6	(380,234)	(365,069)
Net interest income	6	180,250	136,124
Fee and commission income	7	10,900	14,160
Fee and commission expense	7	(1,127)	(1,009)
Net fee and commission income	7	9,773	13,151
Net trading and foreign exchange (loss)/gain	8	(39,308)	62,500
Net loss on financial instruments designated at fair value through profit or loss		(4,830)	(3,752)
Dividend income	9	10,816	8,015
Net gain on investment securities	10	665	468
Other income, net	11	4,312	30,133
Operating income		161,678	246,639
Share of profit of associates and joint ventures		94	153
Operating expenses	12	(16,044)	(23,201)
Impairment losses on assets	13	(5,080)	(82,770)
Profit before income tax		140,648	140,821
Income tax expense	14	(27,041)	(31,098)
Profit for the year		113,607	109,723
Attributable to:			
Equity holders of the Bank		112,405	109,103
Non-controlling interests		1,202	620
		113,607	109,723

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts in millions of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Notes	2017	2016
Profit for the year		113,607	109,723
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(1,710)	525
Fair value change of available-for-sale financial assets, net of tax		(6,780)	(8,461)
Others		(4)	178
		(8,494)	(7,758)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of supplemental retirement benefits obligation		(63)	63
Other comprehensive income for the year, net of tax		(8,557)	(7,695)
Total comprehensive income for the year		105,050	102,028
Total comprehensive income attributable to:			
Equity holders of the Bank		104,146	101,096
Non-controlling interests		904	932
		105,050	102,028

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

(Amounts in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Notes	2017	2016
Assets			
Cash and balances with central banks	15	264,868	275,469
Deposits with banks and other financial institutions	16	1,129,033	686,853
Placements with banks and other financial institutions	17	227,739	162,663
Financial assets at fair value through profit or loss	18	1,151,030	1,175,768
Derivative financial assets	19	37,887	25,486
Financial assets held under resale agreements	20	506,172	680,394
Loans and advances to customers	21	10,642,675	9,894,173
Available-for-sale financial assets	22	522,396	626,085
Held-to-maturity investments	23	28,388	1,136
Debt instruments classified as receivables	24	1,201,815	581,089
Investments in associates and joint ventures	25	1,835	1,762
Property and equipment	26	72,098	68,129
Deferred tax assets	27	85,982	90,487
Other assets	28	86,791	70,409
Total assets		15,958,709	14,339,903
Liabilities			
Deposits from banks and other financial institutions	29	3,264,100	2,212,391
Borrowings from governments and financial institutions	30	366,992	361,864
Placements from banks	31	85,329	65,493
Financial liabilities at fair value through profit or loss	32	164,959	128,917
Derivative financial liabilities	19	33,495	32,150
Financial assets sold under repurchase agreements	33	19,327	12,589
Due to customers	34	2,070,579	2,178,492
Debt securities issued	35	8,446,592	7,898,521
Current tax liabilities		15,869	47,355
Deferred tax liabilities	27	2,198	2,752
Other liabilities	36	249,373	237,256
Total liabilities		14,718,813	13,177,780

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 31 DECEMBER 2017

(Amounts in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Notes	2017	2016
Equity			
Share capital	37	421,248	421,248
Capital reserve	38	169,448	169,549
Investment revaluation reserve	39	244	6,966
Surplus reserve	40	121,672	100,485
General reserve	40	213,934	186,732
Currency translation reserve		(1,132)	305
Retained earnings	41	293,454	255,664
Total equity attributable to equity holders of the Bank		1,218,868	1,140,949
Non-controlling interests	42	21,028	21,174
Total equity		1,239,896	1,162,123
TOTAL LIABILITIES AND EQUITY		15,958,709	14,339,903

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

The consolidated financial statements are signed on its behalf by:

Hu Huaibang	Zheng Zhijie	Yang Baohua
Chairman	Vice Chairman, President	Head of Finance

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts in millions of Renminbi, unless otherwise stated)

		Total equity attributable to equity holders of the Bank									
	Notes	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total equity
Balance at 1 January 2017		421,248	169,549	6,966	100,485	186,732	305	255,664	1,140,949	21,174	1,162,123
Profit for the year		–	–	–	–	–	–	112,405	112,405	1,202	113,607
Other comprehensive income		–	(100)	(6,722)	–	–	(1,437)	–	(8,259)	(298)	(8,557)
Total comprehensive income		–	(100)	(6,722)	–	–	(1,437)	112,405	104,146	904	105,050
Capital injection of non-controlling interests		–	–	–	–	–	–	–	–	471	471
Transactions with non-controlling interests	41	–	–	–	–	–	–	(27)	(27)	27	–
Appropriation to surplus reserve	41	–	–	–	21,187	–	–	(21,187)	–	–	–
Appropriation to general reserve	41	–	–	–	–	27,408	–	(27,408)	–	–	–
Dividends	41	–	–	–	–	–	–	(26,200)	(26,200)	(432)	(26,632)
Disposal of subsidiaries	38, 41	–	(1)	–	–	(206)	–	207	–	(1,116)	(1,116)
Balance at 31 December 2017		421,248	169,448	244	121,672	213,934	(1,132)	293,454	1,218,868	21,028	1,239,896
Balance at 1 January 2016		421,248	168,969	15,427	80,404	147,064	(10)	230,569	1,063,671	5,933	1,069,604
Profit for the year		–	–	–	–	–	–	109,103	109,103	620	109,723
Other comprehensive income		–	139	(8,461)	–	–	315	–	(8,007)	312	(7,695)
Total comprehensive income		–	139	(8,461)	–	–	315	109,103	101,096	932	102,028
Transactions with non-controlling interests	38	–	441	–	–	–	–	(256)	185	14,337	14,522
Appropriation to surplus reserve	41	–	–	–	20,081	–	–	(20,081)	–	–	–
Appropriation to general reserve	41	–	–	–	–	39,668	–	(39,668)	–	–	–
Dividends	41	–	–	–	–	–	–	(24,003)	(24,003)	(28)	(24,031)
Balance at 31 December 2016		421,248	169,549	6,966	100,485	186,732	305	255,664	1,140,949	21,174	1,162,123

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2017	2016
Cash flows from operating activities		
Profit before income tax	140,648	140,821
Adjustments:		
Impairment losses on assets	5,080	82,770
Depreciation and amortization	3,942	3,803
Interest expense for debt securities issued	275,602	265,045
Interest expense for borrowings from governments and financial institutions	5,378	8,142
Interest income for investment securities	(50,987)	(29,968)
Interest income arising from impaired loans and advances to customers	(563)	(761)
Revaluation loss on financial instruments at fair value through profit or loss	(3,857)	8,000
Net gain on investment securities	(665)	(468)
Net loss/(gain) on disposal of property and equipment and other assets	7	(75)
Dividend income	(2,178)	(4,996)
	372,407	472,313
Net change in operating assets and operating liabilities:		
Net increase in balances with central banks and deposits with banks and other financial institutions	(583,618)	(191,245)
Net decrease in financial assets held under resale agreements	11,531	88,995
Net decrease/(increase) in financial assets at fair value through profit or loss	55,242	(478,087)
Net increase in loans and advances to customers	(1,610,444)	(1,426,041)
Net decrease/(increase) in placements with banks and other financial institutions	19,731	(25,505)
Net decrease/(increase) in other operating assets	97,725	(87,595)
Net increase in due to customers and deposits from banks and other financial institutions	943,796	1,030,466
Net increase/(decrease) in placements from banks	19,836	(3,472)
Net increase/(decrease) in financial assets sold under repurchase agreements	6,735	(10,973)
Net (decrease)/increase in other operating liabilities	(26,636)	6,730
	(1,066,102)	(1,096,727)
Income tax paid	(52,601)	(50,200)
Net cash outflows from operating activities	(746,296)	(674,614)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts in millions of Renminbi, unless otherwise stated)

	Notes	Year ended 31 December 2017	2016
Cash flows from investing activities			
Cash received from proceeds from disposal/redemption of investment securities		310,541	245,944
Cash received from returns on investment securities		44,205	24,990
Cash received from proceeds from disposal of property and equipment and other assets		9,958	1,204
Proceeds from disposal of investment in subsidiaries and associates	43	(5,679)	–
Cash paid for purchase of property and equipment and other assets		(16,527)	(9,889)
Cash paid for purchase of investment securities		(105,288)	(512,416)
Cash paid for other investing activities		(205)	(172)
Net cash inflows/(outflows) from investing activities		237,005	(250,339)
Cash flows from financing activities			
Cash received from debt securities issued		2,328,387	1,965,207
Cash received from borrowed funds		81,459	53,093
Transactions with non-controlling interests		(737)	14,834
Cash paid for repayments of debt securities issued and borrowed funds		(1,836,660)	(1,478,629)
Cash payment for interest on debt securities issued and borrowed funds		(263,804)	(262,117)
Dividends paid		(26,837)	(24,031)
Net cash inflows from financing activities		281,808	268,357
Effect of exchange rate changes on cash and cash equivalents		(9,077)	9,782
Net decrease in cash and cash equivalents		(236,560)	(646,814)
Cash and cash equivalents at beginning of year		1,388,154	2,034,968
Cash and cash equivalents at end of year	43	1,151,594	1,388,154
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		532,883	468,833
Interest paid		(99,159)	(62,185)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts in millions of Renminbi, unless otherwise stated)

1. GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

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

On 19 April 2017, with the approval of the CBRC and after completing the review by and registration of corporate changes with the State Administration of Business and Commerce, China Development Bank Corporation changed its name to China Development Bank, and changed its form of organization from a joint stock corporation to a limited liability company. After these changes, the Bank operates under business license No. 911100000000184548 issued by Beijing Administration of Industry and Commerce on 19 April 2017, and financial institution license No. G0001H111000001 issued by the CBRC on 13 June 2017. The registration of corporate changes does not affect the rights and obligations of the Bank. After the changes, the Bank assumes all the assets, creditor's rights, debts and businesses of the former China Development Bank Corporation.

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

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

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

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

2.1 Amendments to the accounting standards effective in 2017 relevant to and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2017:

(1)	Amendments to IAS 12	Income Taxes
(2)	Amendments to IAS 7	Statement of Cash Flows
(3)	Amendments to IFRS 12	Disclosure of Interest in Other Entities – Included in The Annual Improvements 2014 – 2016 Cycle

(1) Amendments to IAS 12: Income Taxes

The IASB has issued amendments to IAS 12 – Income taxes. These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

(2) Amendments to IAS 7: Statement of Cash Flows

The IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

(3) Amendments to IFRS 12: Disclosure of Interest in Other Entities – Included in The Annual Improvements 2014 – 2016 Cycle

These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, except for those summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5.

The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017

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

			Effective for annual periods beginning on or after
(1)	Amendments to IAS 28	Investment in Associates and Joint Ventures – Included in The Annual Improvements 2014 – 2016 Cycle	1 January 2018
(2)	IFRS 15	Revenue from Contracts with Customers	1 January 2018
(3)	IFRS 9	Financial Instruments	1 January 2018
(4)	Amendments to IAS 40	Transfer of Investment Property	1 January 2018
(5)	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
(6)	IFRS 16	Leases	1 January 2019
(7)	Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019
(8)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019
(9)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(10)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

(1) Amendments to IAS 28: Investment in Associates and Joint Ventures – Included in The Annual Improvements 2014 – 2016 Cycle

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(2) IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Group anticipates that the adoption of this new standard will not have a significant impact on the Group's consolidated financial statements.

(3) IFRS 9: Financial Instruments

The complete version of IFRS 9 – Financial instruments was issued in July 2014, which introduces the classification and measurements, impairment and hedge accounting to replace the guidance in IAS 39 – Financial Instruments: Recognition and Measurement.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI in which case the accumulated fair value changes in OCI will not be recycled to the profit or loss in the future.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss (ECL) model, as opposed to an incurred credit loss model under IAS 39. The impairment requirements apply to debt financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. At initial recognition, impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognized are considered to be "stage 1"; financial assets which are considered to have experienced a significant increase in credit risk are in "stage 2"; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired are in "stage 3".

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Impact analysis from the adoption of IFRS 9 on 1 January 2018

In order to assess the potential impact on the Group's financial statements resulting from the adoption of IFRS 9, the Group developed the expected loss model and analysed changes to the credit risk of financial assets. The Group has also performed analysis of business models and cash flow characteristics in the contract terms of its investments and other financial instruments, and completed the classification of its existing financial assets under IFRS 9. The adoption of IFRS 9 is expected to reduce the Group's total equity as at 1 January 2018 by approximately 2.5%, mainly due to the application of the ECL model in determining the loan loss reserve on its loans and advances to customers measured at amortised cost, certain loan commitments and financial guaranteed contracts. These estimates are based on accounting policies, assumptions, judgements and modelling that remain subject to further enhance and calibrations in 2018.

The requirements of IFRS 9 will be adopted from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Group does not intend to restate comparatives.

For the hedge accounting, the group has assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

(4) Amendments to IAS 40: Transfer of Investment Property

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(5) IFRIC 22: Foreign Currency Transactions and Advance Consideration

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration, to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(6) IFRS 16: Leases

IFRS 16 provides updated guidance on the definition of leases and the combination and separation of contracts, which replaces IAS 17 – Leases. Under IFRS 16, 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. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use" asset for almost all lease contracts, with an exemption for certain short-term leases and leases of low-value assets. The lessors accounting stays almost the same as under IAS 17. However, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(7) Amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities

On 12 October 2017, the IASB issued amendments to IFRS 9: Prepayment Features with Negative Compensation and Modifications of Financial Liabilities. These amendments permit more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. These amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(8) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015 – 2017 Cycle

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

(9) IFRIC 23: Uncertainty over Income Tax Treatments

In December 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(10) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

These amendments address an inconsistency between the requirements in IFRS 10 – Consolidated Financial Statements and those in IAS 28 – Investment in Associates and Joint Ventures in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of compliance

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

(2) Basis of preparation

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

The preparation of financial statements under IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(3) Consolidation

(a) Basis of consolidation

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

– has power over the investee;

– is exposed, or has rights, to variable returns from its involvement with the investee; and

– has the ability to use its power to affect its returns.

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

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

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

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

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

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

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

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. recognized in the consolidated statement of profit or loss). When the Group retains an interest in the former subsidiary and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39.

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

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

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

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

(4) Interest in associates and joint ventures

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost.

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

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

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of the interest in the associate or the joint venture is included in the determination of the gain or loss on disposal of the associate or the joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or the joint venture on the same basis as would be required if that associate or the joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or the joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

(5) Revenue recognition

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

(a) Interest income

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

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition. 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 and interest paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the related service has been provided.

(6) Interest expense

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

(7) Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the exchange rates prevailing at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the exchange rates at the date that fair value is determined. Translation differences on non-monetary financial assets classified as available-for-sale are included in other comprehensive income. Translation differences on non-monetary financial assets and financial liabilities measured at fair value through profit or loss (FVTPL) are included in the consolidated statement of profit or loss.

(c) Translation of financial statements in foreign currency

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position; except the retained earnings, other items in equity holders' equity are translated at the rate prevailing at the date when they occurred;
- income and expenses for each statement of profit or loss are translated at the exchange rate prevailing on the date when the items

occurred, or a rate that approximates the exchange rate at the date of the transaction; and

– all resulting exchange differences are recognized in other comprehensive income.

(8) Taxation

(a) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized.

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

(b) Value-added Taxes ("VAT")

The Group is subject to value-added taxes on its income from credit business, fee income on financial services, income from trading of financial products at 6%, instead of business tax at 5% prior to 1 May 2016.

In accordance with "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No.140) and "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No.2), managers of asset management products shall pay VAT at 3% for taxable activities undertaken after 1 January 2018.

After the implementation of the VAT Pilot Programs, the Group's interest income, fee and commission income and trading gain on financial products are presented net of their respective VAT in the consolidated financial statements.

(9) Employee benefits

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

(a) Short-term employee benefits

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

(b) Post-employment benefits

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

Defined contribution plans

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

The employees of the Bank participate in an annuity scheme established by the Bank (the "Annuity Scheme"). The Bank pays annuity contributions with reference to employees' salaries, and such contributions are expensed in the consolidated statement of profit or loss when incurred.

Defined benefit plans

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

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

(c) Early retirement benefits

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

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

(10) Financial assets

Financial assets are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

(a) Classification and measurement

The Group classifies its financial assets in the following categories including: financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in the consolidated statement of profit or loss.

(i) Financial assets at FVTPL

Financial assets are classified into this category when the financial asset is either held for trading or it is designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling it in the near future; or

– on initial recognition, it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– the financial asset forms part of a group of financial assets or a group of both financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– it forms part of a contract containing one or more embedded derivatives, and IAS 39 – Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated statement of profit or loss in the period in which they arise. The net gain or loss recognized in the consolidated statement of profit or loss includes any dividends or interest earned on financial assets.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets traded in active markets, with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets classified as loans and receivables primarily include balances with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers, and debt instruments classified as receivables.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or are not classified in any of the other categories.

Equity and debt instruments held by the Group that are classified as available-for-sale and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method, translation differences related to changes in the amortized cost of the available-for-sale financial assets and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated in the investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

(b) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets, excluding those classified as FVTPL, is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

– significant financial difficulty of the issuer or obligor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– the lender granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

– it is probable that the borrower will enter into bankruptcy or other financial reorganization;

– the disappearance of an active market for that financial asset because of financial difficulties;

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, national or local economic conditions that correlate with defaults on the assets in the group of financial assets;

– any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;

– a significant or prolonged decline in the fair value of equity instrument investments; or

– other objective evidence indicating impairment of the financial asset or a group of financial assets.

The Group first assesses whether objective evidence of impairment exists individually for all loans except student loans, debt instruments classified as receivables, available-for-sale financial assets and held-to-maturity investments, and collectively for the remainder of financial assets (other than those at fair value through profit or loss). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes these assets together with student loans in groups of financial assets with similar credit risk characteristics and collectively assesses these for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in collective assessment of impairment.

(i) Assets carried at amortized cost

For financial assets carried at amortized cost, an impairment loss is recognized in the consolidated statement of profit or loss when there is objective evidence that the assets are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of present value of the estimated future cash flows of a collaterized financial asset reflects the cash flows that are expected to result from foreclosure, less the cost of obtaining and selling the collateral.

The carrying amount of an impaired financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of profit or loss. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the consolidated statement of profit or loss. The reversal shall not result in the carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(ii) Assets classified as available-for-sale

When a decline in the fair value of a financial asset classified as available-for-sale has been recognized directly in other comprehensive income and accumulated in the investment revaluation reserve, and there is objective evidence that asset is impaired, the cumulative loss is removed from other comprehensive income and recognized in the consolidated statement of profit or loss, and is measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the consolidated statement of profit or loss. With respect to equity instruments, such reversals are made through the investment revaluation reserve within other comprehensive income. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss should not be reversed.

(c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable, the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the consolidated statement of profit or loss.

Securitization

As part of its operational activities, the Group undertakes securitization transactions through which it transfers certain financial assets to special purpose trusts which issue asset-backed securities ("ABS") to investors. The Group holds part of the senior and sub-ordinated tranche of these ABS. As the asset manager of these ABS, the Group provides services including collecting payments from loans in the assets pool, maintaining account records related to the assets pool, providing service reports and other services.

After payment of tax and related costs, the trust assets should firstly be used for principal and interest payment to holders of senior tranche ABS, and then to holders of sub-ordinated tranche ABS. The Group derecognizes or partially derecognizes the transferred financial assets according to the extent of transfer of the risks and rewards of ownership of the transferred financial assets.

(11) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument in IAS 39 and IAS 32, respectively.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

(a) Financial liabilities at FVTPL

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

The criteria for a financial liability designated at FVTPL is the same as those for a financial asset designated at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising on re-measurement recognized directly in the consolidated statement of profit or loss in the period in which they arise. The net gain or loss recognized in the consolidated statement of profit or loss includes any interest paid on the financial liabilities.

(b) Other financial liabilities

Other financial liabilities are measured at amortized cost, using the effective interest method.

(c) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the fair value of proceeds received, net of direct issuance costs.

(d) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated statement of profit or loss.

(12) Derivative financial instruments and embedded derivatives

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the consolidated statement of profit or loss.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss. These embedded derivatives are separately accounted for at FVTPL.

(13) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market (or in the absence of a principal market, the most advantageous market) at the measurement date.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. For financial instruments traded in inactive markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data.

(14) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group has an intention to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

(15) Repurchase agreements and agreements to resale

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, continue to be recognized, and are recorded as different categories of financial assets as appropriate. The corresponding liability is included in "Financial assets sold under repurchase agreements".

Financial assets held under agreements to resell are not recognized in the consolidated statement of financial position, and the corresponding consideration paid is recorded as "Financial assets held under resale agreements".

The difference between purchase and sale price is recognized as interest expense or income in profit or loss over the term of the agreements using the effective interest method.

(16) Cash and cash equivalents

Cash and cash equivalents are short term and highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, deposits held at call with banks and other financial institutions and other short-term and highly liquid investments with original maturities of three months or less.

(17) Property and equipment

The Group's property and equipment comprise buildings, office equipment, motor vehicles, aircrafts and construction in progress.

All property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

	Useful lives	Residual value rates	Annual depreciation rates
Buildings	20-35 years	0%-5%	2.71%-5.00%
Office equipment	3-10 years	0%-5%	9.50%-33.33%
Motor vehicles	4-6 years	0%-5%	15.83%-25.00%
Aircrafts	15-20 years	3%-15%	4.25%-6.47%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate category of property and equipment when completed and ready for intended use.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount. These are included in the consolidated statement of profit or loss.

(18) Land use rights

Land use rights are classified in "Other assets" and amortized over a straight-line basis over their authorized useful lives which generally range from 35 to 50 years. At the end of each reporting period, the Group reviews the useful lives and amortization method of land use rights.

(19) Investment property

Investment property is property held to earn rental income or for capital appreciation, or both.

Investment property is initially measured at its acquisition cost. Subsequent expenditures incurred for the investment property are included in the cost of the investment property if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

Investment properties are measured using the cost model. Depreciation and amortization is recognized the same way as property and equipment and land use rights.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated statement of profit or loss.

(20) Leases

(a) Lease classification

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(b) Finance lease

When the Group is the lessor in a finance lease, the present value of the aggregation of the minimum lease payment receivable from the lessee and unguaranteed residual value, net of initial direct costs, recognized as a receivable in "Loans and advances to customers". The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Unearned finance income is recognized over the term of the lease using an interest rate which reflects a constant rate of return.

The Group has no finance leases business as a lessee.

(c) Operating lease

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be accounted for as the Group's assets. Rental income is recognized as "Other income, net" in the consolidated statement of profit or loss on a straight-line basis over the lease term.

When the Group is the lessee under an operating lease, rental expenses are charged in "Operating expenses" in the consolidated statement of profit or loss on a straight-line basis over the lease term.

(21) Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment loss. Intangible assets include computer software and other intangible assets. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives which generally range from 5 to 10 years.

At the end of each reporting period, the Group reviews the useful lives and amortization method of intangible assets with finite useful lives. The Group has no intangible assets with indefinite useful lives.

(22) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the business combination. Cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the cash-generating unit on a pro-rata basis, based on the carrying amount of each asset in the cash-generating unit. Any impairment loss for goodwill is recognized directly in the consolidated statement of profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of gain or loss on disposal.

(23) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized in the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset. A reversal of an impairment loss is recognized in the consolidated statement of profit or loss.

(24) Dividend distribution

Dividend distribution to the company's equity holders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by those charged with governance.

(25) Provisions

Provisions are recognized in the consolidated statement of profit or loss when (i) the Group has a present legal or constructive obligation, as a result of a past event, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (iii) a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions related with financial guarantee contracts are measured based on experience of similar transactions, historical losses and by management judgement.

(26) Hedge accounting

In order to avoid certain risk, the Group has designated certain derivative instruments as hedging instruments. The Group uses hedge accounting to account for these hedging instruments which satisfy specified criteria. The Group's hedging relationship include fair value hedges and cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between hedging instrument and hedged item, as well as its risk management objectives and its strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

(a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the consolidated statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the designation of hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer qualifies for hedge accounting. The adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the consolidated statement of profit or loss over the period to maturity. If the hedged item is de-recognized, the unamortized carrying value adjustment is recognized in the consolidated statement of profit or loss.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are recognized in the consolidated statement of profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. When the hedged forecast transaction results in the recognition of a financial asset or a financial liability, the cumulative gains or losses previously recognized in other comprehensive income and accumulated in equity are reclassified from equity to profit or loss in the same period during which the hedged forecast transaction affect profit or loss.

Hedge accounting is discontinued under following situations:

– When the Group revokes the designation of hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting, any cumulative gains or losses recognized in the consolidated statement of comprehensive income and accumulated in equity at that time remains in equity and is recognized in the consolidated statement of profit or loss when the forecast transaction ultimately occurs.

– When a forecast transaction is no longer expected to occur, any cumulative gains or losses in equity is transferred immediately to the consolidated statement of profit or loss.

(27) Fiduciary activities

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, trust companies, other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing funds for the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets or liabilities of the Group.

(28) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognized, but disclosed.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities. The estimates and related assumptions are based on historical experience and other relevant factors including on the basis of reasonable expectations for future events.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key estimation uncertainty that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements in the next twelve months.

(1) Impairment losses on loans and advances to customers

The Group reviews its loans and advances to customers to assess impairment on a periodical basis during the year. In determining whether an impairment loss should be recognized in the consolidated statement of profit and loss, the Group makes estimates and judgments as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to individually assessed loans and advances or pools of loans and advances to customers with similar risk characteristics.

Significant judgments are made in the determination of whether objective evidence of impairment exists in individually assessed loans and advances to customers or pools of loans and advances to customers with similar risk characteristics. Individually significant loans include all loans and advances except student loans. Among other things, objective evidence of impairment includes deterioration in the financial condition of specific borrowers (or specific pools of borrowers) affecting their ability to meet their loan payment obligations, overdue status, financial position of guarantors, underlying projects' information, latest collateral valuations, the expected payment arrangements in borrowers' own capacity or with assistance from relevant institutions, changes of sovereign risk where borrowers or underlying projects are located and concessions by the Group that would not otherwise be granted to borrowers for economic or legal reasons relating to their financial difficulties, as well as increasing industry sector over-capacity or obsolescence, or deterioration in regional economic conditions that are correlated to increasing loan defaults. These judgments are made both during management's regular assessments of loan quality and when other circumstances indicate the possibility that objective evidence of impairment may exist.

Where it is determined that objective evidence of impairment exists, significant judgments and estimates are made in estimating the adverse impact on future cash flows related to individually assessed impaired loans and advances to customers. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experienced. Factors affecting these estimates include the availability and granularity of information related to specific borrowers or underlying projects and guarantors, latest collateral valuations and other available information, and the clarity of the correlation between qualitative factors, such as industry sector performance or changes in regional economic conditions and defaults of related borrowers.

Such loans and advances to customers not identified as impaired from individually assessments, together with student loans are included in homogenous groups with similar credit risks characteristics for performance of impairment assessments on a collective basis. Significant judgments are applied to the calculation of collectively assessed impairment. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) loss identification period for incurred but unidentified impairment losses; (iii) macro-economic factors; (iv) sovereign rating of countries where borrowers or underlying projects were located; (v) industries and geographic locations; and (vi) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. The Group considers the impact of the changes and uncertainty in the macro-economic environment, in which the Group operates when assessing the methodology and assumptions used for loss estimation, as well as management's capability in managing loan portfolio, and makes adjustments where appropriate.

(2) Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager or service provider, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for its role as asset manager or service provider, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

(3) Impairment of available-for-sale debt instruments and debt instruments classified as receivables

The Group determines the impairment of investment securities according to IAS 39 – Financial Instruments: Recognition and Measurement. The determination of impairment requires significant judgment from management. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, quality of underlying asset of the investment (for example, delinquency ratio and loss coverage ratio), near-term business outlook (for example, industry performance and credit ratings) and if the issuer has experienced severe financial difficulty. In determining whether the previously recognized impairment loss was recovered and should be reversed, the Group makes judgements as to whether the decrease of the impairment loss can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating).

(4) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow method, net asset value, and comparable companies approach and other valuation techniques commonly used by market participants. To the extent practical, the Group uses only observable market data, however areas such as credit risk of the Group and the counterparties, weighted average cost of capital, perpetual growth rate, liquidity discount and similarity to comparable companies index may not be observable and require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

(5) De-recognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including, among others, regular way sales and transfers, securitization, financial assets sold under repurchase agreements. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties.
- the extent to which the associated risks and rewards of ownership of the financial assets are transferred.
- where the Group has neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyzes whether it has relinquished its controls over these financial assets and if the Group has continuing involvement in these transferred financial assets.

(6) Taxes

There are certain transactions and activities for which the ultimate tax effect is uncertain. The Group makes estimates and judgement for items of uncertainty, taking into account existing taxation legislation and past practice of relevant tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and other tax provisions in the period in which such a determination is made.

5. INVESTMENTS IN SUBSIDIARIES

Details of the principal subsidiaries held by the Bank as at 31 December 2017 are as follows:

Name of entity	Place of incorporation	Registered capital (in millions)	% of equity interest and voting rights	Principal business
China Development Bank Capital Co., Ltd	Mainland China	RMB60,624	100% directly held	Equity investment
China Development Bank Development Fund	Mainland China	RMB50,000	100% directly held	Non-securities investment & investment management and advisory
China-Africa Development Fund	Mainland China	RMB32,548	84.99% indirectly held	Fund investment & management
China Development Bank Financial Leasing Co., Ltd.	Mainland China	RMB12,642	64.40% directly held	Leasing
China Development Bank Securities Co., Ltd.	Mainland China	RMB9,500	80% directly held	Securities brokerage and underwriting
Upper Chance Group Limited	Hong Kong, China	GBP1,584	100% directly held	Investment holding

On 20 December 2017, the Bank transferred its equity interests in 15 rural banks, of which 13 rural banks were controlled by the Bank, and 2 rural banks were associates of the Bank, to Bank of China Limited and Fullerton Financial Holdings Pte. Ltd for a total consideration of RMB1,087 million. The consideration was fully settled in 2018. Upon completion, these rural banks ceased to be subsidiaries and associates of the Bank.

During the year ended 31 December 2017, there were no changes in the proportion of equity interests or voting rights the Bank held in its subsidiaries other than those stated above, and there was no restriction on the Group's ability to access or use its assets and settle its liabilities.

6. NET INTEREST INCOME

	Year ended 31 December	
	2017	2016
Interest income		
Loans and advances to customers	457,467	424,099
Investment securities [(1)]	50,987	29,968
Placements with banks and other financial institutions and financial assets held under resale agreements	21,640	26,917
Balances with central banks and deposits with banks and other financial institutions	30,325	20,099
Others	65	110
	560,484	501,193
Interest expense		
Debt securities issued	(275,602)	(293,738)
Deposits from banks and other financial institutions	(78,329)	(49,402)
Due to customers	(13,067)	(12,058)
Borrowings from governments and financial institutions	(10,151)	(8,142)
Others	(3,085)	(1,729)
	(380,234)	(365,069)
Net interest income	180,250	136,124
Interest income accrued on impaired financial assets	563	774

(1) Interest income of investment securities includes interest income of available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

7. NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2017	2016
Fee and commission income		
Fiduciary service fee	3,804	4,688
Loan arrangement fee	3,025	3,902
Credit commitment fee	2,414	3,634
Consultancy and advisory fee	197	276
Brokerage fee	79	102
Others	1,381	1,558
	10,900	14,160
Fee and commission expense		
Fee expense	(907)	(810)
Commission expense	(220)	(199)
	(1,127)	(1,009)
Net fee and commission income	9,773	13,151

8. NET TRADING AND FOREIGN EXCHANGE (LOSS)/GAIN

	Year ended 31 December	
	2017	2016
Foreign exchange (loss)/gain	(57,002)	69,794
Net gain on financial assets held-for-trading	6,358	3,208
Net gain/(loss) on foreign exchange derivatives	11,094	(11,253)
Net gain on interest rate derivatives	242	751
Total	(39,308)	62,500

9. DIVIDEND INCOME

	Year ended 31 December	
	2017	2016
Financial assets designated at fair value through profit or loss	10,252	6,436
Available-for-sale equity investments	564	1,126
Others	–	453
Total	10,816	8,015

10. NET GAIN ON INVESTMENT SECURITIES

	Year ended 31 December	
	2017	2016
Net gain on disposal of available-for-sale financial assets	106	210
Others	559	258
Total	665	468

11. OTHER INCOME, NET

	Year ended 31 December	
	2017	2016
Rental income, net	3,294	3,461
Others	1,018	26,672
Total	4,312	30,133

12. OPERATING EXPENSES

	Year ended 31 December	
	2017	2016
Taxes and surcharges	3,899	11,102
Staff costs	6,382	6,022
General operating and administrative expenses	4,505	4,761
Depreciation and amortization	1,258	1,316
Total	16,044	23,201

13. IMPAIRMENT LOSSES ON ASSETS

	Year ended 31 December	
	2017	2016
Loans and advances to customers	4,722	82,201
Available-for-sale financial assets	4	192
Debt instruments classified as receivables	136	11
Others	218	366
Total	5,080	82,770

14. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
Current tax	20,922	54,913
Deferred tax (Note 27)	6,119	(23,815)
Total	27,041	31,098

The income tax expense can be reconciled to profit before income tax presented in the consolidated statement of profit or loss as follows:

	Year ended 31 December	
	2017	2016
Profit before income tax	140,648	140,821
Tax calculated at the PRC statutory tax rate of 25%	35,162	35,205
Effect of different tax rates on subsidiaries	(140)	(45)
Tax effect of non-taxable income	(9,735)	(5,127)
Tax effect of deductible temporary differences not recognized	616	536
Tax effects of expenses not deductible for tax purpose and others	1,138	529
Income tax expense	27,041	31,098

15. CASH AND BALANCES WITH CENTRAL BANKS

	As at 31 December	
	2017	2016
Cash	2	36
Statutory reserve with central banks	353	1,221
Other deposits with central banks	264,513	274,212
Total	264,868	275,469

16. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2017	2016
Deposits with:		
Domestic banks	1,036,582	556,417
Other domestic financial institutions	5,014	5,094
Overseas banks	87,435	125,331
Other overseas financial institutions	2	11
Total	1,129,033	686,853

As at 31 December 2017, the restricted deposits with banks and other financial institutions of the Group amounted to RMB5,037 million (31 December 2016: RMB4,813 million), which were mainly security deposits pledge with clearing house.

17. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2017	2016
Placements with:		
Domestic banks	166,256	119,197
Other domestic financial institutions	8,000	38,610
Overseas banks	53,483	4,856
Total	227,739	162,663

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2017	2016
Financial assets held-for-trading		
Government and quasi-government bonds	19,017	9,157
Debt securities issued by financial institutions	1,677	620
Corporate bonds	11,777	50,651
Inter-bank certificates of deposit	89,182	63,107
Stock and fund investments	2,814	3,534
	124,467	127,069
Financial assets designated at fair value through profit or loss (1)		
Government and quasi-government bonds	15,062	9,377
Debt securities issued by financial institutions	1,757	2,331
Corporate bonds	51,488	8,771
Asset-backed securities	4,427	–
Inter-bank certificates of deposit	19,640	48,355
Financial assets held under resale agreements	19,418	19,579
Deposits and placements with banks and other financial institutions	26,043	40,365
Asset management plans	7,417	3,291
Wealth management products issued by other banks	10,323	6,238
Equity investments	870,988	910,392
	1,026,563	1,048,699
Total	1,151,030	1,175,768

(1) Certain comparative amounts in this footnote have been reclassified to conform with the current year's presentation.

19. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

(1) Derivative financial instruments

The contractual notional amounts of derivative financial instruments provide a basis for comparison with fair values of instruments recognized on the consolidated statement of financial position, but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The fair values of derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly.

The table below provides a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at the balance sheet date.

	31 December 2017		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency swaps (including cross-currency interest rate swaps)	1,970,083	28,421	(27,198)
Foreign exchange forwards and foreign exchange options	205,913	2,347	(41)
Subtotal		30,768	(27,239)
Interest rate derivatives			
Interest rate swaps	1,282,188	6,942	(6,079)
Interest rate options	10,152	177	(177)
Subtotal		7,119	(6,256)
Total		37,887	(33,495)

	31 December 2016		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Exchange rate derivatives			
Currency swaps (including cross-currency interest rate swaps)	1,274,120	16,522	(23,836)
Foreign exchange forwards and foreign exchange options	201,812	148	(147)
Subtotal		16,670	(23,983)
Interest rate derivatives			
Interest rate swaps	960,531	8,523	(7,874)
Interest rate options	11,735	293	(293)
Subtotal		8,816	(8,167)
Total		25,486	(32,150)

(2) Hedge accounting

The Group's hedging instruments included in the above derivative financial instruments are set out below:

	31 December 2017		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Hedging instruments for fair value hedges			
Interest rate swaps	17,948	655	(81)
Hedging instruments for cash flow hedges			
Interest rate swaps	3,833	21	(17)
Total		676	(98)

	31 December 2016		
	Contractual/ notional amount	Fair value	
		Assets	Liabilities
Hedging instruments for fair value hedges			
Interest rate swaps	24,664	700	(139)
Hedging instruments for cash flow hedges			
Interest rate swaps	4,803	10	(18)
Total		710	(157)

Fair value hedges

The Group uses interest rate swap contracts to hedge against changes in fair values attributable to interest rate risks of the negotiable certificates of deposits issued by the Group as presented in "Due to Customers" in the consolidated statement of financial position.

For the current and prior year, there were no significant ineffectiveness to be recorded from the fair value hedges.

Cash flow hedges

The Group uses interest rate swap contracts to hedge against exposure to cash flow variability attributable to interest rate risks of the variable rate borrowings from other banks for the Group's leasing business.

As at 31 December 2017, the Group recognized in other comprehensive income a cumulative profit or loss from fair value changes of cash flow hedging were insignificant, which is expected to be recognized in profit or loss from 2018 to 2024.

20. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December	
	2017	2016
Analyzed by type of collateral:		
Bonds	497,965	674,071
Others	8,266	6,354
	506,231	680,425
Less: Individually assessed allowance for impairment losses	(59)	(31)
Total	506,172	680,394

The collateral received in connection with resale agreements is disclosed in Note 48 (7) Contingent Liabilities and Commitments – Collateral.

21. LOANS AND ADVANCES TO CUSTOMERS

The composition of loans and advance to customers is as follows:

	As at 31 December	
	2017	2016
Loans and advances to customers		
Loans and advances to customers	10,933,412	10,225,793
Finance lease receivables and others	103,420	92,354
	11,036,832	10,318,147
Less: Allowance for impairment losses		
Individually assessed	(40,087)	(57,645)
Collectively assessed	(354,070)	(366,329)
	(394,157)	(423,974)
Loans and advances to customers, net	10,642,675	9,894,173

Finance lease receivables pledged by the Group is disclosed in Note 48 (7) Contingent Liabilities and Commitments – Collateral.

Movements of allowance for impairment losses are set out below:

	Year ended 31 December 2017		
	Individually assessed allowance	Collectively assessed allowance	Total
1 January 2017	57,645	366,329	423,974
Charge for the year	21,844	119,275	141,119
Reverse	(14,823)	(121,574)	(136,397)
Write offs and transfer out	(22,779)	(3,565)	(26,344)
Unwinding of discount on allowance	(563)	–	(563)
Foreign exchange differences	(1,237)	(6,395)	(7,632)
31 December 2017	40,087	354,070	394,157
1 January 2016	45,506	296,083	341,589
Charge for the year	21,018	120,937	141,955
Reverse	(3,192)	(56,562)	(59,754)
Transfer in	–	16	16
Write offs and transfer out	(6,207)	–	(6,207)
Unwinding of discount on allowance	(761)	–	(761)
Foreign exchange differences	1,281	5,855	7,136
31 December 2016	57,645	366,329	423,974

Loans and advances to customers are classified as past-due if the principal or the interest is past due. For loans and advances to customers repayable by installment, if any installment repayment is past due, the total balance of the loans and advances is classified as past-due.

Past due loans and advance to customers by collateral types are set out below:

	Past due				
	Within 3 months	3-12 months	1-3 years	Over 3 years	Total
31 December 2017					
Unsecured loans	2,665	1,343	156	374	4,538
Guaranteed loans	2,307	9,582	2,696	2,365	16,950
Loans secured by collateral	2,058	5,353	6,370	2,957	16,738
Pledged loans	3,805	1,278	4,799	2,561	12,443
Total	10,835	17,556	14,021	8,257	50,669
31 December 2016					
Unsecured loans	1,222	67	911	9	2,209
Guaranteed loans	1,048	2,430	14,987	477	18,942
Loans secured by collateral	5,469	7,672	11,975	4,377	29,493
Pledged loans	3,055	1,998	16,136	104	21,293
Total	10,794	12,167	44,009	4,967	71,937

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2017	2016
Debt instruments:		
Government and quasi-government bonds	135,736	138,075
Debt securities issued by financial institutions	37,345	12,611
Corporate bonds	37,890	39,698
Assets-backed securities	216	278
Inter-bank certificates of deposit	301,053	419,259
Subtotal	512,240	609,921
Equity instruments	9,439	15,964
Fund investments	717	200
Total	522,396	626,085

As at 31 December 2017, the cumulative individually assessed impairment allowance of available-for-sale financial assets amounted to RMB18,215 million (31 December 2016: RMB18,212 million).

23. HELD-TO-MATURITY INVESTMENTS

	As at 31 December	
	2017	2016
Government and quasi-government bonds	98	–
Debt securities issued by financial institutions	25,093	786
Corporate bonds	3,197	350
Total	28,388	1,136

24. DEBT INSTRUMENTS CLASSIFIED AS RECEIVABLES

	As at 31 December 2017	2016
Government and quasi-government bonds	1,096,088	570,138
Debt securities issued by financial institutions	5,571	4,045
Corporate bonds	97,587	259
Assets-backed securities	713	1,010
Investments in trust plans and others	5,284	5,990
	1,205,243	581,442
Less: Allowance for impairment losses		
Individually assessed	(488)	(353)
Collectively assessed	(2,940)	–
	(3,428)	(353)
Debt instruments classified as receivables, net	1,201,815	581,089

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The balance of interest in associates and joint ventures is as follows:

	As at 31 December 2017	2016
Investments in associates and joint ventures	1,835	1,762

Movements of interest in associates and joint ventures are set out below:

	As at 31 December 2017	2016
1 January	1,762	1,680
Additions	209	168
Disposals	(136)	(86)
31 December	1,835	1,762

Information of principal associates and joint ventures of the Group as at 31 December 2017 are as follows:

Name of entity	Place of incorporation	Registered capital (in millions)	% of equity interest and voting rights	Principal business
Tianjin Eco-City Investment & Development Co., Ltd.	Mainland China	RMB3,000	20% indirectly held	Land and infrastructure development
CDB Jintai Capital Investment Co., Ltd.	Mainland China	RMB1,250	40% indirectly held	Investment management and advisory
Beijing Far East Instrument Company Ltd.	Mainland China	RMB213	25% indirectly held	Manufacturing of electronic instruments and electric appliance
Huaxin Investment Management Co., Ltd.	Mainland China	RMB120	45% indirectly held	Investment management and advisory

26. PROPERTY AND EQUIPMENT

The net book value of property and equipment consisted of the following:

	Buildings	Office equipment	Motor vehicles	Aircrafts	Construction in progress	Total
Cost						
1 January 2017	19,278	2,769	1,144	56,690	3,924	83,805
Additions	691	109	452	15,451	787	17,490
Transfers	755	–	–	–	(755)	–
Disposals	(209)	(274)	(14)	(11,808)	(3)	(12,308)
31 December 2017	20,515	2,604	1,582	60,333	3,953	88,987
Accumulated depreciation						
1 January 2017	(3,635)	(1,657)	(327)	(9,738)	–	(15,357)
Additions	(776)	(295)	(69)	(2,551)	–	(3,691)
Disposals	96	108	12	2,185	–	2,401
31 December 2017	(4,315)	(1,844)	(384)	(10,104)	–	(16,647)
Allowance for impairment losses						
1 January 2017	–	–	–	(319)	–	(319)
Additions	–	–	–	(61)	–	(61)
Disposals	–	–	–	138	–	138
12 December 2017	–	–	–	(242)	–	(242)
Net book value						
31 December 2017	16,200	760	1,198	49,987	3,953	72,098
1 January 2017	15,643	1,112	817	46,633	3,924	68,129
Cost						
1 January 2016	18,429	2,696	1,139	48,785	4,425	75,474
Additions	305	296	9	9,068	614	10,292
Transfers	1,115	–	–	–	(1,115)	–
Disposals	(571)	(223)	(4)	(1,163)	–	(1,961)
31 December 2016	19,278	2,769	1,144	56,690	3,924	83,805
Accumulated depreciation						
1 January 2016	(2,932)	(1,399)	(284)	(8,318)	–	(12,933)
Additions	(802)	(380)	(75)	(2,275)	–	(3,532)
Disposals	99	122	32	855	–	1,108
31 December 2016	(3,635)	(1,657)	(327)	(9,738)	–	(15,357)
Allowance for impairment losses						
1 January 2016	–	–	–	–	–	–
Additions	–	–	–	(319)	–	(319)
12 December 2016	–	–	–	(319)	–	(319)
Net book value						
31 December 2016	15,643	1,112	817	46,633	3,924	68,129
1 January 2016	15,497	1,297	855	40,467	4,425	62,541

27. DEFERRED TAX ASSETS AND LIABILITIES

	As at 31 December	
	2017	2016
Deferred tax assets	85,982	90,487
Deferred tax liabilities	(2,198)	(2,752)
Net	83,784	87,735

(1) Movements of deferred income tax asset and liability:

	As at 31 December	
	2017	2016
1 January	87,735	61,250
(Charge)/credit to profit or loss (Note 14)	(6,119)	23,815
Credit to other comprehensive income	2,168	2,670
31 December	83,784	87,735

(2) Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

	31 December 2017		31 December 2016	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Deferred tax assets				
Allowance for impaired loans	299,936	74,984	329,334	82,334
Allowance for impaired available-for-sale financial assets	23,502	5,876	18,212	4,553
Allowance for debt instruments classified as receivables	3,428	857	353	88
Allowance for other impaired assets	816	204	824	206
Fair value changes of financial instruments at fair value through profit or loss	47,389	11,847	36,634	9,159
Fair value changes of available-for-sale financial assets	3,237	809	2,788	697
Provisions	1,243	311	3,143	786
Others	2,186	547	794	198
	381,737	95,435	392,082	98,021
Deferred tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss	(45,918)	(11,480)	(31,306)	(7,827)
Fair value changes of available-for-sale financial assets	(683)	(171)	(8,906)	(2,227)
Others	–	–	(928)	(232)
	(46,601)	(11,651)	(41,140)	(10,286)
Net	335,136	83,784	350,942	87,735

28. OTHER ASSETS

	As at 31 December	
	2017	2016
Interest receivable	52,347	41,417
Prepayment to vendors	7,828	8,151
Prepayment for leasing equipment	6,384	6,499
Deposits with securities exchange	4,586	1,149
Investment property	1,755	1,213
Land use rights	1,598	1,647
Goodwill (1)	1,250	1,254
Receivables from disposal of rural banks (Note 5)	1,087	–
Receivables from disposal of bond investments	957	5
Intangible assets	701	711
Continuing involvement assets of asset-backed securitization	575	868
Prepayment for bond redemption	409	409
Long-term deferred expenses	258	223
Others	7,618	7,337
Total	87,353	70,883
Less: Allowance for impairment losses	(562)	(474)
Other assets, net	86,791	70,409

(1) Goodwill is primarily arising from acquisition of China Development Bank Financial Leasing Co., Ltd. and China Development Bank Securities Co., Ltd. As at 31 December 2017, goodwill arising from acquisition of China Development Bank Financial Leasing Co., Ltd. and China Development Bank Securities Co., Ltd. was RMB560 million and RMB629 million, respectively (31 December 2016: RMB560 million and RMB629 million). For the years ended 31 December 2017 and 2016, the Group performed goodwill impairment test based on cash flow forecast of related subsidiaries, and did not identify any indication that the goodwill was impaired.

29. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2017	2016
Deposits from:		
Domestic banks	3,186,470	2,145,275
Other domestic financial institutions	34,993	39,902
Overseas banks	42,633	27,211
Overseas other financial institutions	4	3
Total	3,264,100	2,212,391

30. BORROWINGS FROM GOVERNMENTS AND FINANCIAL INSTITUTIONS

	As at 31 December	
	2017	2016
Borrowings from:		
Domestic banks and other financial institutions	324,650	326,553
Foreign banks and other financial institutions	27,924	18,097
Foreign banks – import credit	5,447	7,884
Foreign governments	8,971	9,330
Total	366,992	361,864

31. PLACEMENTS FROM BANKS

	As at 31 December	
	2017	2016
Placements from:		
Domestic banks	21,800	29,672
Overseas banks	63,529	35,821
Total	85,329	65,493

32. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group designated the liabilities to investors and the financial assets sold under repurchase agreements in relation to the principal-guaranteed wealth management products issued and managed by the Group as financial liabilities at fair value through profit or loss. For the years ended 31 December 2017 and 2016, there were no significant changes in the fair value of these liabilities attributable to the changes in the Group's own credit risk.

33. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December	
	2017	2016
Analyzed by type of collateral:		
Bonds	15,577	9,049
Others	3,750	3,540
Total	19,327	12,589

The collateral pledged under repurchase agreements is disclosed in Note 48 (7) Contingent Liabilities and Commitments – Collateral.

34. DUE TO CUSTOMERS

	As at 31 December	
	2017	2016
Demand deposits	1,774,162	1,822,658
Term deposits	121,761	188,937
Pledged deposits	5,261	8,533
Certificates of deposit	169,395	158,364
Total	2,070,579	2,178,492

35. DEBT SECURITIES ISSUED

		As at 31 December	
		2017	2016
Debt securities issued by financial institutions	(1)	8,316,281	7,745,181
Subordinated bonds issued	(2)	64,925	66,957
Tier-two capital bonds issued	(3)	41,841	41,989
Asset-backed securities issued	(4)	23,545	41,399
Inter-bank certificates of deposit issued		–	2,995
Total		8,446,592	7,898,521

As at 31 December 2017 and 2016, there was no default related to any debt securities issued by the Group.

(1) Debt securities issued

	As at 31 December 2017			
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB bonds issued in domestic market	2001-2017	2018-2065	1.93-5.90	6,728,379
RMB special bonds issued in domestic market	2015-2017	2019-2037	2.65-4.58	1,395,183
RMB bonds issued in overseas market	2012-2014	2018-2032	3.60-4.50	7,992
Foreign currency bonds issued in domestic market	2013-2015	2018	2.39-2.69	18,702
Foreign currency bond issued in overseas market	2015-2017	2018-2037	0.13-4.00	120,105
Bonds issued by the Bank				8,270,361
USD bills issued by subsidiaries in overseas market	2012-2017	2019-2027	2.00-4.25	25,588
RMB bonds issued by subsidiaries in domestic market	2014-2017	2018-2022	3.00-6.05	23,254
Less: Debt securities issued by the Group and held by entities within the Group				(2,922)
Debt securities issued by the Group				8,316,281

	As at 31 December 2016			
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB bonds issued in domestic market (i)	2001-2016	2017-2065	1.83-5.90	6,438,726
RMB bonds issued in overseas market	2012-2014	2017-2032	3.30-4.50	10,748
Foreign currency bonds issued in domestic market	2013-2015	2018	2.00-2.25	19,903
Foreign currency bond issued in overseas market	2014-2016	2017-2026	0.13-3.00	61,200
RMB special bonds issued in domestic market	2015-2016	2019-2036	2.65-3.80	1,187,176
Debt securities issued by the Bank				7,717,753
USD bills issued by subsidiaries in overseas market	2012-2016	2017-2024	2.00-4.25	18,269
RMB bonds issued by subsidiaries in domestic market	2014-2016	2018-2020	3.00-6.05	9,268
Less: Debt securities issued by the Group and held by entities within the Group				(109)
Debt securities issued by the Group				7,745,181

(i) As at 31 December 2017 and 2016, included in this balance were two RMB bonds issued in the domestic market on the same day with the same maturity date, with face value totaling RMB20,000 million. These two bonds bear fixed and floating interest rates respectively and had embedded conversion options which allow the holders of these two bonds to convert part or all of the bonds at face value to the other bond on a specified date.

(2) Subordinated bonds issued

	As at 31 December 2017			
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB subordinated bonds issued by the Bank in domestic market	2009-2012	2024-2062	5.00-6.05	59,926
RMB subordinated bonds issued by subsidiaries in domestic market	2016	2021	3.58	4,999
Subordinated bonds issued by the Group				64,925

	As at 31 December 2016			
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB subordinated bonds issued by the Bank in domestic market	2009-2012	2022-2062	4.70-6.05	61,958
RMB subordinated bonds issued by subsidiaries in domestic market	2016	2021	3.58	4,999
Subordinated bonds issued by the Group				66,957

All subordinated bonds issued by the Bank have provisions which allow the Bank to redeem them prior to maturity. If the Bank chooses not to exercise its redemption option on a specified date, it is obligated to pay higher interest rates on the bonds.

(3) Tier-two capital bonds issued

	As at 31 December 2017			
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB Tier-two capital bonds issued by the Bank in domestic market	2014-2016	2024-2026	3.65-5.30	41,841

	As at 31 December 2016			
	Year of issuance	Year of maturity	Coupon rates (%)	Outstanding balance
RMB Tier-two capital bonds issued by the Bank in domestic market	2014-2016	2024-2026	3.65-5.30	41,989

The Bank issued Tier-two capital bonds which have fixed coupon rates. The Bank has an option to redeem part or all of the bond at face value upon the closing of the fifth year after the bonds' issuance, if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If the Bank did not exercise this option, the coupon rate of the bonds would remain the same as the existing rate.

These Tier-two capital bonds have the write-down feature of a Tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable.

(4) Asset-backed securities issued

The Group consolidated certain special purpose trusts established in relation with its assets securitization business when the Group determined it has control over these special purpose trusts (Note 44 (2)).

As at 31 December 2017, total face value of unexpired asset-backed securities issued by these consolidated special purpose trusts held by third party investors were RMB23,545 million, with remaining maturities ranging from one month to six years, and coupon rates ranging from 2% to 5.7% (31 December 2016: face value of RMB41,399 million with remaining maturities ranging from one month to seven years and coupon rates ranging from 2% to 5.5%).

36. OTHER LIABILITIES

	As at 31 December	
	2017	2016
Interest payable	172,887	156,618
Payables to other holders of consolidated structured entities	24,897	25,347
Deferred government subsidies for education loans	17,703	14,477
VAT and other taxes payable	8,012	7,807
Security deposits for leasing	5,291	5,777
Maintenance deposits from lessees	2,115	2,017
Accrued staff cost	2,079	1,854
Continuing involvement liabilities of asset-backed securitization	575	868
Provision for losses on financial guarantees	1,243	2,738
Purchase payable to leasing equipment vendor	921	1,065
Payables for security brokerage service	1,053	1,844
Amounts received in advance from customers	4,419	4,717
Others	8,178	12,127
Total	249,373	237,256

37. SHARE CAPITAL

	As at 31 December 2017 and 2016	
	Amount	%
MOF	153,908	37
Huijin	146,092	35
Buttonwood Investment Holding Company Ltd.	114,537	27
National Council for Social Security Fund	6,711	1
Total	421,248	100

As at 31 December 2017 and 2016, there was no change in the Bank's equity holders' equity amount or their holding percentage.

38. CAPITAL RESERVE

		2017	
	1 January	Reductions	31 December
Capital premium (1)	169,434	(1)	169,433
Others (2)	115	(100)	15
Total	169,549	(101)	169,448

		2016	
	1 January	Additions	31 December
Capital premium (3)	168,993	441	169,434
Others (2)	(24)	139	115
Total	168,969	580	169,549

(1) During the year ended 31 December 2017, capital premium of the Group was reduced by RMB1 million due to the disposal of rural banks (Note 5).

(2) Others include remeasurement of supplemental retirement benefits obligation and the effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges.

(3) During the year ended 31 December 2016, changes of capital premium of the Group amounted to RMB441 million, which arose from the initial public offering of China Development Bank Financial Leasing Co., Ltd., and increase of share capital of China Development Bank Securities Co., Ltd. by other investors.

39. INVESTMENT REVALUATION RESERVE

	2017		
	Gross amount	Tax effect	Net effect
1 January 2017	9,438	(2,472)	6,966
Fair value changes on available-for sale financial assets			
– Recognized directly in other comprehensive income	(9,126)	2,312	(6,814)
– Removed from other comprehensive income and recognized in profit or loss	122	(30)	92
31 December 2017	434	(190)	244

	2016		
	Gross amount	Tax effect	Net effect
1 January 2016	20,569	(5,142)	15,427
Fair value changes on available-for sale financial assets			
– Recognized directly in other comprehensive income	(10,889)	2,612	(8,277)
– Removed from other comprehensive income and recognized in profit or loss	(242)	58	(184)
31 December 2016	9,438	(2,472)	6,966

40. SURPLUS RESERVE AND GENERAL RESERVE

(1) Statutory and general surplus reserve

According to relevant laws and regulations, the Bank is required to appropriate 10% of its profit for the year, as determined under the PRC GAAP, to statutory surplus reserve. When statutory surplus reserve has reached 50% of the Bank's share capital, the Bank would not be required to further appropriate to statutory surplus reserve. The statutory surplus reserve appropriated by the Bank can be used to replenish accumulated losses of the Bank or to increase the Bank's share capital upon approval. The remaining balance of the statutory surplus reserve should not be lower than 25% of the Bank's share capital after such capitalization. In addition, the Bank appropriates general surplus reserve as approved by the Board of Directors.

(2) General reserve

	As at 31 December	
	2017	2016
The Bank	210,397	183,336
Subsidiaries	3,537	3,396
Total	213,934	186,732

Pursuant to Cai jin [2012] No.20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirement") issued by the MOF in 2012, the Bank is required to establish a general reserve to address unidentified potential impairment losses. The general reserve should not be lower than 1.5% of the outstanding balance of risk-bearing assets as at the year-end date.

Pursuant to relevant regulatory requirements in the PRC, subsidiaries of the Group are required to appropriate certain amounts of its profit for the year as general reserves.

41. RETAINED EARNINGS

		As at 31 December	
	Notes	2017	2016
1 January		255,664	230,569
Add: Profit for the year attributable to equity holders of the Bank		112,405	109,103
Disposal of subsidiaries		207	–
Less: Appropriation to statutory surplus reserve	(1)	(10,707)	(10,480)
Appropriation to general surplus reserve	(2) (i)	(10,480)	(9,601)
Appropriation to general reserve	(2) (ii)	(27,408)	(39,668)
Dividends	(2) (iii)	(26,200)	(24,003)
Transactions with non-controlling interests		(27)	(256)
31 December		293,454	255,664

(1) Profit appropriation for 2017

The Bank appropriated RMB10,707 million to the statutory surplus reserve based on profit for the year of 2017. As at 31 December 2017, the statutory surplus reserve has been recognized as appropriation. Other proposal for profit appropriations of the Bank for the year ended 31 December 2017 is pending for approval by the Board of Directors.

(2) Profit appropriation for 2016

Pursuant to the Board of Directors' Meeting held on 8 August 2017, the proposal for profit appropriations of the Bank for the year ended 31 December 2016 was approved as following:

(i) An appropriation of RMB10,480 million to the general surplus reserve by the Bank which had been included in the Group's consolidated financial statements for the year ended 31 December 2017;

(ii) An appropriation of RMB27,061 million to the general reserve by the Bank which had been included in the Group's consolidated financial statements for the year ended 31 December 2017;

(iii) A cash dividend of RMB26,200 million by the Bank for the year ended 31 December 2016 which had been included in the Group's consolidated financial statements for the year ended 31 December 2017. As at 31 December 2017, the cash dividend has been paid.

(3) As at 31 December 2017, retained earnings include surplus reserve appropriated by the Bank's subsidiaries that attributable to the Bank amounting RMB1,699 million (31 December 2016: RMB1,684 million).

42. NON-CONTROLLING INTERESTS

Non-controlling interests of the Group are as follows:

	As at 31 December	
	2017	2016
China Development Bank Capital Co., Ltd	9,492	9,127
China Development Bank Financial Leasing Co., Ltd.	8,369	7,939
China Development Bank Securities Co., Ltd	3,167	2,992
Others	–	1,116
Total	21,028	21,174

43. CASH FLOW INFORMATION

(1) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances:

	As at 31 December	
	2017	2016
Cash	2	36
Balance with central banks	264,513	274,212
Balances with an original maturity of three months or less:		
Financial assets held under resale agreements	497,946	660,637
Deposits with banks and other financial institutions	188,169	336,843
Placements with banks and other financial institutions	200,964	116,158
Investments in government bonds	–	268
Total	1,151,594	1,388,154

(2) Proceeds from disposal of investment in subsidiaries and associates

	Amount
Cash received from disposal of the rural banks during the year (Note 5)	–
Less: cash and cash equivalents held by the rural banks at the date of disposal	(5,679)
Net cash outflow from disposal of the rural banks	(5,679)

44. STRUCTURED ENTITIES

(1) Principal-guaranteed wealth management products issued and managed by the Group

The Group issued and managed principal-guaranteed wealth management products. Investments made by these products and the corresponding liabilities to the investors are presented as financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position, respectively.

(2) Other consolidated structured entities issued, initiated and managed by the Group

Other structured entities consolidated by the Group include certain asset-backed securities, asset management plans and funds issued, initiated and managed by the Group. The Group has power over these structured entities, is entitled to variable returns from its involvement in related activities and is able to use its power to affect the amount of its variable returns from such structured entities. Therefore, the Group has control over these structured entities.

As at 31 December 2017, the total assets of the consolidated structured entities referred to in (1) and (2) above totaled RMB211,609 million (31 December 2016: RMB222,445 million).

(3) Unconsolidated structured entities issued, initiated and managed by the Group

Unconsolidated structured entities issued, initiated and managed by the Group primarily include non-principal guaranteed wealth management products, asset-backed securities, assets management plans and funds. The Group provides asset management services for the investors. The Group has no plans to provide financial or other support to these unconsolidated structured entities.

As at 31 December 2017, the size of unconsolidated structured entities issued, initiated and managed by the Group amounted to RMB226,392 million (31 December 2016: RMB256,380 million). The carrying amount of the Group's share in these structured entities amounted to RMB3,326 million(31 December 2016: RMB5,734 million). These amounts represent the Group's maximum exposure to these structured entities.

In the year ended 31 December 2017, the types of return that the Group obtained from these structured entities include fee income, interest income and investment gains, which amounted to a total of RMB1,125 million (2016: RMB1,256 million).

(4) Other unconsolidated structured entities invested by the Group

The Group classifies its interest held in other structured entities issued and managed by other third-party entities into financial assets at fair value through profit or loss, available-for-sale financial assets and debt instruments classified as receivables. The information on the size of total assets of these unconsolidated structured entities was not readily available from the public domain. As at 31 December 2017 and 2016, interest held by the Group in structured entities issued by other entities are as follows:

	As at 31 December	
	2017	2016
Financial assets at fair value through profit or loss	34,489	7,499
Debt instruments classified as receivables	3,361	5,990
Available-for-sale financial assets	900	229
Total	38,750	13,718

45. TRANSFERS OF FINANCIAL ASSETS

The Group enters into securitization transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note 3 (10)(c) and Note 4 (5).

As at 31 December 2017, the unexpired asset-backed securities included accumulative loans transferred by the Group before impairment of RMB50,664 million (31 December 2016: RMB57,702 million), among which:

– RMB32,783 million was in respect of loans transferred that the Group retained substantially all the risks and rewards of these special purpose trusts and therefore has not been derecognized in the consolidated financial statements.

– RMB3,621 million was in respect of loans transferred that the Group concluded it had continuing involvement in these assets.

– RMB14,260 million was in respect of loans transferred that qualified for full derecognition.

(1) For those loans that the Group had continuing involvement, the Group continues to recognize the transferred loans to the extent of its continuing involvement and recognizes continuing involvement assets and liabilities, respectively. The net carrying amount of the continuing involvement assets and continuing involvement liabilities reflects the rights and obligations that the Group has retained.

	As at 31 December 2017					2017	
	Carrying amount of continuing involvement in the consolidated statement of financial position		Fair value of continuing involvement		Maximum exposure to loss	Gain or loss recognized upon transfer	Income recognized during the year
	Assets	Liabilities	Assets	Liabilities			
Interest in special purpose trust	575	575	575	575	575	–	37

	As at 31 December 2016					2016	
	Carrying amount of continuing involvement in the consolidated statement of financial position		Fair value of continuing involvement		Maximum exposure to loss	Gain or loss recognized upon transfer	Income recognized during the year
	Assets	Liabilities	Assets	Liabilities			
Interest in special purpose trust	868	868	868	868	868	–	28

(2) For those loans that the Group had fully derecognized amounted to RMB14,260 million, the Group presents its investments in these asset-backed securities as financial assets at fair value through profit or loss, available-for-sale financial assets or debt instruments classified as receivables, according to the different nature of the investments.

	As at 31 December 2017			2017	
	Carrying amount	Fair value	Maximum exposure to loss	Gain or loss recognized upon transfer	Income recognized during the year
Interest in special purpose trust	714	713	714	–	78

	As at 31 December 2016			2016	
	Carrying amount	Fair value	Maximum exposure to loss	Gain or loss recognized upon transfer	Income recognized during the year
Interest in special purpose trust	1,372	1,384	1,372	–	170

46. SEGMENT INFORMATION

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated at head office level. Income and expenses directly associated with each segment are included in determining operating segment performance.

In accordance with IFRS 8, the Group has the following operating segments: banking, equity investment, leasing and securities. The Group's main operating segments are set out below:

(1) Banking operations

This segment consists of corporate banking, debt issuance and treasury operations. The corporate banking operations primarily consist of lending, deposits, agency services, consulting and advisory services, cash management, remittance and settlement, custody and guarantee services. Debt issuance is the main source of funding to corporate banking operations. The treasury operations primarily consist of money market transactions, foreign exchange transactions, bond investments, customer-based interest rate and foreign exchange derivative transactions and asset and liability management.

(2) Equity investment

This segment consists of equity investment activities.

(3) Leasing operations

This segment consists of finance lease and operating lease business in which the Group acts as a lessor.

(4) Securities operations

This segment consists of security brokerage, proprietary trading and underwriting operations.

2017	Banking	Equity investment	Leasing	Securities	Consolidation and elimination	Total
Interest income	554,021	1,354	5,889	651	(1,431)	560,484
Interest expense	(374,040)	(1,650)	(4,985)	(1,040)	1,481	(380,234)
Net interest income	179,981	(296)	904	(389)	50	180,250
Include: Net interest income from customers	*178,834*	*486*	*1,319*	*(389)*	*–*	*180,250*
Inter-segment net interest income/(expenses)	*1,147*	*(782)*	*(415)*	*–*	*50*	*–*
Net fee and commission income	8,614	427	(62)	815	(21)	9,773
Include: Net fee and commission from customers	*8,578*	*427*	*(26)*	*794*	*–*	*9,773*
Inter-segment net fee and commission	*36*	*–*	*(36)*	*21*	*(21)*	*–*
Other income, net	(37,215)	5,019	3,624	1,309	(988)	(28,251)
Operating expenses and impairment losses on assets	(18,045)	(1,072)	(1,658)	(624)	275	(21,124)
Profit before income tax	133,335	4,078	2,808	1,111	(684)	140,648
31 December 2017						
Total assets	15,688,904	170,078	187,099	43,559	(130,931)	15,958,709
Total liabilities	14,505,925	72,194	163,590	28,173	(51,069)	14,718,813
Other information:						
Depreciation and amortization	1,144	50	2,699	49	–	3,942
Capital expenditure	1,113	240	16,941	96	–	18,390
Impairment losses on assets	4,193	215	913	28	(269)	5,080
Credit commitments	3,761,863	–	–	–	(19,155)	3,742,708

2016	Banking	Equity investment	Leasing	Securities	Consolidation and elimination	Total
Interest income	494,859	1,264	5,456	554	(940)	501,193
Interest expense	(359,216)	(1,330)	(4,400)	(1,176)	1,053	(365,069)
Net interest income	135,643	(66)	1,056	(622)	113	136,124
Include: Net interest income from customers	*134,798*	*438*	*1,065*	*(177)*	*–*	*136,124*
Inter-segment net interest income/(expenses)	*845*	*(504)*	*(9)*	*(445)*	*113*	*–*
Net fee and commission income	12,250	242	(56)	820	(105)	13,151
Include: Net fee and commission from customers	*12,117*	*242*	*(57)*	*849*	*–*	*13,151*
Inter-segment net fee and commission	*133*	*–*	*1*	*(29)*	*(105)*	*–*
Other income, net	88,793	3,707	3,453	1,566	(2)	97,517
Operating expenses and impairment losses on assets	(101,885)	(926)	(2,385)	(776)	1	(105,971)
Profit before income tax	134,801	2,957	2,068	988	7	140,821
31 December 2016						
Total assets	14,101,423	158,392	166,512	43,113	(129,537)	14,339,903
Total liabilities	12,995,223	59,476	144,210	28,382	(49,511)	13,177,780
Other information:						
Depreciation and amortization	1,223	53	2,477	50	–	3,803
Capital expenditure	1,384	223	8,510	36	–	10,153
Impairment losses on assets	80,851	26	1,826	153	(86)	82,770
Credit commitments	3,492,710	–	–	–	(35,732)	3,456,978

47. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Ministry of Finance

As at 31 December 2017 and 2016, the MOF owned 36.54% of the issued share capital of the Bank.

The Group enters into transactions with the MOF in its ordinary course of business, including subscription and redemption of treasury bonds. Details of transactions with the MOF are as follows:

	As at 31 December	
	2017	2016
Treasury bonds issued by the MOF	95,971	85,618
Interest receivable	1,365	1,253
Interest rate range (%)	2.29-4.68	2.14-4.47

	Year ended 31 December	
	2017	2016
Interest income	2,854	2,538
Net trading gain	146	44

(2) Huijin

As at 31 December 2017 and 2016, Huijin owned 34.68% of the issued share capital of the Bank.

Huijin is a wholly owned subsidiary of China Investment Corporation, with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorized by the Chinese State Council and it does not engage in other commercial operations. Huijin exercises its rights and assumes the obligations as an investor of the Bank on behalf of the PRC Government.

Details of the balances and transactions with Huijin are as follows:

	As at 31 December	
	2017	2016
Available-for-sale financial assets	3,335	5,821
Financial assets at fair value through profit or loss	148	120
Interest rate range (%)	3.32-4.38	3.16-4.20

As at 31 December 2017 and 2016, the outstanding balance of the Group's interest receivable from Huijin was RMB51 million and RMB70 million, respectively.

	Year ended at 31 December	
	2017	2016
Interest income	114	203

Transactions with Huijin and transactions with entities controlled or jointly controlled by Huijin are carried out in the Group's ordinary course of business under normal commercial terms.

(3) Buttonwood Investment Holding Company Ltd.

As at 31 December 2017, Buttonwood Investment Holding Company Ltd. owned 27.19% of the issued share capital of the Bank (31 December 2016: 27.19%).

(4) Transaction with subsidiaries

Outstanding balances of transactions with subsidiaries included in the Bank's statement of financial position are as follows:

	As at 31 December	
	2017	2016
Assets		
Deposits with banks and other financial institutions	–	31
Placements with banks and other financial institutions	–	9,012
Financial assets at fair value through profit or loss	1,675	–
Derivative financial assets	56	165
Available-for-sale financial assets	1,286	–
Interest receivable	43	50
Loans and advances to customers	36,863	27,137
Other receivables	123	3
Liabilities		
Deposits from banks and other financial institutions	11	699
Derivative financial liabilities	7	–
Due to customers	31,728	15,836
Debt securities issued	900	109
Interest payable	39	14

As at 31 December 2017, the total outstanding balance of loan commitments and letters of guarantee issued to subsidiaries were RMB16,154 million (31 December 2016: RMB35,732 million).

Transactions with subsidiaries included in the Bank's statement of profit or loss are as follows:

	Year ended 31 December	
	2017	2016
Interest income	1,304	853
Interest expense	(195)	(56)
Fee and commission income	52	135
Fee and commission expense	(28)	(2)
Dividend income	952	–

Transactions between the Bank and its subsidiaries are carried out on normal commercial terms in ordinary course of business.

(5) Transactions with associates and joint ventures

Transactions between the Bank and its associates and joint ventures are carried out on normal commercial terms in ordinary course of business. The Group's transactions and balances with associates and joint ventures for the years ended 31 December 2017 and 2016 were not significant.

(6) Transactions with other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government authorities, agencies, affiliates and other State controlled entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, deposits, borrowings, foreign exchange transactions, derivative transactions, agency services, purchase, sales and redemption of investment securities issued by government agencies.

Management considers that transactions with other government related entities are conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government related entities.

(7) Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group. During the years ended 31 December 2017 and 2016, the Group had no material transactions with key management personnel.

(8) The Group and the Annuity Scheme

During the years ended 31 December 2017 and 2016, the Group had no material transactions with the Annuity Scheme set up by the Bank, apart from the obligation for defined contribution to the Annuity Scheme.

48. CONTINGENT LIABILITIES AND COMMITMENTS

(1) Legal proceedings

As at 31 December 2017, the Group was involved in certain lawsuits arising from its normal business operations. After consulting legal professionals, management of the Group believes that the ultimate outcome of these lawsuits will not have a material impact on the financial position or operating result of the Group.

(2) Capital commitments

	As at 31 December	
	2017	2016
Contracted but not provided for		
– equity instruments	50,201	50,815
– property	99,130	39,989
Total	149,331	90,804

(3) Credit commitments

	As at 31 December	
	2017	2016
Loan commitments	3,649,438	3,339,971
Letters of guarantee issued	60,039	82,460
Bank acceptance	18,441	20,762
Letters of credit issued	14,790	13,785
Total commitments	3,742,708	3,456,978

As at 31 December 2017, the amount of credit commitments with original maturities of less than one year was RMB6,257 million (31 December 2016: RMB1,629 million), with the rest of the credit commitments were all with original maturities over one year.

(4) Operating lease commitments

At the end of each reporting period, the Group, as a lessee, has the following non-cancellable operating lease commitments:

	As at 31 December	
	2017	2016
Within one year	528	499
One to two years	286	305
Two to three years	246	179
Above three years	481	292
Total revocable or irrevocable commitments	1,541	1,275

(5) Finance lease commitments

At the end of each reporting period, the Group, as a lessor, has the following non-cancellable finance lease commitments:

	As at 31 December	
	2017	2016
Contractual amount	7,790	1,600

As at 31 December 2017 and 2016, the Group's finance lease commitments were all within one year.

(6) Underwriting obligations

As at 31 December 2017 and 2016, the Group had no securities underwriting obligations.

(7) Collateral

(a) Assets pledged

The carrying amounts of assets pledged as collateral under repurchase agreements at the end of each reporting period are as follows:

	As at 31 December	
	2017	2016
Bonds	16,130	9,971
Others	3,750	3,540
Total	19,880	13,511

As at 31 December 2017, the carrying value of financial assets sold under repurchase agreements by the Group was RMB19,327 million (31 December 2016: RMB12,589 million) as set out in Note 33 Financial Assets Sold under Repurchase Agreements. All repurchase agreements are due within 5 years from the effective date of these agreements.

In addition, certain finance lease receivables and leased assets under finance lease, where the Group is a lessor, were pledged as collateral for borrowings from other banks. As at 31 December 2017, carrying amounts of these collateral amounted to RMB6,485 million and RMB2,326 million, respectively (31 December 2016: RMB9,164 million and RMB5,958 million).

(b) Collateral accepted

The Group received securities as collateral in connection with the purchase of financial assets under resale agreements (Note 20). The Group did not hold any collateral that can be resold or re-pledged as at 31 December 2017 and 31 December 2016.

49. FINANCIAL RISK MANAGEMENT

(1) Strategies adopted in managing financial risks

The Group's activities expose it to a variety of financial risks. The Group analyzes, identifies, monitors and reports risks or combination of financial risks during its operations. Taking risk is core to the financial business of the Group, and facing these financial risks is an inevitable consequence of carrying out business. The Group's aim is, therefore, to achieve an appropriate balance between risks and returns and minimize potential adverse effects arising from these risks on the Group's financial performance.

The Group raises funds primarily through the issuance of debts with different maturities at both fixed and floating rates, and seeks to earn interest margins by investing these funds in medium to long-term lending projects in infrastructure sectors, basic industries and pillar industries. With the basic saving and lending interest rate impacted by the central bank, and debt issuing rates fluctuating, the Group seeks to increase its net interest margins by issuing different varieties of bonds and reducing its cost of funding to the extent possible.

The Group carries out a range of plain vanilla derivative transactions including, among others, currency forward, currency and interest rate swaps, interest rate floor options, to meet the needs of risk management as well as the needs of its customers.

The Group's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to risk limits by use of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk and market risk.

(2) Credit risk

The Group takes on exposure to credit risk which represents the potential loss that may arise from a customer's or counterparty's failing to discharge an obligation. Credit risk is the most important risk for the Group's business, management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities including debt instruments and derivatives. Off-balance sheet financial instruments, such as loan commitments and financial guarantees, also expose the Group to credit risk.

Following the internal credit rating directives and guidelines issued by the CBRC, and considering its unique business features, the Group establishes a credit rating framework including credit rating methodologies, policies, procedures, control management, data collection and IT supporting. This is a two-dimension risk rating framework that assesses both customer credit rating based on the probability of default and the facility credit rating considering, among other, the estimated loss given default. To ensure the accuracy and completeness of rating results, the Group also established internal guidelines for country rating, sovereign rating, local government rating, and ratings based on considerations of regional and industry risks.

For the year ended 31 December 2017, there are no material changes to the Group's risk management policies and processes.

(a) Credit risk measurement

(i) Loans and advances

The Group measures and manages the credit quality of loans and advances based on the "Guideline for Loan Credit Risk Classification "issued by the CBRC, which requires banks to classify loans into the following five grades: "Normal", "Special-mention", "Substandard", "Doubtful" and "Loss", among which loans classified in the "Substandard", "Doubtful" and "Loss" grades are regarded as non-performing loans.

"Normal": Borrowers can honor 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 able to service their loans currently, although repayment may be adversely affected by specific factors.

"Substandard": Borrowers' ability to service their loans is in question as they cannot rely entirely on normal business revenue to repay principal and interest. Losses may occur even when collateral or guarantees are invoked.

"Doubtful": Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.

"Loss": Only a small portion or no principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

The Group uses a risk-based methodology to evaluate the quality of loan assets. The classification methodology takes into consideration of different factors including loan grading as stated above, credit rating and loss events judgement. The classification leverages quantitative and qualitative factors, including various financial factors, non-financial factors, industrial and regional differences, as well as the Group's management capability. The Group reviews quality of its credit assets on a regular basis, and such assets are centrally monitored by the Loan Management Department and International Financial Department, and reported to management.

(ii) Debt instruments and derivatives

For debt instruments, the Group manages the credit risk exposure by using its internal rating system, and also taking external ratings such as Standard & Poor's rating or their equivalents into account. Investments in debt instruments are viewed as a way to gain better credit quality assets and, at the same time, to maintain a readily available source of funding to meet funding requirements. The derivative credit risk exposure is managed as part of the overall lending limits set for customers and counterparties.

(iii) Loan commitments, letters of guarantee issued, letters of credit issued and bank acceptance

For loan commitments, letters of guarantee issued, letters of credit issued and bank acceptance, the Group manages the credit risk using the five-grade mechanism and its internal credit rating system in the same way as it manages loans and advances to customers.

(b) Risk limit control and mitigation policies

The Group manages limits and controls concentration of credit risk wherever they are identifiable, in particular, to individual counterparties and groups, and to industries and geographical regions.

The Group has established a credit limit management framework to assess the levels of credit risk it undertakes in relation to a single borrower or a group client, to allocate the economic capital for industries and branches, as well as to set the appropriate credit limit by country. Such risks are monitored periodically and are subject to review at the Executive Management Meeting over Risk Management.

The credit limit to a customer is further split into sub-limits of different business products covering on and off-balance sheet exposures, and update on a daily basis the risk limits in relation to trading and non-trading portfolios of treasury business. Actual exposures are monitored against limits regularly.

To manage its credit risk, the Group applies rigorous underwriting procedures to each loan application and has developed a disciplined credit risk management process. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet their principal and interest repayment obligations. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

Other specific controls and mitigation measures are outlined below.

(i) Collateral

The Group has designed a set of policies and practices to mitigate credit risk, among which, the most traditional and the most widely used one is to take collateral from borrowers. The Group has implemented guidelines on the acceptability of specific types of collateral or the level of credit risk mitigation, and reviews the valuation results of collateral periodically.

The primary types of collateral are rights and commercial assets such as toll collection rights, real estates, land use rights, equity securities, cash deposits and equipment. Collateral held for financial assets other than loans and advances to customers are dependent on the nature of the financial instrument. Debt instruments are generally unsecured, but for asset-backed securities and other similar instruments, they are generally secured by pools of financial assets.

(ii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as needed. Letters of guarantee and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its payment obligations to third parties, carry the same credit risk as loans. In some cases, pledged deposits are received by the Group to reduce the credit risks arising from these commitments. Pledged deposit is determined as a certain percentage of the notional amount of credit related commitments based on the creditworthiness of the customer.

Commitments to extend credit represent undrawn portions of authorized credit in the form of loans, bank acceptance, letters of guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total undrawn commitments. However, the likely amount of loss is less than the total undrawn commitments as most commitments to extend credit are contingent upon customers maintaining their creditworthiness. The Group monitors the term to expiry of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Impairment and allowance policies

Impairment allowances presented in the consolidated statement of financial position is calculated based on asset quality and related grading as disclosed in Note 49 (2)(a)(i), which is adopted by management to determine whether objective evidence of impairment exists under IAS 39, based on the principles set out in Note 3 (10)(b).

The Group's policy requires at least quarterly review of individually significant financial assets or more frequent when specific circumstances require. For all the individually significant financial assets, discounted cash flow method is used to assess the impairment individually. The assessment normally encompasses collateral held by the Group and other assets that can be disposed of for recovery.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually insignificant; and (ii) losses that have been incurred but have not yet been identified in non-impaired individually significant financial assets, by using the available historical experience, judgment and statistical techniques.

(d) **Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements**

	As at 31 December	
	2017	2016
Credit risk exposures relating to financial assets		
Balances with central banks	264,866	275,433
Deposits with banks and other financial institutions	1,129,033	686,853
Placements with banks and other financial institutions	227,739	162,663
Financial assets at fair value through profit or loss	1,046,007	1,090,080
Derivative financial assets	37,887	25,486
Financial assets held under resale agreements	506,172	680,394
Loans and advances to customers	10,642,675	9,894,173
Available-for-sale financial assets	512,240	609,921
Held-to-maturity investments	28,388	1,136
Debt instruments classified as receivables	1,201,815	581,089
Other financial assets	66,450	53,935
	15,663,272	14,061,163
Credit risk exposures relating to credit commitments		
Loan commitments	3,649,438	3,339,971
Letters of guarantee issued	60,039	82,460
Bank acceptance	18,441	20,762
Letters of credit issued	14,790	13,785
	3,742,708	3,456,978
Total	19,405,980	17,518,141

The above table represents a worst case scenario of credit risk exposures to the Group as at 31 December 2017 and 2016, without taking into account of any collateral held or other credit enhancements attached. For financial assets on the consolidated statement of financial position, the exposures set out above are based on net carrying amounts of these assets.

(e) **Loans and advances to customers**

The gross amounts of loans and advances to customers by types of collateral and maturity are as follows:

	31 December 2017			
	Within 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	378,725	383,282	1,763,138	2,525,145
Guaranteed loans	188,477	207,545	1,104,322	1,500,344
Loans secured by collateral	64,664	117,451	1,087,689	1,269,804
Pledged loans	39,719	95,419	5,606,401	5,741,539
Total	671,585	803,697	9,561,550	11,036,832

	31 December 2016			
	Within 1 year	1 to 5 years	Over 5 years	Total
Unsecured loans	282,858	325,788	1,791,645	2,400,291
Guaranteed loans	212,635	247,321	1,145,426	1,605,382
Loans secured by collateral	82,422	178,993	1,142,840	1,404,255
Pledged loans	112,666	126,654	4,668,899	4,908,219
Total	690,581	878,756	8,748,810	10,318,147

Credit quality of loans and advances to customers is as follows:

	As at 31 December	
	2017	2016
Neither past due nor impaired (i)	10,951,827	10,222,719
Past due but not impaired (ii)	8,207	4,826
Impaired (iii)	76,798	90,602
	11,036,832	10,318,147
Less: allowance for impairment losses		
Individually assessed	(40,087)	(57,645)
Collectively assessed	(354,070)	(366,329)
	(394,157)	(423,974)
Loans and advances to customers, net	10,642,675	9,894,173

(i) Loans and advances to customers – neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed with reference to the asset quality grading adopted by the Group.

	As at 31 December	
	2017	2016
Normal	10,258,048	9,115,606
Special-mention	693,779	1,107,113
Total	10,951,827	10,222,719

(ii) Loans and advances to customers – past due but not impaired

As at 31 December 2017 and 2016, past-due student loans but not impaired totalled RMB1,816 million and RMB1,572 million, respectively. In accordance with the relevant regulatory policies, deferred government subsidies for student loans will be utilized to cover any losses incurred in relation to student loans, and after taking into account this mitigation measure, past due student loans were not identified as impaired. As at 31 December 2017 and 2016, other past due loans but not impaired excluding student loans amounted to RMB6,391 million and RMB3,254 million, respectively. After taking into account of the underlying collaterals held and other controls and mitigation measures, these loans were not identified as impaired.

The gross amounts of loans and advances to customers that were past due but not impaired are as follows:

	As at 31 December	
	2017	2016
Past due up to 90 days	6,453	3,995
Past due over 90 days	1,754	831
Total	8,207	4,826
Exposure covered by collateral and pledge	3,873	2,319

(iii) Loans and advances to customers – impaired

Impaired loans and advances to customers are listed below:

	As at 31 December	
	2017	2016
Impaired loans and advances to customers	76,798	90,602
Less: individually assessed impairment allowance	(40,087)	(57,645)
Net	36,711	32,957
Exposure covered by collateral and pledge	25,039	20,890

(iv) Restructured loans and advances

Restructured loans and advances to customers are loans that have been renegotiated due to deterioration in the borrower's financial position which resulted in the borrower's inability to meet its repayment obligations. Restructuring measures are based on the judgment of management that payment will most likely continue. These measures are under continuous review by management. As at 31 December 2017, the Group's total restructured loans amounted to RMB12,310 million (31 December 2016: RMB9,147 million).

During the year ended 31 December 2017, as a result of loan renegotiations, the Group recognized modified loans and advances as well as bonds and shares of RMB9,457 million and RMB100,794 million, respectively. The loss associated with these loan renegotiations was not significant for the year ended 31 December 2017.

(f) Investment in debt instruments

Credit quality of debt instruments is as follows:

	As at 31 December	
	2017	2016
Neither past due nor impaired (i)	2,017,851	1,452,170
Impaired (ii)	2,458	2,321
	2,020,309	1,454,491
Less: Allowance for impairment losses		
– individually assessed	(638)	(503)
Carrying amount of investment in debt instruments	2,019,671	1,453,988

(i) Investment in debt instruments – neither past due nor impaired

31 December 2017	Financial assets at fair value through profit or loss	Available–for-sale financial assets	Held-to–maturity investments	Debt instruments classified as receivables	Total
Debt securities issued by:					
Governments and quasi-governments	34,079	135,736	98	1,096,088	1,266,001
Financial institutions	3,434	37,345	25,093	5,571	71,443
Corporates	63,265	37,874	3,197	94,458	198,794
Asset-backed securities	4,427	216	–	713	5,356
Inter-bank certificates of deposit	108,822	301,053	–	–	409,875
Financial assets held under resale agreements	19,418	–	–	–	19,418
Deposits and placements with banks and other financial institutions	26,043	–	–	–	26,043
Wealth management products issued by other banks	10,323	–	–	–	10,323
Asset management plans	7,417	–	–	–	7,417
Investment in trust plans and others	–	–	–	3,181	3,181
Total	277,228	512,224	28,388	1,200,011	2,017,851

31 December 2016	Financial assets at fair value through profit or loss	Available–for-sale financial assets	Held-to-maturity investments	Debt instruments classified as receivables	Total
Debt securities issued by:					
Governments and quasi-governments	18,534	138,075	–	570,138	726,747
Financial institutions	2,951	12,611	786	4,045	20,393
Corporates	59,422	39,682	350	62	99,516
Asset-backed securities	–	278	–	1,010	1,288
Inter-bank certificates of deposit	111,462	419,259	–	–	530,721
Financial assets held under resale agreements	19,579	–	–	–	19,579
Deposits and placements with banks and other financial institutions	40,365	–	–	–	40,365
Wealth management products issued by other banks	6,238	–	–	–	6,238
Asset management plans	3,291	–	–	–	3,291
Investment in trust plans and others	–	–	–	4,032	4,032
Total	261,842	609,905	1,136	579,287	1,452,170

(ii) Investment in debt instruments – impaired

	31 December 2017	31 December 2016
Debt securities issued by corporations	189	197
Trust plan and others	2,103	1,958
	2,292	2,155
Less: Allowance for impairment losses		
– individually assessed	(488)	(353)
Investment in debt instruments – impaired, net	1,804	1,802

The Group's available-for-sale debt instruments were individually assessed for impairment. As at 31 December 2017, the carrying amount of impaired available-for-sale debt instruments of the Group was RMB16 million (31 December 2016: RMB16 million). The accumulative impairment losses recognized for these impaired available-for-sale debt instruments by the Group as at 31 December 2017 was RMB150 million (31 December 2016: RMB150 million).

Carrying amount of investment in debt instruments analyzed by credit rating from independent rating agencies is as follows:

	31 December 2017						
	AAA	AA	A	Below A	PRC government and quasi-governments (1)	Other (2)	Total
Debt securities issued by:							
Governments and quasi-governments	14,982	–	–	–	1,250,817	202	1,266,001
Financial institutions	10,276	1,605	650	1,035	–	57,877	71,443
Corporates	31,810	13,327	21	3,627	–	150,025	198,810
Asset-backed securities	2,398	–	–	131	–	2,827	5,356
Inter-bank certificates of deposit (3)	409,875	–	–	–	–	–	409,875
Financial assets held under resale agreements	–	–	–	–	–	19,418	19,418
Deposits and placements with banks and other financial institutions	–	–	–	–	–	26,043	26,043
Asset management plans	–	–	–	–	–	7,417	7,417
Wealth management products issued by other banks	–	–	–	–	–	10,323	10,323
Investments in trust plans and others	–	–	–	–	–	4,985	4,985
Total	469,341	14,932	671	4,793	1,250,817	279,117	2,019,671

	31 December 2016						
	AAA	AA	A	Below A	PRC government and quasi-governments (1)	Other (2)	Total
Debt securities issued by:							
Governments and quasi-governments	14,503	–	–	–	702,867	9,377	726,747
Financial institutions	14,715	4,484	1,092	–	–	102	20,393
Corporates	24,415	8,947	8,966	703	–	59,792	102,823
Asset-backed securities	971	–	–	–	–	317	1,288
Inter-bank certificates of deposit (3)	470,271	12,095	–	–	–	48,355	530,721
Financial assets held under resale agreements	–	–	–	–	–	19,579	19,579
Deposits and placements with banks and other financial institutions	–	–	–	–	–	40,365	40,365
Wealth management products issued by other banks	–	–	–	–	–	6,238	6,238
Investments in trust plans and others	–	–	–	–	–	5,834	5,834
Total	524,875	25,526	10,058	703	702,867	189,959	1,453,988

(1) Unrated debt securities issued by PRC government and quasi-governments are from issuers including the MOF, the PBOC, Huijin and policy banks of China.

(2) Other unrated debt instruments mainly include subordinated bonds issued by insurance companies, super short-term commercial papers, asset management plans, and wealth management products issued by other banks and investments in trust plans.

(3) Analyzed by ratings of issuers of inter-bank certificates of deposit.

(g) Financial assets by industry of counterparties

Loans and advances to customers	31 December 2017 Amount	%	31 December 2016 Amount	%
Urban renewal	2,728,850	25	2,130,237	21
Road transportation	1,792,708	16	1,694,640	16
Electric power, heating and water production and supply	1,048,395	9	964,109	9
Railway transportation	929,434	8	894,690	9
Water conservation, environmental protection and public utilities	860,768	8	949,813	9
Petroleum, petrochemical and chemical industry	745,828	7	727,199	7
Manufacturing industry	551,846	5	570,188	6
Urban public transportation	412,919	4	353,912	3
Mining industry	300,629	3	433,376	4
Financial industry	246,855	2	201,943	2
Other transportation	208,577	2	186,960	2
Education	129,289	1	108,356	1
Telecommunication and other information transmission services	95,688	1	100,630	1
Others	985,046	9	1,002,094	10
	11,036,832	100	10,318,147	100
Less: Allowance for impairment losses	(394,157)		(423,974)	
Loans and advances, net	10,642,675		9,894,173	

Financial assets other than loans and advances to customers	Governments and quasi-governments	Financial institutions	Corporate and others	Total
31 December 2017				
Balances with central banks	264,866	–	–	264,866
Deposits with banks and other financial institutions	–	1,129,033	–	1,129,033
Placements with banks and other financial institutions	–	227,739	–	227,739
Financial assets at fair value through profit or loss	286,759	157,717	601,531	1,046,007
Derivative financial assets	6,408	29,263	2,216	37,887
Financial assets held under resale agreements	–	497,965	8,207	506,172
Available-for-sale financial assets	135,736	338,398	38,106	512,240
Held-to-maturity investments	98	25,093	3,197	28,388
Debt instruments classified as receivables	1,096,088	5,571	100,156	1,201,815
Other financial assets	20,794	7,524	38,132	66,450
Total	1,810,749	2,418,303	791,545	5,020,597
31 December 2016				
Balances with central banks	275,433	–	–	275,433
Deposits with banks and other financial institutions	–	686,853	–	686,853
Placements with banks and other financial institutions	–	162,663	–	162,663
Financial assets at fair value through profit or loss	415,930	63,727	610,423	1,090,080
Derivative financial assets	237	22,107	3,142	25,486
Financial assets held under resale agreements	–	669,917	10,477	680,394
Available-for-sale financial assets	138,075	431,870	39,976	609,921
Held-to-maturity investments	–	786	350	1,136
Debt instruments classified as receivables	570,138	4,045	6,906	581,089
Other financial assets	8,849	15,374	29,712	53,935
Total	1,408,662	2,057,342	700,986	4,166,990

(3) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and stock and commodity prices. The Group's major market risks are interest rate risk and foreign exchange risk in it trading book and banking book.

The objective of the Group's market risk management is to manage and control market risk exposures within an acceptable range to optimize return on risk. The aim is to ensure the Group could operate safely and soundly under a reasonable market risk level and undertake market risk consistent with the market risk management capabilities and capital capacity.

Market risk is managed using risk limits approved by the Board of Directors and its affiliated committees. The Governors' Meeting on Risk Management and the Asset & Liability Committee ("ALCO") supervise overall market risk, meetings and review risk management reports periodically to ensure that all market risks are effectively managed.

Segregation of trading book and banking book

The Group's exposures to market risk mainly exist in its trading book and banking book.

Trading book consists of financial instruments and commodity positions held for trading or for economic hedging purposes. Banking book consists of on and off balance sheet financial instruments not held in the trading book.

Market risks arising from trading and banking books are managed by the Risk Management Department and the Treasury Department within the scope of their respective roles and responsibilities. The Risk Management Department assumes the responsibility for the overall risk management and the periodical submission of market risk reports to the Governors' Meeting of Risk Management. The Treasury Department assumes the responsibility for the overall asset and liability management as well as management of interest rate risk and foreign exchange risk in banking book, and the periodical submission of interest rate risk and foreign exchange risk reports related to banking book to the ALCO.

Market risk measurement and management approaches

Market risk is monitored and managed through established limits, market value revaluation, duration analysis, gap analysis and sensitivity analysis indicators.

Trading book

The Group monitors and manages its various risk exposures in trading book through limits control, risk limits control, enforcement of stop-loss limits and sensitivity analysis.

The Group adopts stress testing approach to estimate the potential maximum losses under extremely unfavorable conditions. The Group also continues adjusting and refining the stress testing scenarios and measurements in relation to its trading book, so as to capture impact of market price on market value, and to improve its ability in identifying market risks.

The Group establishes appropriate risk limits for each risk category considering its risk management capabilities over risks as well as capital capacity. The Risk Management Department is responsible for the identification, measurement, monitoring and reporting of risk exposures from all trading portfolios.

Banking book

The Bank monitors market risks for banking mainly through sensitivity analysis for foreign exchange risk and interest rate risk. The Risk Management Department is responsible for reporting risk measurement results to Governors' Meeting of Risk Management by means of market value revaluation, duration analysis, etc. The Treasury Department is responsible for the accurate and timely identification and measurement of interest rate risk and foreign exchange risk using gap analysis and other methods, and regularly reporting to the ALCO.

For sensitivity analysis of interest rate risk and foreign exchange risk, please refer to Note 49 (3) (a) interest rate risk and Note 49 (3) (b) foreign exchange risk (including trading book and banking book).

(a) Interest rate risk

Interest rate risk of the banking book is the risk of loss arising from unfavorable movements in interest rate, duration and other elements of the risk.

The Group's pricing strategy in China mainland is impacted by the macro-economic environment and the monetary policies of the PBOC. The PBOC established RMB benchmark interest rates for loans whereby financial institutions are in a position to price their loans based on credit risk; commercial and market factors. In general, the interest rates of interest-bearing assets and liabilities with the same currency and maturity terms will move in the same direction. During the year ended 31 December 2017, the PBOC has not adjusted the benchmark interest rates for RMB loans and deposits.

Interest rate risk of the Bank's banking book is principally managed based on assessing impact of interest rate change on both the income and economic value, by using gap analysis, duration analysis, basis point ("BP") analysis and net interest income simulation model. The Group adjusts its asset and liability structure and uses hedging instruments to mitigate the interest rate risk of banking book. Interest rate risk of trading book is mainly managed and monitored by using interest rate limits, sensitivity analysis, exposure analysis by currency, mark-to-market and breakeven analysis.

In terms of measuring and managing interest rate risk, the Group regularly measures interest rate repricing gaps, portfolio duration and monitors the sensitivity of projected net interest income and fair value changes to interest net moves under varying interest rate scenarios (simulation modeling).

Repricing gap analysis

The table below summarizes the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	31 December 2017						
	Within 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Non-interest bearing	Total
Financial assets:							
Cash and balances with the central banks	264,823	–	–	–	–	45	264,868
Deposits with banks and other financial institutions	1,096,067	6,105	3,813	105	–	22,943	1,129,033
Placements with banks and other financial institutions	227,739	–	–	–	–	–	227,739
Financial assets at fair value through profit or loss	113,025	78,122	72,629	14,222	1,870	871,162	1,151,030
Include: Financial assets held-for-trading	*64,973*	*50,604*	*7,055*	*1,661*	–	*174*	*124,467*
Financial assets designated at fair value through profit or loss	*48,052*	*27,518*	*65,574*	*12,561*	*1,870*	*870,988*	*1,026,563*
Derivative financial assets	–	–	–	–	–	37,887	37,887
Financial assets held under resale agreements	499,126	4,942	2,104	–	–	–	506,172
Loans and advances to customers	5,244,599	2,981,302	151,997	211,184	2,053,573	20	10,642,675
Available-for-sale financial assets	230,860	144,767	89,564	44,408	2,944	9,853	522,396
Held-to-maturity investments	16,159	8,715	2,360	1,154	–	–	28,388
Debt instruments classified as receivables	96,207	19,963	521,818	563,827	–	–	1,201,815
Other financial assets	6,384	–	–	–	–	60,066	66,450
Total financial assets	7,794,989	3,243,916	844,285	834,900	2,058,387	1,001,976	15,778,453
Financial liabilities:							
Deposits from banks and other financial institutions	111,102	–	3,150,142	–	–	2,856	3,264,100
Borrowings from governments and financial institutions	152,159	198,391	5,581	8,564	2,297	–	366,992
Placements from banks	42,538	42,791	–	–	–	–	85,329
Financial liabilities at fair value through profit or loss	134,792	28,452	1,688	–	–	27	164,959
Derivative financial liabilities	–	–	–	–	–	33,495	33,495
Financial assets sold under repurchase agreements	15,577	3,750	–	–	–	–	19,327
Due to customers	1,887,691	101,427	65,122	8,021	5,801	2,517	2,070,579
Debt securities issued	1,472,958	1,081,955	2,904,767	2,269,492	717,420	–	8,446,592
Other financial liabilities	21	64	551	1,158	–	189,401	191,195
Total financial liabilities	3,816,838	1,456,830	6,127,851	2,287,235	725,518	228,296	14,642,568
Net interest repricing gap	3,978,151	1,787,086	(5,283,566)	(1,452,335)	1,332,869	773,680	1,135,885

	31 December 2016						
	Within 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Non-interest bearing	Total
Financial assets:							
Cash and balances with the central banks	275,361	–	–	–	–	108	275,469
Deposits with banks and other financial institutions	632,419	21,315	–	–	–	33,119	686,853
Placements with banks and other financial institutions	145,403	17,260	–	–	–	–	162,663
Financial assets at fair value through profit or loss	112,309	132,696	15,829	929	79	913,926	1,175,768
Include: Financial assets held-for-trading	*62,006*	*50,884*	*9,637*	*929*	*79*	*3,534*	*127,069*
Financial assets designated at fair value through profit or loss	*50,303*	*81,812*	*6,192*	–	–	*910,392*	*1,048,699*
Derivative financial assets	–	–	–	–	–	25,486	25,486
Financial assets held under resale agreements	673,982	6,321	91	–	–	–	680,394
Loans and advances to customers	4,801,380	3,041,957	110,215	245,551	1,695,070	–	9,894,173
Available-for-sale financial assets	217,762	242,213	91,336	55,345	3,265	16,164	626,085
Held-to-maturity investments	–	200	936	–	–	–	1,136
Debt instruments classified as receivables	254	2,632	257,469	320,734	–	–	581,089
Other financial assets	8,297	1,494	2	–	–	44,142	53,935
Total financial assets	6,867,167	3,466,088	475,878	622,559	1,698,414	1,032,945	14,163,051
Financial liabilities:							
Deposits from banks and other financial institutions	154,022	2,306	2,052,801	–	–	3,262	2,212,391
Borrowings from governments and financial institutions	169,357	181,916	7,708	2,199	684	–	361,864
Placements from banks	49,732	15,761	–	–	–	–	65,493
Financial liabilities at fair value through profit or loss	50,303	78,475	–	–	–	139	128,917
Derivative financial liabilities	–	–	–	–	–	32,150	32,150
Financial assets sold under repurchase agreements	5,259	3,419	3,911	–	–	–	12,589
Due to customers	1,975,888	97,082	91,501	6,104	6,297	1,620	2,178,492
Debt securities issued	1,175,802	1,417,550	2,621,323	2,024,432	659,414	–	7,898,521
Other financial liabilities	2,410	3,986	1,162	647	123	199,132	207,460
Total financial liabilities	3,582,773	1,800,495	4,778,406	2,033,382	666,518	236,303	13,097,877
Net interest repricing gap	3,284,394	1,665,593	(4,302,528)	(1,410,823)	1,031,896	796,642	1,065,174

Sensitivity analysis of net interest income and other comprehensive income

The following table illustrates the potential pre-tax impact of a parallel upward or downward shift of 100 basis points in all financial instruments' yield curves on the Group's net interest income and other comprehensive income for the next twelve months from the reporting date, based on the Group's net positions of interest-bearing assets and liabilities at the end of each reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparalleled yield curve movements.

	31 December 2017		31 December 2016	
	Net interest income	Other comprehensive income	Net interest income	Other comprehensive income
Increase 100 basis points	41,510	(6,240)	34,984	(8,331)
Decrease 100 basis points	(41,510)	6,616	(34,984)	8,829

The sensitivity analysis above is based on reasonably possible changes in interest rates with the assumption that the structure of financial assets and financial liabilities held at the period end remains unchanged and does not take changes in customer behavior, basis risk or any prepayment options on debt securities into consideration.

The sensitivity analysis on other comprehensive income reflects only the effect of changes in interest rates on fair value changes on available-for-sale financial assets held at the period end.

The assumptions do not consider the Group's capital and interest rate risk management policy. Therefore the above analysis may differ from the actual situation. In addition, the impact of interest rate fluctuation is only for illustrative purpose, showing the potential impact on net interest income and other comprehensive income of the Group under different yield curve movements and current interest rate risk situation. The impact did not take into account the risk management activities to mitigate the interest rate risk.

(b) Foreign exchange rate risk

The Group takes on foreign currency exposure arising from moves of foreign currency exchange rates on its financial position and cash flows.

The Group's primary business is conducted in RMB, with certain foreign currency transactions in USD, Euro ("EUR"), Japanese Yen ("JPY") and, to a much lesser extent, other currencies. The Group manages its foreign currency exposures by using exchange rate derivatives, and economically hedges its USD exposure to the extent possible. RMB appreciated by 0.4028 RMB/1 USD during the year ended 31 December 2017 (2016: depreciation of 0.4434 RMB/1 USD).

The Group measures the impact from exchange rate risk primarily by using foreign currency exposure management, sensitivity analysis of foreign currency exchange rates, and Earnings at Risk ("EaR"). The Group adjusts its asset and liability structure and uses hedging instruments to mitigate the foreign exchange risk to the extent possible.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the end of the reporting period, with the Group's assets and liabilities presented at carrying amounts in RMB or RMB equivalents categorized by the original currency.

	31 December 2017			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Financial assets:				
Cash and balances with central banks	264,790	75	3	264,868
Deposits with banks and other financial institutions	1,016,879	78,800	33,354	1,129,033
Placements with banks and other financial institutions	68,980	154,395	4,364	227,739
Financial assets at fair value through profit or loss	1,124,921	24,886	1,223	1,151,030
Include: Financial assets held-for-trading	*120,734*	*3,733*	–	*124,467*
Financial assets designated at fair value through profit or loss	*1,004,187*	*21,153*	*1,223*	*1,026,563*
Derivative financial assets	34,664	2,023	1,200	37,887
Financial assets held under resale agreements	506,172	–	–	506,172
Loans and advances to customers	9,025,935	1,444,120	172,620	10,642,675
Available-for-sale financial assets	486,142	29,655	6,599	522,396
Held-to-maturity investments	3,262	25,126	–	28,388
Debt instruments classified as receivables	1,107,126	94,650	39	1,201,815
Other financial assets	57,821	8,026	603	66,450
Total financial assets	13,696,692	1,861,756	220,005	15,778,453
Financial liabilities:				
Deposits from banks and other financial institutions	3,035,866	211,495	16,739	3,264,100
Borrowings from governments and financial institutions	95,419	255,804	15,769	366,992
Placements from banks	21,800	56,676	6,853	85,329
Financial liabilities at fair value through profit or loss	164,959	–	–	164,959
Derivative financial liabilities	31,036	2,131	328	33,495
Financial assets sold under repurchase agreements	19,327	–	–	19,327
Due to customers	1,806,261	188,768	75,550	2,070,579
Debt securities issued	8,288,732	105,539	52,321	8,446,592
Other financial liabilities	180,677	9,868	650	191,195
Total financial liabilities	13,644,077	830,281	168,210	14,642,568
Net on-balance sheet position	52,615	1,031,475	51,795	1,135,885
Currency forwards and swaps (Contractual/notional amount)	350,772	(307,510)	(35,717)	7,545
Credit commitments	3,383,314	296,758	62,636	3,742,708

	31 December 2016			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Financial assets:				
Cash and balances with central banks	275,041	356	72	275,469
Deposits with banks and other financial institutions	544,661	95,519	46,673	686,853
Placements with banks and other financial institutions	123,400	39,263	–	162,663
Financial assets at fair value through profit or loss	1,149,014	25,079	1,675	1,175,768
Include: Financial assets held-for-trading	*123,558*	*3,511*	–	*127,069*
Financial assets designated at fair value through profit or loss	*1,025,456*	*21,568*	*1,675*	*1,048,699*
Derivative financial assets	21,413	2,847	1,226	25,486
Financial assets held under resale agreements	680,394	–	–	680,394
Loans and advances to customers	8,110,721	1,642,807	140,645	9,894,173
Available-for-sale financial assets	612,098	5,004	8,983	626,085
Held-to-maturity investments	621	515	–	1,136
Debt instruments classified as receivables	581,027	62	–	581,089
Other financial assets	43,655	9,414	866	53,935
Total financial assets	12,142,045	1,820,866	200,140	14,163,051
Financial liabilities:				
Deposits from banks and other financial institutions	1,974,412	222,002	15,977	2,212,391
Borrowings from governments and financial institutions	32,517	322,539	6,808	361,864
Placements from banks	20,300	44,405	788	65,493
Financial liabilities at fair value through profit or loss	128,798	119	–	128,917
Derivative financial liabilities	28,497	3,236	417	32,150
Financial assets sold under repurchase agreements	12,589	–	–	12,589
Due to customers	1,910,757	166,579	101,156	2,178,492
Debt securities issued	7,799,460	77,191	21,870	7,898,521
Other financial liabilities	200,693	6,230	537	207,460
Total financial liabilities	12,108,023	842,301	147,553	13,097,877
Net on-balance sheet position	34,022	978,565	52,587	1,065,174
Currency forwards and swaps (Contractual/notional amount)	312,440	(284,276)	(44,143)	(15,979)
Credit commitments	3,093,231	300,920	62,827	3,456,978

Given a 1% possible movement in exchange rate of RMB against other currencies, there is no significant impact on the Group's other comprehensive income. The table below summarizes the effect of such movement on the Group's profit before tax in the consolidated statement of profit or loss:

	31 December 2017	31 December 2016
USD against RMB	Profit before tax	Profit before tax
1% appreciation	**10,315**	**9,191**
1% depreciation	**(10,315)**	**(9,191)**

In analyzing the impact on profit before tax exchange gain or losses due possible exchange rate movements, simplified assumptions and scenarios are adopted and do not take into account the following:

- changes in the Group's net position in USD subsequent to the balance sheet date;
- the impact on the customers' behavior due to the movement of the exchange rate;
- the effect of economic hedge on the Group's net position in USD by using certain derivative instruments; and
- the impact on market prices as a result of the movement of exchange rate.

(4) Liquidity risk

Liquidity risk is the risk that although the Group has the payment capacity, however is unable to raise sufficient funds at a reasonable cost to increase its assets as needed or to replace matured debt. The consequence may be the failure to meet obligations to repay debtors and depositors and fulfill commitments to lend.

The Group has established a set of liquidity management policies and to mitigate the liquidity risk effectively. These policy and approaches include the forecasting and monitoring of future cash flows, stress testing scenarios, plans for emergency, etc.

In 2017, the Bank continued to obtain funds from markets through issuance of debt securities. In accordance with the approval from the CBRC, all RMB bonds issued by the Bank enjoy sovereign debt credit rating, which enables the Bank to continuous raise funds in the market through issuance of sovereign debt.

Objectives of liquidity risk management and processes

The Group is exposed to daily calls on its available cash resources from current customer deposit, matured customer term deposits, repayment of debt securities issued, loan drawdown, fulfil obligations under guarantees and other calls on cash settled derivatives.

To maintain the mismatching of the cash flows and the mismatching of maturities of assets and liabilities within a reasonable range is a significant mission of the Group. It is impracticable for the Group to be completely matched in such positions since business transactions are often of uncertain terms and of different types. A mismatched position might enhance profitability, but at the same time carries the risk of loss. The Group takes effect to manage its mismatched positions within a reasonable range.

Liquidity risk management is performed by the ALCO. The Treasury Department is the execution department for detailed daily management. The Group's liquidity management processes include:

- Projecting cash flows by major currencies with consideration of the level of liquid assets necessary in relation thereto;
- Monitoring the liquidity gaps on balance sheet;
- Managing the concentration risk of debt maturities; and
- Maintaining debt financing plans.

The Group does not need to maintain cash resources to meet all of its liquidity needs for demand payment as the Group has the ability to finance of new debts in the market. In addition, experience shows that a certain level of matured liabilities such as term deposit from customers will remain within the Group but not to be withdrawn. Management maintains an appropriate level of highly liquid assets to address unexpected cash demands.

In general, the Group does not generally expect third-parties to draw all of the committed funds under letters of guarantees issued or letters of credit issued. The total outstanding contractual amount of commitment to extend to credit does not necessarily represent future cash requirements, since some of these commitments will either expire, be terminated or not meet funding requirements due to customers' inability to fulfill the conditions of drawdown.

Liquidity analysis of financial instruments

Sources of liquidity are regularly reviewed by the Group to maintain a wide diversification in terms of liquidity provider, product, term, currency and geographical area.

The Group's funding policy is to seek a long-term healthy balance between its funding requirements and demands from investors by maintaining a presence and participation in, and constantly making returns to, the debt capital markets, and to raise funds under its different funding programs. The Group issues fixed rate and floating rate debt securities each year. These debt instruments might be with embedded options that allow the Group or the bond holders to redeem them prior to the bonds' respective maturity. However, bonds with redemption options only comprise a small portion of all bonds issued. As at 31 December 2017, long-term (with a maturity of one year or longer) debt securities issued of the Group amounted to RMB7.14 trillion (31 December 2016: RMB6.70 trillion), and other long-term debts (include deposits from banks and other financial institutions, borrowings from governments and financial institutions, financial assets sold under repurchase agreements and due to customers) amounted to RMB3.28 trillion (31 December 2016: RMB2.02 trillion).

The table below presents the cash flows payable by the Group under non-derivative financial instruments and derivatives, whether settled in net or gross by their contractual maturities. The amounts disclosed in the table are the contractually undiscounted cash flows. The expected cash flows of these financial instruments by the Group may have different with the table as below:

(a) Liquidity analysis of financial instruments

31 December 2017

	Past due/ undated	On demand	Within 1 month	1–3 months	3–12 months	1-5 years	5-10 years	Over 10 years	Total
Non-derivative financial assets									
Cash and balances with central banks	408	264,460	–	–	–	–	–	–	264,868
Deposits with banks and other financial institutions	22,950	1,156,788	7,430	373	16,997	1,244	105	–	1,205,887
Placements with banks and other financial institutions	–	–	144,093	84,376	–	–	–	–	228,469
Financial assets at fair value through profit or loss	91,295	5,619	226,220	49,950	94,306	241,044	201,457	320,594	1,230,485
Financial assets held under resale agreements	–	–	499,021	641	5,289	2,243	–	–	507,194
Loans and advances to customers	15,561	1,256	93,526	262,995	1,566,562	5,747,808	3,809,355	5,098,499	16,595,562
Available-for-sale financial assets	9,139	4,437	84,152	145,775	153,187	110,349	53,637	3,860	564,536
Held-to-maturity investments	–	–	5,423	10,681	8,975	2,780	1,528	–	29,387
Debt instruments classified as receivables	142	–	336	5,454	55,198	667,610	630,227	97,576	1,456,543
Other financial assets	599	4,355	168	618	4,001	3,977	1,790	–	15,508
Total non-derivative financial assets	140,094	1,436,915	1,060,369	560,863	1,904,515	6,777,055	4,698,099	5,520,529	22,098,439
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	–	68,880	5,864	242	39,808	3,150,153	–	–	3,264,947
Borrowings from governments and financial institutions	–	–	14,442	74,581	187,026	68,938	14,789	25,773	385,549
Placements from banks	–	–	27,777	15,810	43,479	–	–	–	87,066
Financial liabilities at fair value through profit or loss	27	–	72,293	63,808	29,263	1,598	–	–	166,989
Financial assets sold under repurchase agreements	–	–	7,810	7,810	3,971	–	–	–	19,591
Due to customers	–	1,766,071	71,131	53,187	102,692	69,464	9,728	10,707	2,082,980
Debt securities issued	–	–	280,618	271,550	1,032,410	4,733,334	2,892,336	1,408,531	10,618,779
Other financial liabilities	176	4,037	882	1,222	2,227	5,898	5,783	2	20,227
Total non-derivative financial liabilities	203	1,838,988	480,817	488,210	1,440,876	8,029,385	2,922,636	1,445,013	16,646,128
Net position	139,891	(402,073)	579,552	72,653	463,639	(1,252,330)	1,775,463	4,075,516	5,452,311
Derivative cash flows									
Derivatives settled on a net basis:									
Net inflow	–	–	104	(111)	162	735	878	1,919	3,687
Derivatives settled on a gross basis:									
Total inflow	–	–	440,075	554,515	1,036,787	49,038	815	12	2,081,242
Total outflow	–	–	(439,733)	(555,207)	(1,032,807)	(48,481)	(807)	(16)	(2,077,051)
Total derivative cash flows	–	–	446	(803)	4,142	1,292	886	1,915	7,878

	31 December 2016								
	Past due/ undated	On demand	Within 1 month	1 – 3 months	3 – 12 months	1-5 years	5-10 years	Over 10 years	Total
Non-derivative financial assets									
Cash and balances with central banks	1,221	274,361	–	–	–	–	–	–	275,582
Deposits with banks and other financial institutions	–	187,662	245,977	236,241	21,622	547	51	–	692,100
Placements with banks and other financial institutions	–	–	99,841	46,089	26,112	–	–	–	172,042
Financial assets at fair value through profit or loss	85,688	6,970	26,603	85,344	147,517	90,078	203,670	530,158	1,176,028
Financial assets held under resale agreements	–	–	623,197	51,936	6,323	94	–	–	681,550
Loans and advances to customers	18,984	–	67,728	209,737	1,388,009	5,461,050	3,220,004	3,882,200	14,247,712
Available-for-sale financial assets	16,164	–	34,417	184,995	254,655	105,979	63,028	4,115	663,353
Held-to-maturity investments	–	–	–	3	235	963	–	–	1,201
Debt instruments classified as receivables	–	–	408	2,308	19,234	334,912	354,834	–	711,696
Other financial assets	1,258	2,449	125	874	2,831	5,082	2,875	–	15,494
Total non-derivative financial assets	123,315	471,442	1,098,296	817,527	1,866,538	5,998,705	3,844,462	4,416,473	18,636,758
Non-derivative financial liabilities									
Deposits from banks and other financial institutions	–	132,305	2,300	2,472	4,204	2,074,367	–	–	2,215,648
Borrowings from governments and financial institutions	–	–	16,648	116,498	81,528	131,055	19,156	20,575	385,460
Placements from banks	–	–	29,265	20,719	15,880	–	–	–	65,864
Financial liabilities at fair value through profit or loss	139	–	13,224	38,067	80,889	–	–	–	132,319
Financial assets sold under repurchase agreements	–	–	2,649	2,648	3,487	4,056	–	–	12,840
Due to customers	–	1,835,329	113,174	29,133	98,356	95,982	7,909	11,863	2,191,746
Debt securities issued	–	–	234,304	161,568	1,062,569	4,355,282	2,841,177	1,302,537	9,957,437
Other financial liabilities	21,379	7,428	2,307	162,693	8,515	4,239	6,206	137	212,904
Total non-derivative financial liabilities	21,518	1,975,062	413,871	533,798	1,355,428	6,664,981	2,874,448	1,335,112	15,174,218
Net position	101,797	(1,503,620)	684,425	283,729	511,110	(666,276)	970,014	3,081,361	3,462,540
Derivative cash flows									
Derivatives settled on a net basis:									
Net inflow	–	–	51	(47)	166	986	1,107	1,234	3,497
Derivatives settled on a gross basis:									
Total inflow	–	–	283,074	198,065	750,844	62,720	862	18	1,295,583
Total outflow	–	–	(282,237)	(197,601)	(752,063)	(66,044)	(864)	(15)	(1,298,824)
Total derivative cash flows	–	–	888	417	(1,053)	(2,338)	1,105	1,237	256

Letters of guarantee issued, letters of credit issued, bank acceptance and loan commitments are included below based on the earliest contractual maturity date.

31 December 2017	Within 1 month	1-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Loan commitments	7,847	13,875	126,226	183,574	330,096	2,987,820	3,649,438
Letters of guarantee issued	3,566	839	4,782	35,770	14,603	479	60,039
Bank acceptance	2,943	5,156	10,342	–	–	–	18,441
Letters of credit issued	1,694	5,237	5,774	2,085	–	–	14,790
Total	16,050	25,107	147,124	221,429	344,699	2,988,299	3,742,708

31 December 2016	Within 1 month	1-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Loan commitments	3,014	16,575	80,340	303,371	333,963	2,602,708	3,339,971
Letters of guarantee issued	1,117	498	30,840	33,410	16,146	449	82,460
Bank acceptance	3,230	5,245	12,287	–	–	–	20,762
Letters of credit issued	2,783	3,831	4,593	2,578	–	–	13,785
Total	10,144	26,149	128,060	339,359	350,109	2,603,157	3,456,978

(5) Fair value of financial assets and liabilities

The best evidence of fair value for a financial instrument is the quoted prices (unadjusted) in active markets for identical assets or liabilities. If the market for a financial instrument is not active, fair value is determined using valuation techniques. The valuation technique makes maximum use of observable market data and relies as little as possible on the Group's specific unobservable inputs. In other words, the valuation techniques adopted by the Group incorporate all factors that market participants could consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

Substantially all financial instruments classified within Level 1 of the fair value hierarchy are securities and funds listed on exchange. The fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Substantially all financial instruments classified within Level 2 of the fair value hierarchy are securities investments, derivatives, underlying assets of principal-guaranteed wealth management products and the associated liabilities to investors in relation to the principal-guaranteed wealth management products. Fair value of securities investments denominated in RMB is determined based upon the valuation published by the China Central Depository & Clearing Co., Ltd. Fair value of debt investments denominated in foreign currencies is determined based upon the valuation results published by the Bloomberg. Fair value of derivatives are calculated by applying discounted cash flow method or the Black Scholes Pricing Model. Fair value of underlying assets of principal-guaranteed wealth management products and the associated liabilities to investors in relation to the principal-guaranteed wealth management products are estimated by discounted cash flow method. All significant inputs for the fair valuation of these financial assets and liabilities are observable in the market.

Level 3 financial assets of the Group are primarily unlisted equity investments and equity investments with embedded derivatives. Management uses valuation techniques to determine the fair value, which mainly include discounted cash flow method, net asset value, and comparable companies approach. The fair value of these financial instruments based on unobservable inputs which may have significant impact on the valuation of these financial instruments, including credit risk of the counterparties, weighted average cost of capital, perpetual growth rate, liquidity discount and similarity to comparable companies index, etc.

(a) Financial instruments measured at fair value

Fair value hierarchy of financial instruments measured at fair value are as follows:

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Financial assets held-for-trading				
– Bonds	913	31,558	–	32,471
– Inter-bank certificates of deposit	–	89,182	–	89,182
– Stock and fund	2,501	313	–	2,814
Financial assets designated at fair value through profit or loss				
– Equity investments	–	–	870,988	870,988
– Bonds	–	72,734	–	72,734
– Inter-bank certificates of deposit	–	19,640	–	19,640
– Financial assets held under resale agreements	–	19,418	–	19,418
– Deposits and placements with banks and other financial institutions	–	26,043	–	26,043
– Asset management plans	–	7,417	–	7,417
– Wealth management products issued by other banks	–	–	10,323	10,323
Derivative financial assets				
– Exchange rate derivatives	–	30,768	–	30,768
– Interest rate derivatives	–	7,119	–	7,119
Available-for-sale financial assets				
– Bonds	28,667	179,058	3,462	211,187
– Inter-bank certificates of deposit	–	301,053	–	301,053
– Fund investments	–	717	–	717
– Equity investments	4,522	396	4,521	9,439
Total	36,603	785,416	889,294	1,711,313
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Wealth management products with principal guaranteed	–	(164,959)	–	(164,959)
Derivative financial liabilities				
– Exchange rate derivatives	–	(27,239)	–	(27,239)
– Interest rate derivatives	–	(6,256)	–	(6,256)
Total	–	(198,454)	–	(198,454)

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Financial assets held-for-trading				
– Bonds	4,928	55,500	–	60,428
– Inter-bank certificates of deposit	–	63,107	–	63,107
– Stock and fund	3,534	–	–	3,534
Financial assets designated at fair value through profit or loss				
– Equity investments	–	–	910,392	910,392
– Bonds	–	20,479	–	20,479
– Inter-bank certificates of deposit	–	48,355	–	48,355
– Financial assets held under resale agreements	–	19,579	–	19,579
– Deposits and placements with banks and other financial institutions	–	40,365	–	40,365
– Asset management plans	–	3,291	–	3,291
– Wealth management products issued by other banks	–	–	6,238	6,238
Derivative financial assets				
– Exchange rate derivatives	–	16,670	–	16,670
– Interest rate derivatives	–	8,816	–	8,816
Available-for-sale financial assets				
– Bonds	2,012	188,650	–	190,662
– Inter-bank certificates of deposit	–	419,259	–	419,259
– Fund investments	–	200	–	200
– Equity investments	4,786	2,019	9,159	15,964
Total	15,260	886,290	925,789	1,827,339
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Wealth management products with principal guaranteed	–	(128,917)	–	(128,917)
Derivative financial liabilities				
– Exchange rate derivatives	–	(23,983)	–	(23,983)
– Interest rate derivatives	–	(8,167)	–	(8,167)
Total	–	(161,067)	–	(161,067)

There were no significant transfers between Level 1 and Level 2 during the years ended 31 December 2017 and 31 December 2016.

The reconciliation of Level 3 financial assets and financial liabilities presented at fair value in the consolidated statement of financial position is as follows:

	Financial assets		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total financial assets
1 January 2017	916,630	9,159	925,789
Sales	(18,158)	(109)	(18,267)
Additions	39,260	3,070	42,330
Settlements	(49,104)	–	(49,104)
Transfer out from Level 3	(633)	–	(633)
Total gains/(losses) recognized in			
– Profit or loss	(6,139)	–	(6,139)
– Other comprehensive income	(545)	(4,137)	(4,682)
31 December 2017	881,311	7,983	889,294
Change in unrealized (losses)/gains for the year for assets/liabilities held at 31 December 2017 recognized in			
– Profit or loss	2,499	–	2,499
– Other comprehensive income	(545)	(4,137)	(4,682)

	Financial assets		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total financial assets
1 January 2016	501,764	14,976	516,740
Sales	(18,770)	–	(18,770)
Additions	437,331	75	437,406
Settlements	–	–	–
Total gains/(losses) recognized in			
– Profit or loss	(2,834)	(42)	(2,876)
– Other comprehensive income	(861)	(5,850)	(6,711)
31 December 2016	916,630	9,159	925,789
Change in unrealized gains/(losses) for the year for assets/liabilities held at 31 December 2016 recognized in			
– Profit or loss	1,200	(42)	1,158
– Other comprehensive income	(861)	(5,850)	(6,711)

(b) Financial instruments not measured at fair value

In respect of financial assets and financial liabilities carried at other than fair value, the following methods and assumptions were used to estimate the fair value of each type of financial instruments for which it is practicable. The fair value hierarchy is primarily categorized as Level 2.

(i) Cash and balances with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, demand deposits from banks and other financial institutions, demand deposits from customers, placements from banks, financial assets sold under repurchase agreements, current receivables or payables within other assets and other liabilities.

Given that these financial assets and liabilities are short-term in nature and reprice to current market rates frequently, the carrying amounts approximate the fair value.

(ii) Held-to-maturity investments and debt instruments classified as receivables

Fair value of listed securities is estimated using bid market price. Fair value of unlisted securities is estimated using valuation techniques that take into consideration future cash flows and market price of similar quoted securities.

(iii) Loans and advances to customers

The carrying amounts of variable rate loans and advances to customers are reasonable approximate of fair values because interest rates reflect market rates which are based on PBOC's established rates and are adjusted when applicable. Fair value of fixed rate loans and advances to customers is estimated using a discounted cash flow analysis utilizing the rates currently offered for loans of similar remaining maturities. For impaired loans, fair value is estimated by discounting the future cash flows, which they are expected to be recovered.

(iv) Fixed interest-bearing customer deposits, deposits from banks and other financial institutions and borrowings

Fair value of fixed rate customer deposits, deposits from banks and other financial institutions and borrowings is estimated using a discounted cash flow analysis utilizing the rates currently offered for deposits and borrowings with similar remaining maturities.

The carrying amount of financial instruments referred to in (i) to (iv) are approximate fair value.

(v) Debt securities issued

Fair value of debt securities issued is determined using quoted market prices where available or by reference to quoted market prices for similar instruments. For those securities where quoted market prices or quoted market prices for similar instruments are not available, a discounted cash flow analysis is used based on a current yield curve appropriate for the remaining maturity of the instruments.

The tables below summarize the carrying amounts and fair values of debt securities issued:

	As at 31 December 2017	
	Amortized cost	Fair value
Debt securities issued	8,446,592	8,174,343

	As at 31 December 2016	
	Amortized cost	Fair value
Debt securities issued	7,898,521	7,969,603

(6) Capital management

Capital of the Group uses for capital management, which is a broader concept than the "equity" as presented on the consolidated statement of financial position. The purpose of the Group's capital management is:

- to comply with the capital requirements set by the regulators of the banking markets where the Group entities operate;
- to safeguard the Group's ability to continue as a going concern so that it can continue to generate returns for equity holders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy of the Group and the utilization of regulatory capital are closely monitored by the management in accordance with the guidelines established by the Basel Committee and relevant regulations promulgated by the CBRC. Required information related to capital levels and utilization is filed quarterly with the CBRC.

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