IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

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Strictly Confidential

国家开发银行
China Development Bank

CHINA DEVELOPMENT BANK CORPORATION

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

Renminbi 1,000,000,000 4.2% Bonds due 2027

(to be consolidated and form a single series with the Renminbi 1,500,000,000 4.2% Bonds due 2027 issued on January 19, 2012)

Denomination: RMB 1,000,000

We, China Development Bank Corporation, were formerly a PRC government policy-oriented statutory financial institution and were converted into a joint stock company with limited liability under the PRC Company Law and the PRC Commercial Banking Law on December 11, 2008. We are wholly owned by the PRC government. We are offering our RMB 1,000,000,000 4.2% bonds due 2027 (the "Further Bonds") to be consolidated and form a single series with the RMB 1,500,000,000 4.2% bonds due 2027 issued on January 19, 2012 (the "Original Bonds" and, together with the Further Bonds, the "Bonds"). The Bonds will constitute our direct, unconditional, unsecured and unsubordinated obligations and rank equally with our other unsecured and unsubordinated indebtedness. We will pay interest on the Bonds semi-annually in arrear on the Interest Payment Date (as defined in the Terms and Conditions of the Bonds) falling on or nearest to January 19 and July 19 of each year, beginning on July 19, 2012. We will make payments of principal and interest in respect of the Bonds without deduction or withholding for any present or future taxes, duties, assessment or governmental charges imposed by taxing authorities in China unless such deduction or withholding is required by law, in which event, we will pay such additional amounts as will result in the payment to you, as holders of our Bonds and the related coupons, of the amounts which would otherwise have been receivable, had no such deduction or withholding been required. There is no sinking fund for the Bonds. See "Appendix I — Terms and Conditions of the Bonds". The Further Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, or the Securities Act, and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Further Bonds are being offered only to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Further Bonds and the distribution of this Offering Circular, see "Subscription and Sale" in this Offering Circular.

The Further Bonds have not been rated and will not be listed on any securities exchange. The Further Bonds and the Bonds will be issued in bearer form and represented by a global bond which will be deposited with a sub-custodian with the Central Moneymarkets Unit Services, or CMU, the book-entry clearing system operated by the Hong Kong Monetary Authority, or HKMA and shall substitute the global bond dated January 19, 2012 in relation to the Original Bonds.

Sole Lead Manager and Bookrunner

Barclays

March 23, 2012

We accept full responsibility for the accuracy of the information contained in this Offering Circular. We confirm, having made all reasonable enquiries, that to the best of our knowledge and belief this Offering Circular contains no untrue statement (including a statement which is misleading in the form and context in which it is included and including a material omission).

You should rely only on the information contained in this Offering Circular in making your investment decision. Neither ourselves nor the sole lead manager and bookrunner, fiscal agent or paying agent participating in this offering or any of their respective affiliates or advisors has authorized anyone to provide you with any other information.

Neither the delivery of this Offering Circular, nor any offering, sale or delivery made in connection with the issue of the Bonds should at any time or in any circumstances imply that the information contained in this Offering Circular is correct as at any time subsequent to the date of this Offering Circular or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in our affairs since the date of this Offering Circular.

No representation or warranty, express or implied, is made by the sole lead manager and bookrunner or any of its respective affiliates or advisors 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 the sole lead manager and bookrunner or its affiliates or advisors. To the fullest extent permitted by law, none of the sole lead manager and bookrunner, the fiscal agent, the paying agent or their respective affiliates accepts any responsibility for the contents of this Offering Circular. The sole lead manager and bookrunner, the fiscal agent, the paying agent and their respective affiliates 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 Further Bonds. This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by us or the sole lead manager and bookrunner that any recipient of this Offering Circular should purchase any of the Further Bonds. If you are contemplating purchasing any Further Bonds, you should conduct your own independent investigation of our financial condition and business affairs and make your own appraisal of our creditworthiness.

No offer or solicitation with respect to the Further Bonds 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 Further Bonds in certain jurisdictions may be restricted by law. Persons who come into possession of this document are required by us as well as the sole lead manager and bookrunner 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 Further Bonds or the distribution of this Offering Circular. For a description of certain restrictions on offers, sales and deliveries of our Further Bonds and on distribution of this Offering Circular, see the section entitled "Subscription and Sale" in this Offering Circular.

IN CONNECTION WITH THIS OFFERING, BARCLAYS BANK PLC, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE FURTHER BONDS IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE FURTHER BONDS. AS A RESULT, THE PRICE OF THE FURTHER BONDS MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE STABILIZING MANAGER, AND NOT FOR THE ISSUER OR ON ITS BEHALF.

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 and 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 rate, 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 "we", "us", "our" and words of similar import are to China Development Bank Corporation itself or China Development Bank Corporation 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, excluding Hong Kong SAR, the Macau Special Administrative Region and Taiwan; all references to "Hong Kong SAR" are to the Hong Kong Special Administrative Region of China; 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; 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", "RMB" or "Rmb" are to the lawful currency of China; all references to "Hong Kong dollar" or "HK$" are to the lawful currency of Hong Kong SAR; all references to "U.S. dollar" or "US$" are to the lawful currency of the United States of America; all references to "Japanese yen" or "JP¥" are to the lawful currency of Japan; all references to "British pound" or "£" are to the lawful currency of the United Kingdom; all references to "Swiss Franc" or "CHF" are to the lawful currency of Switzerland; and all references to "Euro" or "€" are to the euro, the currency introduced by the European Economic and Monetary Union, pursuant to the Treaty Establishing the European Community, as amended, in the European Union.

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 2.3 to our financial statements on page II-13. 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.

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SUMMARY OF CHINA DEVELOPMENT BANK CORPORATION

This summary does not contain all the information that may be important to you in deciding to invest in the Further Bonds. 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 Corporation

We were established on March 17, 1994 as a government policy-oriented financial institution pursuant to a special decree issued by the State Council, or Special Decree. On December 11, 2008, we were converted into a joint stock company with limited liability pursuant to the PRC Company Law, the PRC Commercial Banking Law and other applicable laws and regulations. Subsequent to the conversion, we continue to have and be accountable for all our assets, liabilities, business, rights and obligations prior to the conversion. We are currently wholly owned, directly or indirectly, by the PRC government, with the Ministry of Finance of China (MOF), Central Huijin Investment Company Limited (Huijin) and National Council for Social Security Fund, holding 50.18%, 47.63% and 2.19%, respectively, of our issued equity. 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 Regulatory Commission, or CBRC, with respect to our banking operations. According to CBRC, the risk weighting of our Renminbi-denominated bonds issued prior to December 31, 2012 will remain at 0% until maturity and such bonds are to be treated the same way as policy-oriented financial bonds. In addition, MOF also supervises our operations as both our shareholder and the government authority responsible for administration of the state-owned assets. Under PRC law, our conversion from a PRC policy-oriented financial institution into a joint stock company with limited liability preserves the continuity of our body corporate and does not involve the creation of a new legal entity.

We are headquartered in Beijing, China and currently have 38 branch offices in China (including one in Hong Kong SAR) and two representative offices in Cairo and Moscow. Our major subsidiaries include China Development Bank Capital Co., Ltd., China Development Bank Securities Co., Ltd., CDB Leasing Co., Ltd., China-Africa Development Fund and 11 village banks. Our place of business in Hong Kong 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 CBRC, the scope of our principal business activities includes:

- deposit taking from corporate customers;
- making short-, medium- and long-term loans;
- domestic and international settlement;
- acceptance and discount of negotiable instruments;
- issuance of financial bonds;
- acting as agent for the issuance, repayment and underwriting of government bonds;
- trading in government bonds and financial bonds;
- interbank borrowing and lending;
- sale and purchase of foreign exchange 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 service; and

- other businesses authorised by the banking regulatory body under the State Council.

The following summary of our historical financial information as of or for the years ended December 31, 2009 and 2010 is derived from our audited financial statements included in this Offering Circular beginning on page II-2. We have prepared and presented our 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 December 31,	
	2009	**2010**
	(in millions of RMB)	
Income Statement Data		
Interest income	194,996	222,730
Interest expense	(120,773)	(135,142)
Profit before tax	42,031	52,244
Net profit	33,311	37,449

	As of December 31,	
	2009	**2010**
	(in millions of RMB)	
Balance Sheet Data		
Cash and balance with the central bank	287,781	127,952
Due from other banks	49,874	171,856
Loans, net	3,642,219	4,426,548
Total assets	4,539,860	5,111,087
Total liabilities	4,161,145	4,709,756
Owner's equity	378,715	401,331

Recent Development

During 2011, we have continued to implement the national macroeconomic policy, and we believe we have achieved sustainable and sound development of our business. Our business has developed primarily in the following three aspects:

- We have achieved growth in the scale of our overall business. Since 2011, we have continued to support the national strategies of China, implement the national macroeconomic policy, strengthen business development and innovation and optimise our shareholding structure. As of the end of September 2011, our total assets and loan balance had increased as compared to those as at the end of 2010. In the first half of 2011, National Council for Social Security Fund contributed RMB 10,000,000,000 to our share capital. As of the end of September 2011, our net assets had increased as compared to those as at the end of 2010. Our operating revenue for the first nine months in 2011 increased on a year-on-year basis;

- We have further sought to enhance our profitability through expanding the scale of our business, optimising our revenue structure and taking other measures to promote profitability. Our net profits for the first nine months in 2011 increased on a year-on-year basis, and our ROE and ROA for the first nine months in 2011 also increased on a year-on-year basis; and

- We have continuously sought to improve our asset quality. Since 2011, we have continued to strengthen our risk management and improve our asset quality, and we believe we have achieved satisfactory results. As of the end of September 2011, our non-performing loan balance and non-performing loan ratio both decreased as compared to those as of the end of 2010, while the provision coverage ratio increased.

Our Competitive Strengths

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

- a joint stock banking corporation wholly owned by the PRC central government;
- strategically positioned in the national economy of China 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 capital market and a leader in financial innovations;
- sound risk management and quality assets;
- steady and strong profitability and efficient operation management; and
- experienced management team and well-trained work force.

Our Challenges

We face challenges in our business operations, including:

- increasing competition in the PRC banking industry;
- uncertainties in the PRC banking regulatory regime;
- credit risks of our borrowers and any decline in the value of collateral securing our loans;
- risks relating to derivative transactions; and
- adverse changes in, and risks involving, 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 bonds 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.

Currently, Moody's Investors Service, Inc., or Moody's, assigns an Aa3 rating to our long-term foreign currency senior unsecured debt rating with a positive outlook. Fitch Ratings Inc., or Fitch, assigns an A+ rating to our long-term foreign currency issuer default rating with a stable rating outlook. Standard & Poor's Ratings Group, or Standard & Poor's, assigns an AA- rating to our long-term issuer credit rating with a stable outlook. You may find our latest credit ratings on our website: www.cdb.com.cn.

The Further Bonds are not rated.

THE OFFERING

The following summary contains some basic information about the Further Bonds 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 "Appendix I — Terms and Conditions of the Bonds" and "Summary of Provisions relating to the Bonds in Global Form" shall have the same meanings in this summary. For a more complete description of the terms of the Further Bonds, see "Appendix I — Terms and Conditions of the Bonds" in this Offering Circular.

Total Principal Amount	RMB 1,000,000,000. The Further Bonds are being offered and sold to institutional investors pursuant to this Offering Circular.
Interest Rate	4.2% per annum.
Subscription Amount	Initial purchasers of the Further Bonds shall subscribe for the Further Bonds in accordance with the arrangements (including the subscription amount) as notified to them by the Sole Lead Manager.
Issue Date	March 30, 2012.
Maturity Date	January 19, 2027. We will repay 100% of the principal amount of the Bonds on the Interest Payment Date falling on, or nearest to, its Maturity Date.
Interest Payment Dates.	January 19 and July 19 of each year, beginning on July 19, 2012. If any of the dates on which we should pay interest is not a business day in Hong Kong SAR or Beijing, we will make the payment on the next day which is a business day unless the next business day would thereby fall into the next calendar month, in which event we will make such interest payment on the immediately preceding business day.
Further Issues	We may from time to time, without the consent of holders of our Bonds or coupons, create and issue further bonds having the same terms and conditions as the Bonds in all respects, except for the issue date, issue price and the first payment of interest thereon. Additional Bonds issued in this manner will be consolidated with and will form a single series with the Bonds.
Redemption or Sinking Fund	None. We may not redeem the Bonds until their maturity.
Form.	The Further Bonds and the Bonds will be issued in bearer form and represented by a global bond held in the CMU, operated by the HKMA. The global bond will be deposited for safekeeping with a sub-custodian for the CMU nominated by HKMA as CMU operator. The sub-custodian will be the legal holder of the Bonds.
Denomination, Minimum Purchase and Transfer Amount and Minimum Initial Subscription Amount	The denomination of the Further Bonds is RMB1,000,000 and you may purchase or transfer Further Bonds of RMB1,000,000 or integral multiples of RMB1,000,000.
Ranking	If we become insolvent, investors of the Bonds will rank for payment equally with other creditors of our existing and future unsecured and unsubordinated indebtedness, but after creditors of our secured debt or creditors whose claims are preferred by law to rank ahead of the holders of the Bonds.
Listing	None.
Limitation on Other Indebtedness . . .	None.

Negative Pledge	Subject to certain exceptions as set out in the terms and conditions of the Bonds, we will not secure any other Public External Indebtedness unless we also secure the Bonds on the same terms.
Events of Default	Any holder of our Bonds or coupons can declare the principal of its Bonds or coupons to be payable immediately if: • we fail to pay interest or principal on the Bonds and such failure continues for 30 days after the payment date; • we fail to perform any other obligations under the Bonds or the Fiscal Agency Agreement and such failure continues for 60 days after notice from the holders of 10% or more of the Bonds; • we fail to pay more than US$50,000,000, or its equivalent in any other currency or currencies, of other Public External Indebtedness and such failure continues for 30 days after it becomes due; or • certain specified events of insolvency, winding up or illegality which affect us occurs, unless, prior to the receipt of the demand by the Fiscal Agent, all defaults have been cured.
Fiscal Agent and Paying Agent	Bank of Communications Co., Ltd. Hong Kong Branch.
Use of Proceeds	We intend to use the net proceeds from the sale of the Further Bonds to fund Renminbi-denominated loans permitted under our articles of association and for working capital and general corporate purposes.
Tax	Under existing Hong Kong SAR law, payments of principal and interest in respect of our Bonds 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 Bonds, 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 Bonds" for detailed explanations.
Notices and Payment	So long as the Bonds is represented by a global bond held in CMU, we will deliver any notice and pay interest and principal on the Bonds to the relevant account holders in CMU. So long as any of the Bonds remains outstanding, any holder of the Bonds may deliver any notice to us relating to the Bonds through the Fiscal Agent.
Governing Law	The Bonds and the Fiscal Agency Agreement will be governed by the laws of Hong Kong SAR.
Arbitration	Any dispute, controversy or claim arising out of or relating to the Bonds, or the breach, termination or invalidity thereof, shall be settled by arbitration in accordance with the United Nations Commission on International Trade Law Arbitration Rules. The appointing authority shall be Hong Kong International Arbitration Centre, or HKIAC, who shall administer the arbitration. The place of arbitration shall be in Hong Kong at HKIAC and the language of the arbitration shall be English.

You should carefully consider the risks and uncertainties described below and other information contained in this Offering Circular before investing in the Further Bonds. 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 Further Bonds, 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 market competition

Our conversion from a government policy-oriented financial institution to a joint stock company with limited liability was completed on December 11, 2008. Subsequent to this reform, we remain a wholly state-owned bank and support the nation's major medium-term and long-term economic development strategies by providing medium-term and long-term credit facilities and investments and undertaking a significant amount of businesses of a policy, development and strategic nature. Although (i) the risk weighting of our Renminbi-denominated bonds issued prior to December 31, 2012 will remain at 0% until maturity and be treated the same way as policy-oriented financial bonds and (ii) we may receive financial, policy and/or other support, if any, made generally available by the PRC government to state-owned or state-controlled commercial banks, our business, prospects, financial condition and results of operations will depend on our ability to effectively compete in the marketplace. As a result of the uncertain global economic conditions in the midst of the current global economic downturn, we cannot assure you that our future operations as a commercial bank or our financial condition and results of operations would not be adversely affected, which in turn may adversely affect our ability to service the Bonds and satisfy other obligations under the Bonds.

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. As of December 31, 2010, medium- and long-term loans accounted for 93% 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 macroeconomic situation. As of December 31, 2010, approximately 66% and 11% 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 cannot assure you that our risk management and internal control systems can or will adequately address all credit and other risks

We are committed to improve the policies and procedures for our risk management and internal control systems, and have made significant adjustments in the relevant policies and procedures in recent years in an effort to improve our risk management capabilities to effectively identify, measure, control and report the risks arising from our lending operations, treasury and trading operations, investment and other activities. However, as some of the policies and procedures are relatively new, we will require time to fully implement these policies and procedures, and to fully measure the impact of, and evaluate our compliance at all levels with, these policies and procedures. As our employees will require time to adjust to these policies and procedures, we cannot assure you that our employees will be able to consistently follow or correctly apply these policies and procedures, nor can we assure you that our policies and procedures can fully prevent fraud or other misconduct by third parties that do business with us. In addition, our risk management capabilities are limited by the information, tools or technologies available to us. Any material deficiency in our risk management or internal control may expose us to significant credit, liquidity, market, operational or other risks, which may in turn have an adverse effect on our asset quality, results of operations and financial condition.

You must rely on our creditworthiness

We have many financial contracts outstanding at any given time. Our Bonds are not secured by any assets, nor are they guaranteed by any third party, including our shareholders and PRC government. When purchasing our Bonds, you will be relying solely upon our creditworthiness and no one else. If we become insolvent or are subject to similar proceedings or cease to exist as a legal entity or default on our obligations under the Bonds during the term of the Bonds, you may only claim as an unsecured creditor, and may lose all of your investment in the Bonds.

We are subject to liquidity risks

Our primary funding sources are the issuance of bonds and notes in the domestic bond markets and international capital markets, including the Bonds offered hereby, equity capital contributions by our shareholders and non-residential deposits. In addition, we may also borrow from the PRC interbank market, from the People's Bank of China ("PBOC"), and from the overseas lending market. Our ability to raise additional funds may be affected by a number of factors, many of which are beyond our control, such as changes in the monetary policies of the PRC government, banking regulations in China, market expectations of interest rates, economic, political and other conditions in China, and general market conditions for financing activities in China and overseas. The crucial factors which affect our ability to access the financial and capital markets are our financial condition and results of operations. If we are unable to obtain funding on commercially reasonable terms in a timely manner, or at all, our business and financial condition 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 back-up data centers in Beijing and Shenzhen, respectively, and back-up communication networks among our back-up data centers, our branches and major third-party financial systems. 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.

We are subject to risks relating to derivative transactions

We engage in derivative transactions with financial institutions and our borrowers for hedging purposes. We undertake most of the derivative transactions on behalf, and at the instruction, of our customers, and undertake the rest as proprietaries. These hedging transactions include currency forwards, currency and interest rate swaps, primarily for the purpose of offsetting the related underlying risks. Such derivative transactions, however, subject us to the related market, operational and counter-party risks. Some of the risks and uncertainties in the marketplace are beyond our control. In addition, despite the relatively well-developed market practice and documentation for derivative transactions in the international financial markets, China's system for derivative transactions still remain in its early development stage. As a result, we cannot assure you that our hedging activities will be effective in managing our foreign exchange and interest rate risk exposures or that our financial condition and results of operations will not be adversely affected by these derivative transactions.

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

The liquidity disruptions in the U.S. credit and sub-prime residential mortgage markets since the second half of 2007 have triggered a global financial crisis. The stimulus packages and expansionary fiscal and monetary policies introduced by governments around the globe in response to the financial crisis have helped to stabilise the global economy but the employment, credit and real estate markets of many developed economies remain volatile. The European sovereign debt crisis (and in particular the default risks of Greece) continue to affect the global debt capital and financial markets, resulting in significant volatility and concerns of the risks of stagflation or recession in certain developed economies. Although we currently do not hold any debt securities issued by Iceland, Portugal, Italy, Greece and Spain nor any debt securities or liquid mortgage-backed securities (MBS) of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation (together, Fannie and Freddie), uncertainties and instability in the global economy may adversely affect our financial condition and results of operations.

There is no assurance that the credit ratings accorded to the securities which we hold as investments will not be downgraded or that we will not suffer losses in holding such securities.

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

As with most commercial banks, our results of operations depend to a significant extent on our net interest income. We operate our business predominantly in China under the interest rate regime regulated by PBOC. Historically, interest rates in China were highly regulated, which over the years have gradually become much more liberalised. Renminbi-denominated loans are currently subject to minimum rates based on the PBOC benchmark rates, but generally are not subject to maximum rates. Renminbi-denominated deposits are subject to the PBOC benchmark rates 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 December 31, 2010, approximately 80.26% of our total loans and 92.67% of our total indebtedness (including debt securities, subordinated debts and borrowings from governments and other financial institutions) were denominated in Renminbi. Fluctuations in currency exchange rates 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 the PRC Banking Industry

The PRC banking regulatory regime is continually evolving and we are subject to future regulatory changes

We operate in a highly regulated industry and are subject to laws regulating all aspects of our operations. The principal banking-related statute is the PRC Commercial Banking Law and the principal regulators of the PRC banking industry are CBRC and PBOC. In recent years, the PRC banking regulators have introduced a series of policies and guidelines to further strengthen the regulations of the PRC banking industry. Certain aspects of the PRC banking regulatory regime have been evolving, including changes in the rules and regulations as well as their interpretations that are applicable to us. Such changes may result in additional costs or restrictions on our operations and activities. Other changes may require us to take additional steps to comply with on a timely basis. In addition, PBOC, as the central bank of China, exercises significant influence over the PRC monetary policies, including the official benchmark interest rates that all PRC commercial banks must follow.

As some of the banking laws, rules, regulations or policies are relatively new and may be subject to change from time to time, there is uncertainty regarding their interpretation and application. Failure to comply with any of these laws, rules, regulations or policies, however, may result in fines, restrictions on our business activities or, in extreme cases, suspension or revocation of our business licenses, which could materially and adversely affect us. We cannot assure you that we will be able to accurately understand and promptly apply these laws, rules, regulations, policies or their interpretations as they change, or that future laws, rules, regulations, policies or the interpretations of the existing or future laws, rules, regulations or policies, including accounting and other policies and standards, will not adversely affect our business, prospects, results of operations and financial condition.

The PRC banking industry is highly competitive

The banking industry in China is highly competitive. We compete in the marketplace with other banks in China, including wholly state-owned banks or state-controlled banks, as well as other foreign banks. Some of these banks compete with us for the same customers and some of them have greater financial, management and technical resources, longer operating history and wider banking networks than we do. Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including those relating to interest rates and fee- and commission-based products and services, which are changing the basis on which we compete with other banks for customers. The high level of competition from other banks may result in an adverse effect on our business and prospects, the effectiveness of our strategies, our results of operations and financial condition, including the following:

- reducing our market share in our principal products and services;
- reducing the growth of our loan or deposit portfolios and other products and services;
- reducing our interest income, increasing our interest expense, and decreasing our net interest margins;
- reducing our fee and commission income;
- increasing our non-interest expenses, such as marketing and administrative expenses; and
- increasing competition for qualified managers and employees.

PRC regulations impose limitations on the types of investments we may make and, as a result, we have limited abilities to seek optimal investment returns, to diversify our investment portfolio and to hedge the risks of our Renminbi-denominated assets

The PRC government has imposed limitations on what we may invest in. Substantially all of Renminbi-denominated investment assets of PRC commercial banks are concentrated in the limited number of investments permitted by the PRC government. These permitted investments include PRC treasury bonds, finance bonds issued by PRC policy banks, notes issued by PBOC and subordinated bonds issued by specified financial institutions. Restrictions on our ability to diversify our investment portfolio limit our ability to seek optimal returns on our investments. In addition, due to the limited hedging tools available, our ability to hedge market risks and credit risks relating to our Renminbi-denominated assets is limited, and any resulting decline in the value of our Renminbi-denominated assets will materially and adversely affect our financial condition and results of operations.

The effectiveness of our credit risk management is affected by the quality and scope of information available in China

PBOC launched a nationwide credit information database for corporate borrowers in the second half of 2006. Due to the overall developing nature of the information infrastructure in China, in the process of development and improvement of the nationwide credit information data on corporate borrowers, we have to rely on other publicly available resources and our internal resources to supplement what is available on the current nationwide credit information system. These make-shift information and data are not as complete or effective as called for by a robust credit risk management system that we attempt to build. We cannot, therefore, assure you that our assessment of the credit risks associated with any particular customer is based on complete, accurate and reliable information. As a result, our ability to effectively manage our credit risk may be materially and adversely affected.

Deterioration in the debt repayment abilities of local government financing vehicles to which we extended loans to may materially and adversely affect our asset quality, financial condition and results of operations

Loans extended to local government financing vehicles have been a part of the loan portfolio for China's commercial banks. According to the CBRC, local government financing vehicles consist primarily of government-led vehicles and vehicles which shares are controlled by the government. These vehicles primarily engage in financing activities wholly or partially supported by the direct or indirect repayment commitments or direct or indirect guarantees from local governments and provide support to various infrastructure development and quasi-public interest government investment projects. We extended loans to certain local government financing vehicles.

Recently, with the aim of reinforcing the risk management of loans to local government financing vehicles, the State Council, the CBRC and the PBOC, along with several other PRC regulatory authorities promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to local government financing vehicles. While we have taken various measures to reduce the risks of default such as setting clear thresholds for our loans to local government financing vehicles and enhancing the mortgages and guarantees on such loans, unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments or other factors may adversely affect the debt repayments of these financing vehicles, which may in turn materially and adversely affect our asset quality, financial condition and results of operations.

Risks Relating to China

Our business is affected by PRC economic, political and social conditions and the prospects of the industries in which we have concentrated our loans

Most of our businesses, assets and operations are located in China. Accordingly, our operations and financial performance are, to a significant degree, subject to the economic, political and social conditions and developments in China. China has been one of the fastest growing economies in the world in terms of GDP growth in recent years. However, China may not be able to sustain such growth in the future. We extend most of our loans to infrastructure facilities, basic industries, pillar industries and high-technology industries in China, such as railway and road transportation, power generation, coal, post and telecommunications, petrochemical and chemical industries, urban public facilities and environmental facilities. In addition, our financing to these relatively large projects tends to be of long or medium term. In 2010, to coordinate with the “Expanding Domestic Demand; Sustaining Economic Growth; Optimizing Economic Structure” development strategies of the PRC, we apply strict loan application procedures and geared our operation in full support of the State’s stimulus package designed to combat the global financial crisis and rendered strong support to central government endorsed investment projects and the efforts made to expand major areas of and strengthen weak links in domestic demand. Such strategies demonstrated the effects of medium-term and long-term investments and loan financing in stabilising cyclical economic fluctuations and maintained appropriate growth levels in our credit operations. At the end of 2010, our non-performing loan ratio was 0.68%.

If the PRC economy or the industries in which our loans are concentrated experience any significant downturn, our business, financial condition and results of operations could be adversely affected.

Interpretation and implementation of PRC laws and regulations may involve uncertainties

We are incorporated and exist under the laws of China. The PRC legal system is based on written statutes. Since the late 1970s, China has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new and continue to evolve, especially with respect to the PRC banking regulatory regime, these laws and regulations may be subject to different interpretations and inconsistently enforced. In addition, there is only a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value. These uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to us in our operations and to you as our investor.

Risk Relating to the Further Bonds

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

The Further Bonds we offer under this Offering Circular are unsecured and will rank equally with all of our present or future other unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by laws to rank ahead of the holders of the Further Bonds). Payments under our Further Bonds are effectively subordinated to all our secured debt to the extent of the value of the assets securing such debt. As a result of such security interests given to our 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 after all secured claims against the affected assets and claims of other creditors preferred by laws to rank ahead of the holders of the Further Bonds have been fully paid.

The trading market for the Further Bonds is expected to be limited

The Further Bonds will not be listed and cannot be traded on The Stock Exchange of Hong Kong Limited or any other securities exchange. We are not responsible for the establishment or maintenance of a secondary trading market in the Further Bonds. The value of the Further Bonds 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 Further Bonds could be affected if there are only very few potential buyers in the market for our Further Bonds. If you try to sell the Further Bonds before maturity, the sale price may be lower than the amount you invested, or you may not be able to sell the Further Bonds at all.

The PRC government does not guarantee the Further Bonds

We are currently wholly owned by the PRC government. While according to CBRC the risk weighting of our Renminbi-denominated bonds issued prior to December 31, 2012 is to remain at 0% until maturity and be treated the same way as policy-oriented financial bonds, our borrowings and other obligations, including the Further Bonds, are not guaranteed by the PRC government. You, therefore, may not enforce the obligations under the Further Bonds against the PRC government. If you purchase our Further Bonds, you are relying solely on our creditworthiness.

Your investment in our Further Bonds is subject to exchange rate risks

The value of Renminbi against the Hong Kong dollar and other foreign currencies fluctuates and is affected by changes in China, international political and economic conditions and many other factors. We will make all payments of interest and principal with respect to our Further Bonds in Renminbi. As a result, the value of these Renminbi payments in Hong Kong dollar may vary with the prevailing exchange rates in the marketplace. For example, when you buy our Further Bonds, you convert your Hong Kong dollars to Renminbi at the exchange rate available at that time. If the value of Renminbi depreciates against the Hong Kong dollar between then and when we pay back the principal of the Further Bonds in Renminbi at maturity, the value of your investment in Hong Kong dollar terms will have declined.

Your investment in our Further Bonds is also subject to interest rate risks

The PRC government has gradually liberalized the regulation of interest rates in recent years. Further liberalization may increase interest rate volatility. Our Further Bonds will carry a fixed interest rate. Consequently, the value of our Further Bonds will vary with the fluctuations in the Renminbi interest rates. If you try to sell your Further Bonds before their maturity, you may receive an offer that is less than the amount you have invested.

Renminbi is not freely convertible and may adversely affect the liquidity of our Further Bonds

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong SAR have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in August 2011 to cover the whole nation and to make RMB trade and other current account item settlement available in all countries worldwide.

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

On 12 October 2011, MOFCOM promulgated the Circular on Issues in relation to Cross-border RMB Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的通知) (the "MOFCOM RMB FDI Circular"). Pursuant to the MOFCOM RMB FDI Circular, MOFCOM and its local counterparts are authorised to approve RMB Foreign Direct Investment ("RMB FDI") in accordance with existing PRC laws and regulations regarding foreign investment, with certain exceptions which require the preliminary approval by the provincial counterpart of MOFCOM and the consent of MOFCOM. The MOFCOM RMB FDI Circular also states that the proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in PRC domestic listed companies through private placements or share transfers by agreement under the PRC strategic investment regime.

On 13 October 2011, PBOC issued the Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the "PBOC RMB FDI Measures"), to roll out PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated crossborder loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required is no longer necessary. The MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures, which are new regulations, will be subject to interpretation and application by the relevant PRC authorities.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC.

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

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. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong SAR government, licensed banks in Hong Kong SAR may offer limited Renminbi-denominated banking services to Hong Kong SAR residents and specified business customers. The PBOC, the central bank of the PRC, has also established a Renminbi clearing and settlement system for participating banks in Hong Kong SAR. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of Renminbi Business (the "Settlement Agreement") between the PBOC and Bank of China (Hong Kong) Limited (the "RMB Clearing Bank") to further expand the scope of Renminbi business for participating banks in Hong Kong SAR. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong SAR; there is no longer any limit (other than as provided in the following paragraph) on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong SAR.

However, the current size of Renminbi-denominated financial assets outside the PRC is limited. In addition, participating banks are also required by the Hong Kong Monetary Authority to maintain a total amount of Renminbi (in the form of cash and its settlement account balance with the RMB Clearing Bank) of no less than 25% of their Renminbi deposits, which further limits the availability of Renminbi that participating banks can utilise for conversion services for their customers. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers with accounts in Hong Kong SAR of up to RMB20,000 per person per day. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

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

Payments in respect of the Further Bonds will only be made to investors in the manner specified in the Bonds

All payments to investors in respect of the Further Bonds will be made solely by (i) when the Bonds are represented by a global certificate, transfer to a Renminbi bank account maintained in Hong Kong SAR in accordance with prevailing CMU rules and procedures, or (ii) when the Bonds 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).

We may issue additional Bonds in the future

We may, from time to time, and without prior consultation of the holders of the Further Bonds create and issue further bonds (See "Appendix I — Terms and Conditions of the Bonds — Further Issues") or otherwise raise additional capital through such means and in such manner as we may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Further Bonds.

CAPITALISATION

The following table sets forth our capitalisation as of December 31, 2010 prepared in accordance with the International Financial Reporting Standards and should be read in conjunction with our audited consolidated financial statements and related notes included in this Offering Circular:

	December 31, 2010
	(in millions of RMB)
Long-term Debt[1]:	
Bonds issued	3,350,078
Other borrowings[2]	283,410
Total long-term debt	3,633,488
Capital Accounts:	
Paid-in capital	300,000
Capital surplus and reserves	51,907
Undistributed profit	48,188
Minority interest	1,236
Total owner's equity	401,331
Total capitalisation	4,034,819

Notes:

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

(2) Other borrowings include deposits from financial institutions, due to customers and other financial institutions.

There has been no material adverse change in our capitalisation since December 31, 2010.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of our Further Bonds to fund Renminbi-denominated loans permitted under our articles of association and for working capital and general corporate purposes.

Overview

We were established on March 17, 1994 as a government policy-oriented financial institution pursuant to the Special Decree. On December 11, 2008, we were converted into a joint stock company with limited liability pursuant to the PRC Company Law, the PRC Commercial Banking Law and other applicable laws and regulations. Subsequent to the conversion, we continue to have and be accountable for all our assets, liabilities, business, rights and obligations prior to the conversion. We are currently wholly owned, directly or indirectly, by the PRC government, with MOF, Huijin and National Council for Social Security Fund holding 50.18%, 47.63% and 2.19%, respectively, of our issued equity. 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 CBRC with respect to our banking operations. According to CBRC, the risk weighting of our Renminbi-denominated bonds issued prior to December 31, 2012 will remain at 0% until maturity and such bonds are to be treated the same way as policy-oriented financial bonds. In addition, MOF also supervises our operations as both our shareholder and the government authority responsible for administration of the state-owned assets. Under PRC law, our conversion from a PRC policy-oriented financial institution into a joint stock company with limited liability preserves the continuity of our body corporate and does not involve the creation of a new legal entity.

We are headquartered in Beijing, China and currently have 38 branch offices in China (including one in Hong Kong SAR) and two representative offices in Cairo and Moscow. Our major subsidiaries include China Development Bank Capital Co., Ltd., China Development Bank Securities Co., Ltd., CDB Leasing Co., Ltd., China-Africa Development Fund and 11 village banks. Our place of business in Hong Kong 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 CBRC, the scope of our principal business activities includes:

- deposit taking from corporate customers;
- making short-, medium- and long-term loans;
- domestic and international settlement;
- acceptance and discount of negotiable instruments;
- issuance of financial bonds;
- acting as agent for the issuance, repayment and underwriting of government bonds;
- trading in government bonds and financial bonds;
- interbank borrowing and lending;
- sale and purchase of foreign exchange 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 service; and
- other businesses authorised by the banking regulatory body under the State Council.

As of December 31, 2010, our total assets amounted to RMB 5,111.1 billion, representing an increase of 12.6% from December 31, 2009, and our net loans and advances grew by RMB 784.3 billion, representing an increase of 21.5% from December 31, 2009. As with most commercial banks, our results of operations depend to a significant extent on our net interest income. For each of the two years ended December 31, 2009 and 2010, our net annual interest income was RMB 74.2 billion and RMB 87.6 billion, respectively.

We calculate our capital adequacy ratio in accordance with the CBRC regulations. CBRC requires that the capital adequacy ratio for commercial banks be maintained at not below 8%. As of December 31, 2009 and 2010, our capital adequacy ratio was 11.83% and 10.87%, respectively.

Competitive Strengths

A joint stock banking corporation wholly owned by the PRC central government

We continue to be wholly owned by the PRC central government after our conversion. As a wholesale bank with expertise in medium- and long-term bonds offering, we continue to play a significant role in medium- and long-term financing for infrastructure development, basic industries and pillar industries in China. According to CBRC, the risk weighting of our Renminbi-denominated bonds issued prior to December 31, 2012 will remain at 0% until maturity and such bonds are to be treated the same way as policy-oriented financial bonds. Renminbi-denominated bonds issued by other commercial banks are given a risk weighting of 20%. Our foreign currency credit rating remains the same as the sovereign credit rating for China.

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 hold a solid leading position in medium- and long-term investment and financing in China. The national key projects we have financed include the south-to-north water diversion project, the Guangdong Taishan nuclear project, the Shenzhen dayawan nuclear power project, the Shanghai 2010 World Expo, high-speed railway networks, highway networks (including the Chongqing highway project and the Heilongjiang highway project), national oil reserve project and coal bases. Our loan operations mainly involve industries such as power, highway, railways, petroleum and petrochemical, coal mining, post and telecommunications, forestry and utility infrastructures. As of December 31, 2010, 83% of our outstanding loans were extended to these industries. In 2011, we provided strong support to the state's macroeconomic policies by leveraging our strengths in development finance and medium- and long-term investments to promote continued economic growth, expansion of domestic demand, structural adjustments in key areas and the strengthening of weak links in infrastructure construction, thereby assisting in realising a stable and increased rate of, and a transformation in the mode of, economic development. 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 the PRC Ministry of Railway, China National Petroleum, China Unicom and China Three Gorges Project Corporation. 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 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 30 years. According to CBRC, the risk weighting of our Renminbi-denominated bonds issued prior to December 31, 2012 will remain at 0% until their maturity. In addition, PBOC has exempted our bonds issued in the PRC interbank bond market from being rated. As of December 31, 2010, we had issued financial bonds with an aggregate principal amount of more than RMB 5.9 trillion cumulatively. In addition, as of December 31, 2010, our outstanding financial bonds amounted to more than RMB 3.7 trillion and accounted for 23% of the total outstanding bonds in the PRC interbank bond market. We also have competitive advantages in underwriting domestic corporate bonds. We have been ranked No. 1 in bond underwriting in terms of volume since 2002.

As a major player in the PRC bond market and a leader in financial innovation, we were the first to issue bonds with a term up to 30 years, the first to engage in Renminbi interest rate swaps, the first to issue Renminbi assets-backed securities, the first to publicly offer U.S. dollar-denominated bonds in China, the first to issue Renminbi-denominated bonds in Hong Kong SAR and the first to issue SHIBOR-based floating rate bonds in Hong Kong SAR. As of December 31, 2011, we had issued Renminbi-denominated bonds in Hong Kong SAR with an aggregate principal amount of RMB13 billion cumulatively.

Sound risk management and quality assets

We have made significant adjustments to our risk management system since 2007 by shifting from credit risk management to comprehensive risk management, and have achieved substantial improvement in identifying, measuring, monitoring and reporting risks relating to loans, capital transactions and other investing activities. We improved the three lines of defence framework for risk management and achieved the integration of credit risk management, market risk management, operational risk management and compliance risk management. At the same time, we enhanced our comprehensive risk management reporting system. The system supports the analysis of information collected from our five major business areas, namely investment, lending, debt, securities and leasing 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. According to the requirements set out in the "Commercial Bank Risk Management Compliance Guidelines" issued by the CBRC, we have clearly segregated our organisation structure and responsibilities between our Head Office and our various branches. We also conducted research on internal control, compliance risk management frameworks, and established relevant rules and regulations, and carried out verifications tasks in relation to the compliance of internal regulations. We successfully established a regulatory interview mechanism between CBRC and us, and have actively conducted related-party transaction management.

Owing to our sound risk management system, our ratio of non-performing loans remained relatively low among the PRC banking industry in 2010, and has been kept at a level below 1% for 23 consecutive quarters as of December 31, 2010. We also made provisions for non-performing loans in accordance with PRC GAAP at a provision coverage ratio of 307.04%, which was higher than other PRC banks and reflected our prudent risk management.

Steady and strong 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. Prior to 2010, our loan volume maintained a good momentum for growth and our major financial indicators, such as return on assets, or ROA, have surpassed PRC banks that are similar to us in terms of total assets while return on equity, or ROE, remained steady. In 2010, we improved the quality of our asset and liability composition, rationally managed our risk levels, strengthened our operational synergies and steadily increased our profitability. Compared to 2009, our net profit increased by 12.4% in 2010 while average ROE increased to 9.6% and average ROA was 0.78%. 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 commercial banks. At the same time, the expansion of our business scope upon our conversion has further increased our overall strength.

Experienced management team and well-trained work force

Our senior management team has extensive experience in the banking and financial service industry, with an average of over 20 years of industry experience. All our directors are senior professionals in the banking industry. We also have an international advisory council consisting of 16 members who are distinguished members from political, financial and academic circles around the world. Approximately 50% of our staff have received master's or higher degree.

Loan Operations

Our principal financing activity is the provision of long- and medium-term loans for large- and medium-size projects involving infrastructure facilities, 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. 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.

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.

In recent years, 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 September 1, 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 management system, under which we periodically conduct credit risk ratings of the borrowers and their risk management measures, the related industries and regions, and implement corresponding measures. See "— Risk Management" on page 25 below.

We grant loans in Renminbi or in foreign currencies. We determine the interest rates on loans denominated in Renminbi 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 than these benchmark rates, but are subject to up to 10% limitation imposed by PBOC when we lend at rates 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 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.

For the fiscal year ended December 31, 2010, we extended an aggregate principal amount of approximately RMB 1,410.6 billion of loans denominated in Renminbi and an aggregate principal amount of approximately US$65.4 billion of loans denominated in foreign currencies.

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

Outstanding Loans by Currencies

	December 31,	
	2009	2010
	(in millions of RMB)	
Renminbi	3,044,103	3,620,993
Foreign Currency	664,307	888,696
Total Loans	3,708,410	4,509,689

As of December 31, 2010, our total outstanding loans in foreign currencies (before deduction of allowance for impaired loans) were equivalent to RMB 888.7 billion, which consisted of outstanding loans in U.S. dollar equivalent to approximately RMB 840.4 billion and outstanding loans in other foreign currencies equivalent to approximately RMB 48.3 billion. The following table sets forth our outstanding loans by maturities that we extended to our customers as of the dates indicated:

Outstanding Loans by Maturities(1)

	December 31,	
	2009	2010
	(in millions of RMB)	
Loans with Maturities of up to Five Years	652,075	663,157
Loans with Maturities between Five to Ten Years	717,405	941,783
Loans with Maturities over Ten Years	2,301,403	2,860,382
Total Loans	3,670,883	4,465,322

Note:

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

As of December 31, 2010, the total outstanding amount of our 10 largest borrowers was RMB 529.3 billion, representing 12% 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.

The geographic concentration of our loan portfolio as of December 31, 2010 was as follows[(1)]:

- RMB 1,993.0 billion, or 45%, in the eastern China region, covering Beijing, Liaoning, Hebei, Tianjin, Shandong, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong and Hainan;
- RMB 922.2 billion, or 21%, in the central China region, covering Jilin, Heilongjiang, Shanxi, Henan, Hubei, Anhui, Hunan and Jiangxi;
- RMB 1,077.4 billion, or 24%, in the western China region, including Xinjiang, Tibet, Gansu, Qinghai, Ningxia, Inner Mongolia, Shaanxi, Sichuan, Chongqing, Guizhou, Yunnan and Guangxi; and
- RMB 472.7 billion, or 10%, in the area outside Mainland China, covering Hong Kong SAR and other areas.

Note:

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

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. Prior to the approval of the medium- or long-term financing, we generally extend these short-term loans to the borrowers 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. As of December 31, 2010, we granted an aggregate of the equivalent of RMB 524.6 billion short-term loans in Renminbi and foreign currencies to various infrastructure development projects, basic industry projects and pillar industry construction projects, of which RMB 452.2 billion were Renminbi loans.

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)]

	December 31,			
	2009		2010	
	Amounts	% of Total	Amounts	% of Total
	(in millions of RMB, except for percentages)			
Water conservancy, environment protection and public utilities	977,125	26	1,102,815	24
Road transportation	711,326	19	861,865	19
Electric power and heating	543,401	16	600,378	14
Petroleum, petrochemical and chemical industry	285,780	8	432,099	10
Manufacturing industry	237,152	6	321,659	7
Mining	213,902	6	229,359	5
Railway transportation	123,755	3	171,288	4
Telecommunication and other information transmission service	60,440	2	74,719	2
Other transportation	166,698	4	134,202	3
Urban public transportation	83,871	2	101,838	2
Education	74,084	2	105,521	2
Others	230,876	6	373,946	8
Total	3,708,410	100.0%	4,509,689	100.0%

Note:

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

Loans categorised as "Others" in the table above include our Renminbi and foreign currency loans to paper and pulp, air transportation, computer software and other miscellaneous industrial segments.

In 2010, we made foreign currency loans in the aggregate principal amount of US$65.4 billion. Our foreign currency loans supported a cumulative total of approximately 400 "go global" overseas projects by Chinese corporates, including large-scale foreign acquisitions by China National Petroleum Corporation, the Sinopec Group and Wuhan Iron and Steel (Group) Corp. as well as overseas expansion activities by ZTE Corporation and Huawei Technologies Co., Ltd., with an aggregate principal amount of US$113.9 billion outstanding as of December 31, 2010.

Our loans to finance overseas investments are focused on investments in infrastructure construction and energy exploration. We participated in 2010 in a number of high-profile strategic projects, including the Sino-Venezuela long-term loan, the Ecuador petroleum trade loan, the Sino-Brazil petroleum project, and Sino-Turkmenistan natural gas project.

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, largely 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.

As of December 31, 2010, we had an aggregate net amount of outstanding foreign currency loan equivalent to RMB 873.6 billion, representing 19.74% of the year-end balance of Renminbi and foreign currency loans.

Guarantee and Letter of Credit Operations (exclude Guarantees and Letters of Credit provided by our Subsidiaries and Associate Companies)

We also have authority to issue guarantees and letters of credit. We use our foreign currency-denominated guarantees and letters of credit in connection with foreign currency indebtedness incurred by PRC companies for their purchases of plant and equipment, principally from foreign suppliers. As of December 31, 2010, we had US$3,392 million in aggregate of foreign currency-denominated guarantees outstanding (including letters of guarantee and standby letters of credit in the aggregate outstanding amount of US$1,243 million and letters of credit in the aggregate outstanding amount of US$2,149 million). As of December 31, 2010, we had RMB 2.9 billion in Renminbi-denominated non-funding guarantees outstanding and RMB 87.6 billion in Renminbi-denominated funding guarantees outstanding.

Fund Management

On December 28, 2010, our wholly-owned subsidiary China Development Bank Capital Corporation Ltd. and the Suzhou Ventures Group jointly established the first national RMB-denominated fund of funds in the PRC, Guochuang Fund of Funds. Guochuang Fund of Funds will have a size of RMB 60 billion, of which the first-phase investment amounts to RMB 15 billion. Establishment of the Guochuang Fund of Funds is intended as an important means for us to serve the state's strategic goals through development finance approach and medium- and long-term investments. The Guochuang Fund of Funds will be operated on market principles, investing in underlying equity funds that seek to promote the state's strategic vision and industrial development, thereby providing social capital in support of key national industries and key enterprises.

In 2010, we continued to enhance our capabilities for post-investment management of the 11 funds which have been established to date, including the Sino-Belgian and ASEAN Funds, and implemented a dynamic monitoring mechanism over each of the funds' business activities. We assisted these funds in developing new projects and investment opportunities.

We promoted the capital contribution of Phase II of the Sino-Africa Fund, and implemented the establishment of the China Guangdong Nuclear Power Fund, Equipment Manufacturing Fund and other key state industrial funds. At the same time, we initiated phase II of the ASEAN Fund, Mianyang Industry Investment Fund, the China Media Capital, New Prospect Growth Fund, the Hony Capital RMB Fund and other fund investment projects.

Underwriting Corporate Debt Securities

We underwrite debt securities, including corporate bonds, short-term financing bonds, medium-term notes, and commercial bank bonds in China. In the nine years between 2002 to 2010, we underwrote 123 corporate bonds and are ranked No.1 in China in terms of the number of corporate bonds issuers for which we have underwritten 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 2010, we continued to improve our comprehensive service to high-end customers, focusing on our bond underwriting business with support from our core lending business. The bonds which we have underwritten in 2010 amounted to RMB 212.9 billion, or a market share of 12.73%, a historical high.

In 2010 we have successfully underwritten the RMB 109.0 billion public offer of government agency bonds of Central Huijin Investment Ltd., a further testimony of our strength as a bond house.

Derivatives Transactions

We engage in derivative transactions, including Renminbi interest rate swap market making, Renminbi and foreign currency debts hedging on behalf of customers, and over-the-counter commodity derivatives hedging on behalf of customers. In addition, we also use currency swap for hedging purposes.

International Cooperation and Other Activities

International cooperation. By way of direct financing, lines of credit, syndicated loans, currency swaps and payment and settlement support, we continued to expand our cooperation with foreign governments, enterprises and financial institutions. We were successfully involved in a number of major international energy and resource projects. Through these projects, we helped to alleviate funding constraints on foreign governments and corporations during the financial crisis. In turn, we achieved mutual benefits for all parties having increased our influence in the global financial markets whilst relieving the constraints in economic, energy and resource development in the PRC. During the China-ASEAN summit in October 2010, we entered into the Framework Agreement to Establish a China-ASEAN Inter-Bank Association with ten ASEAN banks, leading efforts to establish a China-ASEAN Inter-Bank Association. We have also taken leadership in the establishment of the Inter-bank Cooperation Mechanism among "BRIC" countries, *i.e.* Brazil, Russia, India and China, furthered initiatives to set up the China-Portugal Fund and the China-Greek Shipping Fund, studied plans for establishing a development bank for the Shanghai Cooperation Organisation (SCO) and promoted the establishment of an inter-bank association between member states of the SCO.

Cooperation with financial institutions. Based on the principles of mutual benefits, we established close relationships with financial institutions and seek to capitalise on mutual development opportunities. In 2010, we maintained close working relationships with 98 national, regional and sub-regional financial institutions through transactions such as general bank credit, currency swaps and syndicated loans. As of December 31, 2010, we had entered into 79 financial cooperation agreements and memoranda of understanding with 51 countries and developed primary financial systems for approximately 8,000 institutions.

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. As of December 31, 2010, we had established accounts in currencies such as the U.S. dollar, British pound, Euro, Japanese yen, Hong Kong dollar, Canadian dollar, Swiss Franc, Australian dollar, Singapore dollar and New Zealand dollar with leading domestic and foreign financial institutions.

Our investment in Barclays PLC, affiliated to Barclays Bank PLC, the sole lead manager and bookrunner for the offering, is an important step we have taken to fully promote our international cooperation. As of December 31, 2010, we held 2.04% of the total equity interest of Barclays PLC. Barclays PLC has committed to sharing management experience and technologies with us, and providing training to our staff. We have committed to supporting Barclays PLC's global development strategies. The two parties have agreed to further cooperate in areas of training and development, information technologies, customer referral, research and development of new products, bulk commodities and risk management.

Financial services. In response to our customers' growing need for financial services, we provide Renminbi and foreign currency settlement, clearance services, short term and long term foreign exchange forward, Renminbi and foreign currency swaps and similar products.

Asset-backed securities. We are the first domestic financial institution to successfully issue asset-backed securities. We are also the first domestic financial institution to complete the process for securitisation of asset-backed securities and successfully export assets by securitisation. Such asset-backed securities are secured by pools of our credit assets, namely our loans provided to various projects. As of December 31, 2010, the outstanding amount of asset-backed securities issued by us was RMB 450 million.

Cash management. We also conduct interbank lending and borrowing and other short-term investments to cover our liquidity requirements.

Risk Management

Since 2002, we have made substantial efforts in creating a comprehensive risk management system within our bank based on the principles of Basel II. This risk management system is designed to identify, monitor and manage our risks efficiently and effectively. In 2004, we continued to streamline our risk management system to better monitor and control our exposures to three major risks:

- credit risk,
- market risk, and
- operational risk.

In March 2005, we established a risk management board of governors as our highest risk management authority to oversee and control the overall risk management process throughout our bank. This risk management board of governors was composed of our governor, vice governors, assistant governors and representatives from relevant departments with risk management responsibilities. There are three committees reporting to the risk management board of governors, including the credit risk management committee, the asset liability management committee and the loan committee.

In 2007 and 2008, we made important adjustments to our risk management system, moving from a credit risk-focused system to a comprehensive overall risk control system, which enhanced our abilities in identifying, evaluating and monitoring the risks in material aspects of our operations.

In 2010, we continued to upgrade our overall risk management practices. We improved the three lines of defence framework for risk management and achieved the integration of credit risk management, market risk management, operational risk management and compliance risk management. At the same time, we enhanced our comprehensive risk management reporting system. The system supports the analysis of information collected from our four major business areas, namely investment, lending, debt and leasing 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.

According to the requirements set out in the "Commercial Bank Risk Management Compliance Guidelines" issued by the CBRC, we have clearly segregated our organisation structure and responsibilities between our Head Office and our various branches. We also conducted research on internal control, compliance risk management frameworks, and established relevant rules and regulations, and carried out verifications tasks in relation to the compliance of internal regulations. We successfully established a regulatory interview mechanism between CBRC and us, and have actively conducted related-party transaction management.

Our non-performing loan ratio was relatively low among the PRC banking industry in 2010. The non-performing loan ratio has remained at less than 1% for 23 consecutive quarters as of December 31, 2010. As of December 31, 2010, our total non-performing loans were RMB 30.2 billion, and non-performing loan ratio was 0.68%. A risk management committee has been established under our board of directors. This committee reports to our board of directors, and is now responsible for our overall risk control.

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 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.

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.

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 manage risks primarily by controlling our exposure to and our concentration limits for each industry, region and borrower. We monitor, analyse and report on our portfolio credit risk positions on a quarterly basis.

We conduct quarterly or annual reviews of our internal rating system. We also conduct quarterly reviews of our credit risk exposures to business sectors that we invest in and report to our risk management committee.

Based on the internal and external changes experienced since 2009, we proactively changed our credit limit strategy. First, we enhanced the levels of delegation in credit approval authority and strengthened specific industry sector approval policies. We set up strict risk tolerance and enhanced risk monitoring protocols. Secondly, we re-formulated our credit approval model to be customer-oriented. We have commenced the pilot of our credit approval process on a "Committee-plus-Individual" basis. Finally, we have improved our overall risk management capabilities. We have placed enhanced emphasis on post-lending credit monitoring and conducted rigorous credit stress tests. For high-risk loans, we have put in place numerous early warning systems. After initial evaluation, guidance and assistance was provided to enhance branch-based post-lending credit risk management. Lastly, we have been working diligently to build an advanced risk management system and to complete its internal credit rating model, process flow and model validation. We have implemented credit rating and automated capital calculation technology systems.

Market Risk

We define market risk as the risk of loss caused by changes in interest rates, foreign exchange rates and 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, and liquidity risk arising from both our on and off-balance sheet assets. Interest rate risk is the risk of loss arising from changes in the level of interest rates or changes in the shape of yield curves that could adversely affect our financial instruments or our future earnings. Our asset liability management committee, headed by a designated vice president, has the ultimate responsibility in formulating our interest rate risk control strategies and in overseeing our interest rate risk monitor and control procedures. The interest rate risk that we are exposed to is primarily assessed from both interest and market value using methods such as interest rate repricing gap analysis, duration gap analysis, net interest and market value sensitivity ratios and is gradually mitigated through issue of debts and interest rate swaps. Interest rate risk that transaction accounts are exposed to is primarily managed and controlled using methods such as limits on interest rate levels, sensitivity analysis, risk exposure analysis and mark-to-market and gain and loss analysis of specific currencies. We do not engage in derivative transactions for speculative purposes. As we only engage in wholesale banking and no retail banking, our holdings of funds and financial instruments and our banking activities are not as complex as most other commercial banks. Based on our analysis of the long-term and short-term interest rate movements, we endeavour to minimise our interest rate risk exposure by matching our funding obligations in maturities and interest rates primarily through issuance of Renminbi-denominated bonds in the domestic bond market from time to time.

Foreign exchange risk is the risk of loss arising from the fluctuation of exchange rates and global interest rates. We primarily control the foreign exchange risk through currency matching. We calculate the mismatched exposures and exposures not fully hedged and proactively use available market instruments, including foreign exchange forwards and swaps, to control its overall foreign exchange exposure within authorised limits. Because Renminbi is not freely convertible into other currencies, we have engaged in limited hedging transactions in Renminbi. In July 2005, the PRC government introduced a managed floating exchange rate system to allow Renminbi to fluctuate within a regulated range based on market supply and demand and by reference to a basket of foreign currencies. Renminbi's value against such currencies is allowed to float within a daily range. PBOC further announced in August 2005 that qualified institutions would be allowed to conduct Renminbi forward transactions and swaps against other currencies. In June 2010, the PBOC decided to further develop the systematic reform of the Renminbi exchange rate regime, so as to further strengthen the flexibility of the Renminbi exchange rate. The PBOC continues to dynamically manage and adjust the Renminbi exchange rate float with reference to the publically announced related range. The Renminbi exchange rate may change further or that our risk exposure to foreign exchange may increase. We manage currency risk primarily through matching the maturities and currencies of our borrowings and our lendings. We also enter into foreign currency forwards and swaps for the purpose of hedging our currency risk. We do not engage in currency forwards or swaps for speculative purposes.

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. 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, including the Bonds offered hereby, equity capital contributions by our shareholders and non-residential deposits. In addition, we may also borrow from the interbank market, from PBOC, 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/or external events.

In 2009, through the development of our operational risk management policy, we realised a more systematic and standardised process of operational risk management. We established operational risk control self-assessment (RCSA) mechanisms in every department and branch and successfully finished their first assessment in 2009. We also established the operational risk incidence and lost management (ILM) mechanism and key indicators (KI) monitoring system. In accordance with regulator's requirement, we measured operational risk regulatory capital using the prescribed method of measuring operational risks.

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 organ within the authority of their respective levels. The head office loan committee consists of a vice-president of the head office 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 further reviewed for compliance by the secretariat of the appraisal administration department, 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 is in charge of bank-wide post-lending risk management and reports to the project review and coordination committee with respect to 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 38 local branches and two representative offices organised along geographical lines covering the entire nation. Our branches and representative offices continuously monitor and periodically review the creditworthiness of all our borrowers and promptly and independently report their findings to the credit administration department. Our branches and representative offices are subject to audit review by our auditing department.

We adopted a five-category asset classification system in 1997 and we were the first PRC bank to adopt such system. As a result, we are the only bank in China with 13-year data showing the changes of our asset quality during this period on the basis of this five-category asset classification system. Currently, all PRC commercial banks and financial institutions are required by CBRC to adopt this five-category asset classification system. We have also voluntarily adopted this classification standard in our asset quality control process.

The five-category asset classification applies to all our risk-based assets. 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 likely to having an adverse effect on the repayment.

- Substandard: An obvious problem has appeared in a borrower's ability of repayment, 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 14 sub-categories to provide a more detailed assessment of the quality of our loan assets. Specifically, we have subdivided "normal loans" into six 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 auditing 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.

	December 31,	
	2009	**2010**
	(in billions of RMB, except for percentages)	
NPLs Amount	34.7	30.2
NPLs Ratio	0.94%	0.68%

The following table sets forth a breakdown of our risk-based loan classification in five categories as of December 31, 2010.

Risk-Based Loan Classifications(1)

	Outstanding Amount	**% of All Risk-Based Loans**
	(in billions of RMB)	
Normal	3674.49	82.28
Watch/special mention	760.68	17.04
Substandard	27.51	0.62
Doubtful	2.08	0.05
Bad/loss	0.56	0.01
Total	4,465.32	100.00
NPLs	30.2	0.68

Note:

(1) Excluding loans provided by our subsidiaries and associate companies

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 International Financial Reporting Standards may not rely solely on this asset classification and NPL treatment. For more information on our accounting treatment of impaired loans in accordance with International Financial Reporting Standards, see "— Impaired Loans and Loan Loss Provision; Investments — Treatment Under International Financial Reporting Standards" below.

Impaired Loans and Loan Loss Provision; Investments

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 International Financial Reporting Standards 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 the CBRC. 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.

Provisions for losses are calculated based on historical loss experience as well as the current financial conditions of individual borrowers. Interim losses may be subject to adjustments at year end prior to the delivery of our annual report to shareholders.

Treatment Under International Financial Reporting Standards. 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 and collectively those financial assets which are not individually significant. If we determine that no objective evidence of impairment exists 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 and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. 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 contractual cash flows of assets in our bank and historical loss experience for loans with credit risk characteristics similar to those in our bank. For more information on our international financial reporting treatment and provision with respect to our impaired loans, see our accompanying financial statements beginning on page II-2 in this Offering Circular.

As of December 31, 2009 and 2010, we had a total provision for impaired loans of RMB 74.6 billion and RMB 94.1 billion, respectively. We believe that our provisions are sufficient to cover our impaired loans based on our current judgment of our loan portfolio performance.

Investments. As an integral part of our treasury management operations, we choose to invest on high quality bonds and voting securities. From time to time, we invest in debt and equity securities that we consider of high quality. We currently do not hold any debt securities issued by Iceland, Portugal, Italy, Greece and Spain nor any debt securities or liquid mortgage backed securities (MBS) of Fannie and Freddie.

Sources of Funds

According to CBRC, the risk weighting of our Renminbi-denominated bonds issued prior to December 31, 2012 will remain at 0% until maturity and such bonds are to be treated the same way as policy-oriented financial bonds. Renminbi-denominated bonds issued by other commercial banks are given a risk weighting of 20%. The risk weighting of Renminbi-denominated bonds to be issued after 2012 is yet to be determined.

We may be entitled to financial, policy 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 overseas capital markets, such as the bonds being issued,
- 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 December 31,	
	2009	**2010**
	(in millions of RMB)	
Renminbi-denominated bonds issued	673,000	782,800
Capital contributions by shareholders	—	—
Net increase/(decrease) in borrowings from other institutions and customer deposits	125,156	(9,144)
Total	798,156	773,656

We issue our Renminbi-denominated bonds (including debt securities and subordinated debts) in the domestic bond market to domestic qualified institutional investors through competitive bidding procedures. Our Renminbi-denominated bonds cover a wide range of maturities from three months to 30 years. As of December 31, 2010, an aggregate principal amount of RMB 3,700 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 December 31,	
	2009	2010
	(in millions of US$)	
Issuance of foreign currency bonds and international and domestic borrowings	12,205	5,317
Capital contribution by our shareholders	—	—
Net increase in customer deposits	178	1,602
Total	12,383	6,919

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 China Development Bank Capital Co., Ltd. and China Development Bank Securities Co., Ltd., CDB Leasing Co., Ltd., China-Africa Development Fund and 11 village banks.

At present, we have 38 branch offices in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Dalian, Jilin, Heilongjiang, Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi, Shandong, Qingdao, Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Xinjiang, Qinghai, Ningxia, Xiamen, Tibet and Hong Kong SAR. We also have representative offices in Cairo and Moscow. 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.

Employees

As of December 31, 2010, we had 7,210 full-time employees.

Properties

Our head office is located at 29 Fuchengmenwai Street, Xicheng District, Beijing 100037, 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.

CORPORATE GOVERNANCE AND MANAGEMENT

We are a state-owned joint stock banking corporation in China. Prior to December 11, 2008, we were a PRC government policy-oriented financial institution. On December 11, 2008, we were converted into a joint stock company with limited liability pursuant to the PRC Company Law and the PRC Commercial Banking Law. Subsequent to the conversion, we continue to have and be accountable for all our assets and liabilities prior to the conversion. Under the PRC law, our conversion preserves the continuity of our body corporate and does not involve the creation of a new legal entity.

Our current registered capital is RMB 306,711,409,395, consisting of 306,711,409,395 ordinary shares, par value RMB 1 each. MOF, Huijin and National Council for Social Security Fund hold 153,908,000,000 shares, or 50.18% of our issued share capital, 146,092,000,000 shares, or 47.63% of our issued share capital and 6,711,409,395 shares, or 2.19% of our issued share capital, respectively.

All our outstanding ordinary shares are fully paid. Issuance by us of any additional ordinary shares is subject to the approvals of CBRC. Our articles of association were reviewed and approved in our shareholders' general meeting and became effective upon approval by CBRC on January 12, 2009. Amendments to our articles of association and relevant by-laws in relation to the above-described change in our registered capital were approved by the CBRC on June 6, 2011. Our articles of association constitute a legally binding public document regulating our organisation and activities and the rights and obligations between us and our shareholders and among our shareholders themselves.

Corporate Governance

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.

Shareholders' general meeting

Our shareholders' general meetings are of the corporate authority within our bank. Our shareholders' general meetings have the following powers and authorities:

- to determine our business policies and investment plans;
- to elect and replace our directors and determine their remuneration;
- to elect and replace supervisors elected by our shareholders as their representatives and determine their remuneration;
- to consider and approve work reports of our board of directors;
- to consider and approve work reports of our board of supervisors;
- to consider and approve our proposed annual financial budget and final accounts;
- to consider and approve our proposed annual issuances of debt securities and other marketable securities;
- to consider and approve any change in the use of proceeds from any offering;
- to consider and approve our proposed profit distribution and loss make-up;
- to decide on the increase or decrease of our registered capital;
- to decide on matters concerning our merger, split, dissolution, liquidation or other change of corporate form;

- to decide on our plans for listing of our shares;
- to decide on buybacks of our shares;
- to amend our articles of association;
- to decide on the engagement and dismissal of our auditors;
- to consider and approve, or authorise our board of directors to approve, our proposed establishment of any legal person, material merger or acquisition, material investment, disposal of material assets and material guarantee;
- to consider and approve proposals made by shareholders individually or jointly holding more than 3% of our voting shares;
- to consider related party transactions which shall be considered and approved by the shareholders' general meeting as stipulated by laws, administrative regulations and rules;
- to consider other matters which shall be approved by shareholders' general meetings as stipulated by laws, administrative regulations and rules as well as our articles of association.

Under our articles of association, there are two types of shareholders' general meetings:

- annual general meetings; and
- extraordinary general meetings.

Our shareholders' annual general meetings will be held once a year within six months of the relevant fiscal year-end.

Directors and board of directors

Our articles of association require our directors to be natural persons. They do not have to hold any of our shares to qualify for such directorships. Our directors comprise executive directors and non-executive directors, and our non-executive directors also include independent directors. Our directors must be elected by our shareholders at their general meetings. Under our articles of association, our directors will serve a term of three years (ending on the date of the general shareholders' meeting in the year in which such term expires), subject to successive re-election for an additional term.

According to our articles of association, candidates for our directors may be nominated by our board of directors or our shareholders individually or jointly holding more than 5% of our voting shares, and our directors shall be elected at our shareholders' general meeting. Candidates for our independent directors may be nominated by our board of directors, board of supervisors or shareholders individually or jointly holding more than 1% of our shares, and our independent directors shall be elected at our shareholders' general meeting.

Our articles of association currently require our board of directors to be composed of 15 directors, with eight non-executive directors, four executive directors and three independent directors. The following table sets forth information regarding our directors as of the date of this Offering Circular.

Directors	Age	Position
Mr. Chen Yuan	67	Chairman, executive director
Mr. Zheng Zhijie	54	Executive director
Mr. Gao Jian	63	Executive director
Mr. Zhang Shude	49	Non-executive director
Ms. Song Aiwu	55	Non-executive director
Ms. Luo Mi	56	Non-executive director
Mr. Pang Jiying*	60	Non-executive director
Mr. Huang Weijia*	55	Non-executive director
Mr. Lai Weiwen*	55	Non-executive director
Mr. Yue Gongxia*	53	Non-executive director
Mr. Huang Hao*	39	Non-executive director
Mr. Du Jian	70	Independent non-executive director
Mr. Zheng Xinli	67	Independent non-executive director

* Mr. Pang Jiying, Mr. Huang Weijia, Mr. Lai Weiwen, Mr. Yue Gongxia and Mr. Huang Hao will perform their duty after their eligibility for directorship is approved by CBRC.

You may find additional biographical information on each of our directors under the section entitled "— Management Biographical Information — Directors" on page 43 of this Offering Circular.

Our articles of association require that our board of directors meet regularly for at least four time a year.

The quorum for our board of directors meetings is one half of all our directors. To the extent any director is materially interested in matters to be considered at a meeting, the quorum shall be one half of all our directors who are not materially interested in the matters to be considered at such meetings. Our articles of association further require our directors to attend in person at least two thirds of our board of directors meetings for each year. If a director fails to attend (whether in person or by proxy through another director) two consecutive board of directors meetings, or fails to attend in person at least two thirds of our board of directors meetings in a given year, such director would be deemed as being unable to fulfil his/her duties, and the board of directors shall refer the issue to shareholders' general meetings for dismissal of such director subject to the approval by our shareholders at their general meetings. In addition, with respect to our independent director, our articles of association require that each independent director must spend at least 15 working days for each year in working for us and that at least one of our independent directors must be a financial or accounting professional. If an independent director fails to attend three consecutive board of directors meetings in person, or fails to attend (whether in person or by proxy through another independent director) two consecutive board of directors meetings, or fails to attend in person at least two thirds of our board of directors meeting in a given year, the board of directors and the board of supervisors may refer the issue to shareholders' general meetings for dismissal of such director subject to the approval by our shareholders at their general meetings.

Special committees of board of directors

Our articles of association require 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 strategic development and investment management committee;
- an audit committee;
- a risk management committee;
- a related party transactions committee; and
- a nomination and compensation committee.

Each special committee is accountable to our board of directors and shall, with approval of our board of directors, provide professional advice or make decisions on specific matters. Our articles of association require each special committee to be composed of no fewer than three directors. The audit committee, the nomination and compensation committee and the related party transactions committee must consist of a majority of independent directors.

Strategic Development and Investment Management Committee. Our articles of association require our strategic development committee to be chaired by the chairman of our board of directors. The primary duties of the committee include:

- to consider our plans for strategic development and make proposals to our board of directors;
- to consider our annual financial budgets and final accounts and make proposals to our board of directors;
- to consider our strategic capital allocation (capital structure, capital adequacy, etc.) and the objectives of our assets and liabilities management, and make proposals to our board of directors;
- to plan the general development of all financial businesses and make proposals to our board of directors;
- to consider our plans for any significant corporate restructuring and adjustment, and make proposals to our board of directors;
- to design our plans for any significant investment, financing, merger and acquisition, consider the proposals made by our management and make proposals to our board of directors;
- to consider our plans for strategic development of overseas branches and make proposals to our board of directors;
- to consider our plans for human resources strategies and development and make proposals to our board of directors;
- to consider our plans for information technology development and other specific strategic development and make proposals to our board of directors;
- to review and assess the soundness of our corporate governance to ensure our financial reporting, risk management and internal control comply with our corporate governance standards; and
- other duties as stipulated by laws, administrative regulations and rules and authorised by our board of directors.

Audit Committee. Our articles of association require our audit committee to be chaired by an independent director. The primary responsibilities of our audit committee include:

- to monitor our internal controls, review our core businesses and management procedures and their implementation, examine and assess the compliance and effectiveness of major business operations;
- to review our financial information and reporting, examine our significant accounting policies and their implementation, monitor our financial operations; monitor and control the accuracy of financial reports and the effectiveness of financial reporting procedures adopted by our senior management;
- to examine, monitor and assess our internal audit performance, monitor our internal audit policies and their implementation; evaluate the process and the effectiveness of the work carried out by our internal audit department;
- to engage or replace our external auditors, take appropriate measures to monitor the work of our external auditors; consider reports prepared by our external auditors and ensure the integrity of the duties owed by our external auditors to the board of directors and the audit committee;
- to coordinate the communications between our internal audit department and our external auditors; and
- other duties as stipulated by laws, administrative regulations and rules and authorised by our board of directors.

Risk Management Committee. The primary responsibilities of our risk management committee include:

- to examine and modify our risk strategies, risk management policies and internal control procedures in accordance with our overall strategy, monitor and evaluate their implementation and effectiveness, and make proposals to our board of directors;
- to monitor and evaluate the establishment, organisational structure, procedures and effectiveness of our risk management system, and make proposals for improvement;
- to monitor, and assess the effectiveness of, the control by our senior management with respect to our credit risks, market risks and operational risks, and make proposals for improvement of our risk management and internal controls;
- to conduct periodic assessments of our risk profile and make proposals to our board of directors;
- if authorised by our board of directors, to examine and approve significant risk management matters or transactions that are beyond the authority of our president or submitted by our president to the risk management committee for consideration; and
- other responsibilities as stipulated by laws, administrative regulations and rules and authorised by our board of directors.

Related Party Transactions Committee. Our articles of association require our related party transactions committee to be chaired by an independent director. The primary responsibilities of our related party transactions committee include:

- to identify our related parties, report the findings to our board of directors and board of supervisors, and inform our staff promptly of the identities of such related parties;
- to conduct preliminary reviews of the relevant related party transactions, and submit them to our board of directors or to shareholders' general meetings by our board of directors for approval;

- within the scope of authorisation by our board of directors, to review and approve related party transactions and other related matters, maintain records of our related party transactions; and
- other responsibilities as stipulated by laws, administrative regulations and rules and authorised by our board of directors.

Nomination and Compensation Committee. Our articles of association require our nomination and remuneration committee to be chaired by an independent director. The primary responsibilities of our nomination and remuneration committee include:

- to formulate standards and procedures for the selection and appointment of our directors and senior management members;
- to nominate candidates for directors, governor and board secretary and make proposals to our board of directors;
- to consider the candidates for senior management members nominated by the governor and make proposals to our board of directors;
- to nominate candidates for chairman and members of the special committees of our board of directors;
- to formulate plans for developing senior management members and talents for key positions;
- to formulate assessment methods for directors and compensation plans for directors and supervisors (with compensation plans for supervisors being subject to review by our board of supervisors), and submit such plans to our board of directors and subsequently to our shareholders' general meetings for approvals;
- to organise performance assessment of our directors, make proposals for allocating compensations for directors, and submit such proposals to our board of directors and subsequently to our shareholders' general meetings for approvals;
- to make proposals for allocating compensations for supervisors in accordance with the performance assessment conducted by our board of supervisors, and submit such proposals to our board of directors and subsequently to our shareholders' general meetings for approvals;
- to formulate and examine the assessment methods and compensation plans for our senior management members, evaluate the performance and conduct of our senior management members, and submit the same to our board of directors for approval and, where relevant to the functions of shareholders' general meetings, to our shareholders' general meetings for approval; and
- other responsibilities as stipulated by laws, administrative rules and regulations and authorised by our board of directors.

Supervisors and board of supervisors

We have established a board of supervisors in accordance with the PRC Company Law and our articles of association. According to our articles of association, our board of supervisors is composed of five to seven supervisors and has one chairman. The chairman shall be a professional who possesses professional knowledge or work experience in either financial management, auditing, finance or law. The chairman may be elected or removed by more than 50% of all supervisors. Our supervisors serve a term of three years and can be re-elected. Our directors and senior management members may not serve as our supervisors. The supervisors include supervisors acting as representatives of both shareholders and employees. At least one-third of the supervisors must be representatives of our employees. Currently, we have five supervisors, of whom one is the chief supervisor, Mr. Yao Zhongmin, two are shareholder representatives, Mr. Geng Jianyun and Mr. Leng Xiangyang and two are employee representatives, Ms. Hu Hongzhuan and Mr. Bai Yingfu.

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

Supervisors	Age	Representation
Mr. Yao Zhongmin	59	Chairman of the board of supervisors
Mr. Geng Jianyun	57	Supervisor (shareholder representative)
Mr. Leng Xiangyang	53	Supervisor (shareholder representative)
Ms. Hu Hongzhuan	50	Supervisor (employee representative)
Mr. Bai Yingfu	50	Supervisor (employee representative)

The board of supervisors is our supervisory authority and is accountable to the shareholders' general meeting. It monitors our financial management and the conduct of the board of directors and senior management and their respective members in order to prevent abuse of power and encroachment on the rights and interests of our shareholders. According to our articles of association, our board of supervisors is responsible for:

- supervising the performance and due diligence of the directors and senior management, and questioning and inquiring the directors and senior management;
- monitoring the performance of the duties of the board of directors and senior management;
- demanding for rectification with respect to any conduct of our directors or senior management members which is against our interests;
- liaising with the directors and senior management on our behalf, making proposals for the removal of or commencing lawsuit against any director or senior management member who violates laws, administrative rules and regulations, our articles of association or shareholders' resolutions;
- conducting exit interviews of the directors and senior management members as required;
- examining and monitoring our financial activities;
- examining the financial reports, business reports, profit distribution plans and other financial information that the board of directors intends to submit to the shareholders' general meeting and, if issues arise, appointing a registered accountant or certified auditor in our name to re-examine such reports;
- examining and monitoring our decision-making at the operational level, risk management and internal control as required and giving directions to our internal audit department with respect of its work;
- formulating performance assessment methods for supervisors, conducting assessment and evaluation on supervisors and submitting such assessment and evaluation to the shareholders' general meeting for approval;
- making proposals to the shareholders' general meeting for resolution;
- proposing to convene extraordinary general meetings, and in case of failure of the board of directors to convene shareholders' general meetings, convening and presiding over the extraordinary general meetings;
- proposing to convene board of directors special meetings; and
- exercising other responsibilities as stipulated by laws, administrative rules and regulations and authorised by the shareholders' general meetings.

In addition, our board of directors is required by our articles of association to be subject to the supervision of our board of supervisors, and shall not obstruct or hinder the board of supervisors from conducting examination and audit activities pursuant to its responsibilities and rights.

The board of supervisors is accountable to the shareholders' general meeting and reports to the shareholder's general meeting. According to our articles of association, the shareholders' general meeting shall exercise its responsibilities and rights to elect and remove supervisors acting as representatives of the shareholders, approve the remuneration of the supervisors and consider and approve the work reports of the board of supervisors. In addition, the supervisors acting as representatives of the employees shall be elected and removed by democratic election of the employees.

Senior Management

Our articles of association provide that our senior management will include the president and a number of vice presidents and assistant presidents. Where necessary, we may also designate a chief financial officer, a chief risk manager and other senior managers. All our senior management members serve at the pleasure of our board of directors.

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

Senior management members	Age	Position
Mr. Zheng Zhijie	54	Vice President
Mr. Gao Jian	63	Vice President
Mr. Li Jiping	55	Vice President
Mr. Wang Yongsheng	53	Vice President
Mr. Chen Min	48	Secretary of the Board of Directors
Mr. Shu Jiawei	58	Chief Finance Officer
Mr. Xu Qiyin	59	Chief Risk Officer
Mr. Chen Jizhong	55	Chief Audit Officer

You may find additional biographical information on each of our senior management members under the sections entitled "— Management Biographical Information — Senior management" on page 45 of this Offering Circular.

Our articles of association provide that our president will serve a term of three years and may be re-appointed by our board of directors for successive terms of three years each. Our president is accountable to our board of directors and has the following functions and duties:

- to be responsible for our operational management, and to carry out resolutions adopted by our board of directors;
- to formulate our business and investment plans, and implement them upon their approval by our board of directors;
- to prepare our basic operational controls and procedures;
- to prepare our annual financial budget and final accounts, our plans for profit distribution and loss make-up, our plans for any increase or decrease of our registered capital and our plans for the public offering and listing of our shares, and to make relevant proposals to our board of directors;
- to prepare our annual plans for issuance of debt securities and other marketable securities, and to make relevant proposals to our board of directors;
- to propose the appointment and removal of any vice president and other senior management members (except for the secretary of our board of directors);

- to appoint and remove any management member other than those subject to the power of our board of directors for appointment or removal;

- to propose the convening of our board of directors special meetings;

- in the event of emergencies involving our bank, to take urgent measures in, and for the protection of, our bank's interest, and report to CBRC, our board of directors and our board of supervisors; and

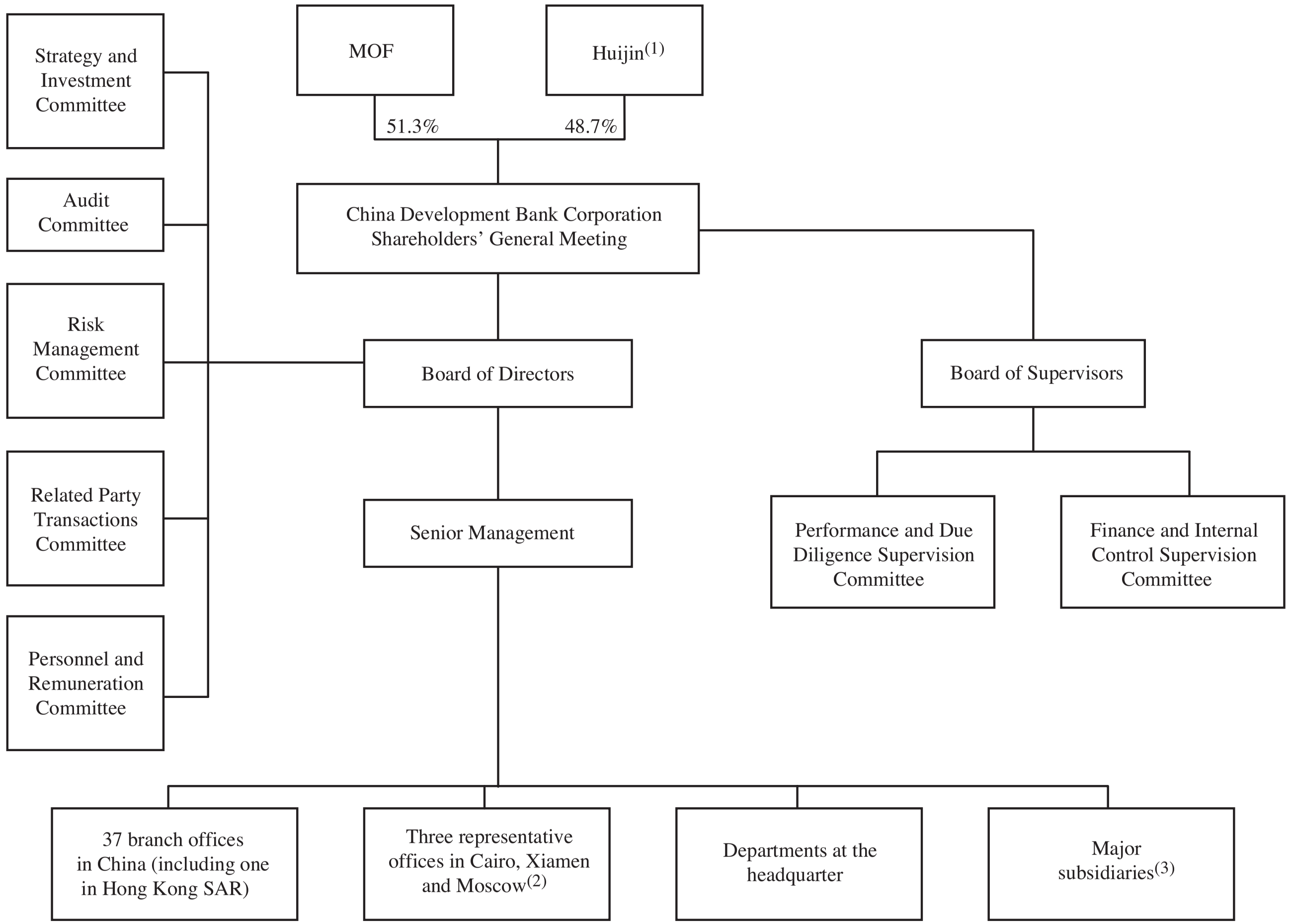
- other powers and functions conferred by law, by our articles of association or by our board of directors.

Our vice presidents, each responsible for a different area of our operations, assist our president in discharging his duties and responsibilities pursuant to our articles of association. All our senior management members are accountable to our board of directors and subject to the monitoring of our board of supervisors. Our articles of association do not, however, permit any interference in the operational management activities lawfully conducted by our president and other senior management members within their scope of functions. Our articles of association also require our board of directors to promptly consider and decide on matters submitted by our president for approval.

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 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 department, the risk management department, the project appraisal administration department, the project appraisal department I, the project appraisal department II, the project appraisal department III, 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 auditing department, the human resources department, the compliance department, the education and training department, the logistics and the retired staff department. 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 December 31, 2010.



(1) National Council for Social Security Fund had been registered as one of our bank's shareholders as of the end of June 2011. MOF, Huijin and National Council for Social Security Fund hold 50.18%, 47.63% and 2.19%, respectively, of our issued equity.

(2) Our Xiamen representative office has been transformed to a branch office as of the date of this Offering Circular.

(3) Our major subsidiaries include China Development Bank Capital Co., Ltd., China Development Bank Securities Co., Ltd., CDB Leasing Co., Ltd., China-Africa Development Fund and 11 village banks.

Management Biographical Information

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

Directors

Mr. Chen Yuan — chairman and executive director. Mr. Chen has served as our chairman and executive director since December 2008. From 1998 to 2008, Mr. Chen served as our president. From 1988 to 1998, Mr. Chen was a vice president of PBOC. In 1981, Mr. Chen received a master's degree in business administration from Chinese Academy of Social Sciences.

Mr. Zheng Zhijie — executive director and vice president. Mr. Zheng has served as executive director and our vice president since December 2008. From 2001 to 2008, Mr. Zheng served as a vice president of China Construction Bank and the president of China Construction Bank Corporation Jianyin Investment Co., Ltd. From 1997 to 2001, Mr. Zheng was an assistant to the president of the China Construction Bank and the president of China Construction Bank Beijing branch. In 1982, Mr. Zheng received a bachelor's degree in construction finance from Liaoning Institute of Finance and Economics.

Mr. Gao Jian — executive director and vice president. Mr. Gao has served as executive director and our vice president since December 2008. From 2003 to 2008, Mr. Gao was our vice president. From 1998 to 2003, Mr. Gao served as our president's assistant, chief economist, director of our treasury department and chief representative of our Hong Kong office. From 1982 to 1998, Mr. Gao served in various positions in MOF. In 1992, Mr. Gao received a doctorate degree in finance from the Research Institute of Fiscal Science, MOF.

Mr. Zhang Shude — non-executive director. Mr. Zhang has served as our non-executive director since December 2008. From 1995 to 2008, Mr. Zhang served as the board secretary, general manager of international business department and vice general manager of Bank of Shanghai Company Ltd.. From 1994 to 1995, Mr. Zhang served as a senior manager of Bank of East Asia, Shanghai branch. From 1992 to 1994, Mr. Zhang served as a deputy manager for marketing department of the Shanghai foreign exchange trade center. Mr. Zhang received a master's degree in law from Fudan University in 1987.

Ms. Song Aiwu — non-executive director. Ms. Song has served as our non-executive director since December 2008. From 2001 to 2008, Ms. Song worked as the president, editor-in-chief, deputy editor-in-chief of China Public Finance journal. From 1994 to 2001, Ms. Song served as director of International Tax Department in the tax law and taxation division, director of Local Tax Department and director of Local Tax Department for Tax Policy Division of the MOF. In 1997, Ms. Song received a master's degree in taxation from George Washington University.

Ms. Luo Mi — non-executive director. Ms. Luo has served as our non-executive director since December 2008. From 2003 to 2008, Ms. Luo was a regulatory inspector (deputy bureau level) and a department head of the CBRC. From 1982 to 2003, Ms. Luo was the head of PBOC Shenzhen branch and deputy commissioner of the PBOC head office. Ms. Luo graduated with a bachelor's degree in 1982 from Shanxi University of Finance and Economics, where she majored in finance.

Mr. Pang Jiying — non-executive director. Mr. Pang was elected as our director in our third extraordinary shareholders' general meeting of 2011, and his eligibility for directorship is subject to the approval of CBRC. Mr. Pang has served as supervisor (shareholder representative) at China Everbright Bank since 2009. From 2007 to 2011, Mr. Pang served as Communist Party deputy secretary, vice chairman of the board and Trade Union Working Commission secretary of China Reinsurance (Group) Corporation. From 2009 to 2011, Mr. Pang also served as Communist Party secretary and chairman of the board of China Life Reinsurance Company Ltd. and director of Huatai Insurance Agency & Consultant Service Ltd.. From 1999 to 2007, Mr. Pang served a regulatory inspector of Financial Stability Bureau and deputy head of Legal Affairs Department of PBOC. From 1994 to 1999, Mr. Pang served as the president and vice president of China Foreign Exchange Trade System. From 1985 to 1994, Mr. Pang served as the deputy head of a department, the head and the deputy head of a section of SAFE. From 1983 to 1985, Mr. Pang served as a cadre of Central Commission for Discipline Inspection. Mr. Pang graduated with a doctorate degree from Nankai University, where he majored in finance.

Mr. Huang Weijia — non-executive director. Mr. Huang was elected as our director in our third extraordinary shareholders' general meeting of 2011, and his eligibility for directorship is subject to the approval of CBRC. Mr. Huang has served as secretary of Discipline Inspection Committee of MOF. From 1991 to 2008, Mr. Huang served as a cadre of training section, the office manager, the head of Propaganda Department and the deputy secretary of the Communist Party committee of MOF. From 1984 to 1991, Mr. Huang served as a lecturer of Party School of the Inner Mongolia Committee of Communist Party of China. Mr. Huang graduated with a master's degree from Theory Department of Party School of the Central Committee of Communist Party of China, where he majored in party construction.

Mr. Lai Weiwen — non-executive director. Mr. Lai was elected as our director in our third extraordinary shareholders' general meeting of 2011, and his eligibility for directorship is subject to the approval of CBRC. Mr. Lai has served as deputy chief editor of China Financial & Economic Publishing House (deputy department level) since 2002. From 1995 to 2002, Mr. Lai served as a regulatory inspector (deputy bureau level), deputy head (division level), and head of Division II of Economic Department, as well as a cadre at the level of head of division in Taiwan Affairs Department and Economic Department, of the Macau Affairs Committee under the Central Committee of the Communist Party of China. From 1983 to 1995, Mr. Lai served as head and deputy head of Special Fund Management Division of Local Budget Department of MOF, chief officer of Local Division II of Local Budget Department, and a cadre of Local Affairs Division of Budget Department. Mr. Lai graduated from Economics Department of Xiamen University, where he majored in finance.

Mr. Yue Gongxia — non-executive director. Mr. Yue was elected as our director in our third extraordinary shareholders' general meeting of 2011, and his eligibility for directorship is subject to the approval of CBRC. Mr. Yue has served as Deputy Secretary-General, head of the executive office and director of the Registration Office of China Appraisal Society since 1998. From 1992 to 1998, Mr. Yue served as deputy head of the Project Filing Confirmation Division, head of the Institution Division, a cadre at the deputy division level of the Science and Research Institute and a cadre of the Practical Theory Office of the Science and Research Institute of the Appraisal Centre under the State-owned Assets Administration Bureau. From 1988 to 1992, Mr. Yue served as a cadre of the Central Policy Research Office of Jiu San Society. Mr. Yue graduated with a master's degree from China Academy of Social Sciences, where he majored in Chinese temporary history.

Mr. Huang Hao — non-executive director. Mr. Huang was elected as our director in our third extraordinary shareholders' general meeting of 2011, and his eligibility for directorship is subject to the approval of CBRC. Mr. Huang has served as director of Guotai Junan Securities Co., Ltd. since 2006, and as director and deputy director of the Development Bank Equity Management Division of the Comprehensive Department and deputy director of the Capital Department of Central Huijin Investment Ltd. since 2004. From 1999 to 2004, Mr. Huang served as a regulatory inspector (deputy division level) and senior staff member of the Policy Research Division of the Comprehensive Department of SAFE, and concurrently served as the Secretary-General of the Communist Youth League of SAFE from 2001 to 2004. From 1996 to 1999, Mr. Huang was a master candidate in technical economics in School of Economics and Management, Tsinghua University. From 1994 to 1995, Mr. Huang served as the standing president of All-China Students Federation under the Central Committee of the Communist Youth League. Mr. Huang graduated with a doctorate degree from the Financial Institute of People's Bank of China, where he majored in international finance.

Mr. Du Jian — independent non-executive director. Mr. Du has served as our non-executive director since December 2008. Mr. Du served as the chairman of special case supervisory panel of CBRC from 2005 to 2008. Prior to his retirement, Mr. Du was the chairman of the supervisory board of the State Council in CBRC for the key state-owned financial institutions from 2003 to 2005. From 2000 to 2003, Mr. Du was the chairman of the supervisory board of the State Council for the key state-owned financial institutions. From 1963 to 2000, Mr. Du served as head and deputy head of department in MOF. Mr. Du graduated from the faculty of finance of the Central Academy of Finance and Economics with a bachelor's degree in 1963.

Mr. Zheng Xinli — independent non-executive director. Mr. Zheng has served as our independent non-executive director since May 2010. Mr. Zheng served as the deputy head of the Committee for Economic Affairs of the National Committee of the People's Political Consultative Conference from 2008 to present. Prior to his retirement, Mr. Zheng was the deputy head of the Central Policy Research Office from 2000 to 2009. From 1999 to 2000, Mr. Zheng served as the deputy head and the head of the Policy Research Office of the State Development Planning Commission and the head and the deputy secretariat and the spokesman of the Policy and Regulation Department. In 1981, Mr. Zheng received a master's degree in industrial economics from the graduate school of Chinese Academy of Social Science.

The business address of the directors is 29 Fuchengmenwai Street, Xicheng District, Beijing 100037, People's Republic of China.

Supervisors

Mr. Yao Zhongmin — chairman of board of supervisors. Mr. Yao has served as the chairman of our board of supervisors since December 2008. From 1994 to 2008, he served as our vice president. Mr. Yao served as the deputy governor of Henan province between 1993 to 1994. From 1992 to 1993, Mr. Yao served as the president of Henan province branch of China Construction Bank. Mr. Yao received a master's degree in investment economics from Zhongnan University of Finance and Economics in 1996.

Mr. Geng Jianyun — supervisor (shareholder representative). Mr. Geng has served as our supervisor since December 2008. Mr. Geng served in various leadership roles in the supervision and inspection bureau of MOF from 1994 to 2008. In 1978, Mr. Geng graduated from Tianjin Institute of Finance and Economics, where he majored in finance.

Mr. Leng Xiangyang — supervisor (shareholder representative). Mr. Leng has served as our supervisor since December 2008. Mr. Leng served as the duty supervisor of the board of supervisors (bureau level) and the office manager of the China Development Bank and the Export-Import Bank of China from 2001 to 2008. Mr. Leng was the assistant inspector of the State Administration of Taxation from 1999 to 2001. From 1994 to 1999, Mr. Leng served as director of the department of human resources and education and office director of State Tax Bureau as well as officer of education center office. Mr. Leng graduated in business management from Hunan College of Finance and Economics.

Ms. Hu Hongzhuan — supervisor (employee representative). Ms. Hu has served as our employee representative and the deputy head of our Audit Department since December 2008. Ms. Hu was a duty supervisor of the board of supervisors of the China Development Bank and the Export-Import Bank of China from 2003 to 2008. Ms. Hu was the duty supervisor and director of the board of supervisors (deputy bureau level) of the Bank of Communications between 2000 and 2003. Ms. Hu was the director of the non-financial comprehensive division of PBOC head office and the director of financial leasing company supervision department of PBOC between 1997 and 2000. Ms. Hu graduated from Hunan College of Finance and Economics in 1984 and obtained a bachelor's degree in accounting.

Mr. Bai Yingfu — supervisor (employee representative). Mr. Bai has served as our employee representative since December 2008 and is currently president of our Guangxi branch. Mr. Bai was the deputy head of our legal department. Mr. Bai received a doctorate degree in private international law from Wuhan University in 1995.

Senior management

Mr. Zheng Zhijie — vice president. You may find his biographical information under the section entitled "— Directors" on page 43 of this Offering Circular.

Mr. Gao Jian — vice president. You may find his biographical information under the section entitled "— Directors" on page 43 of this Offering Circular.

Mr. Li Jiping — vice president. Mr. Li has served as our vice president since December 2008. Mr. Li served as the deputy director (bureau level) of our human resource department from 2006 to 2008. Mr. Li was the president of our Sichuan branch from 2003 to 2006. Mr. Li served as our policy research officer and other positions from 2000 to 2003 and the deputy director of our general office from 1994 to 2000. Mr. Li held the position of deputy director of the general office of China Construction Bank from 1983 to 1994. Mr. Li received a bachelor's degree in infrastructure finance from Liaoning Institute of Finance and Economics in 1983.

Mr. Wang Yongsheng — vice president. Mr. Wang has served as our vice president since December 2010 and is a Communist Party committee member. Mr. Wang was head of our large corporate lending department from October 2010 to December 2010. From 2003 to 2010, Mr. Wang was president of our Liaoning branch and Communist Party secretary (bureau level). From 2000 to 2003, Mr. Wang was president of our Shenyang branch and Communist Party secretary (bureau level). From 1998 to 2000, Mr. Wang was president of our Zhengzhou branch and Communist Party secretary (bureau level). Mr. Wang also served as president of the Zhengzhou branch of the China Investment Bank and Communist Party secretary from 1995 to 1998, and between 1980 and 1995 held various posts including president of the Zhengzhou branch of the People's Construction Bank of China. Mr. Want received a master's degree in investment economics from Zhongnan University of Finance and Economics in 1997.

Mr. Chen Min — secretary of the board of directors. Mr. Chen has served as secretary of the board of directors and director of the administrative office for the board of directors since December 2008. Mr. Chen was our policy research officer (bureau level) from 2005 to 2008, our deputy policy research officer (deputy bureau level) from 2001 to 2005, division leader of the second division of our policy research section from 2000 to 2001, division leader of the policy research division of our general office from 1997 to 2000, and bureau-level manager of our general office from 1996 to 1997. Between 1984 and 1996, Mr. Chen held various posts including director of the scientific research division of the Institute of Economic Research of the State Planning Committee. Mr. Chen graduated from the Jiangxi Institute of Finance and Economics with a major in state economic planning.

Mr. Shu Jiawei — chief finance officer. Mr. Shu has been our chief finance officer since December 2008. Mr. Shu served as our chief auditor and head of our audit department from 2008 to 2010, head of our finance and accounting department from 2001 to 2005, director of our settlement center (bureau level) from 1999 to 2000, and deputy head of our finance and accounting department and director of our business division from 1998 to 1999. Between 1985 and 1998, Mr. Shu held various posts including vice president and standing member of the communist party committee of the Tianjin branch of the Industrial and Commercial Bank of China. Mr. Shu received a master's degree in financial and currency banking from Dongbei University of Finance and Economics in 1997.

Mr. Xu Qiying — chief risk officer. Mr. Xu has been our chief risk officer since February 2010. Mr. Xu served as the head of our large corporate lending department from 2005 to 2010, head of the Credit Appraisal Department II from 1999 to 2003, president of our Wuhan branch from 1996 to 1999, and deputy head of our technical innovation and credit department from 1994 to 1996. Between 1985 and 1998, Mr. Xu held various posts including deputy director of the credit department of the People's Construction Bank of China. Mr. Xu graduated from the Liaoning Institute of Finance and Economics with a major in infrastructure finance.

Mr. Chen Jizhong — chief audit officer. Mr. Chen has been our chief audit officer and Communist Party secretary of our Shanghai branch since February 2010. Mr. Chen served as Communist Party secretary and president of our Shanghai branch from 2004 to 2010, Communist Party secretary and president of our Shaanxi branch from 2003 to 2004, Communist Party secretary and president of our Xi'an branch from 2000 to 2003, director of the administrative office of our Communist Party committee and director of our general office (bureau level) from 1999 to 2000, deputy head of the mobilisation office of our Communist Party committee and deputy head of our human resources department (bureau level) in 1999, and deputy head of our human resources department from 1994 to 1999. Between 1985 and 1994, Mr. Chen held various posts including director of the subordinate cadres unit of the human resources division of the State Planning Committee. Mr. Chen received a master's degree in business administration from the Beijing Institute of Technology in 1997.

International Advisory Council

We have an international advisory council with 16 members from global economic, financial and political communities. The purpose of the international advisory council is to provide our management with strategic advice on world economic, financial and political events that may impact our development. The current members of our international advisory council are as follows:

Name	Position held
Mr. Paul Keating	Former Prime Minister of Australia
Dr. Henry Kissinger	Former Secretary of State, USA
Mr. Paul Volcker	Former Chairman of Federal Reserve, USA
Mr. Fred Bergsten	Director of the Institute for International Economics, USA
Mr. Andrew Crockett	President of Bank for International Settlements and President of J.P. Morgan Chase International, USA
Mr. Jean Lemierre	President of the European Bank for Reconstruction and Development and Advisor to the Chairman of the Board of BNP Paribas
Dr. Jacob A. Frenkel	Chairman of J.P.Morgan Chase International, USA
Mr. Maurice R. Greenberg	Chairman and CEO of C.V. Starr & Co. Inc.
Mr. Jacques P.M. Kemp	Former Chief Executive Officer, ING Insurance International B.V.
Prof. Lawrence J. Lau	President & Professor of Economics of the Chinese University of Hong Kong
Mr. Ng Kee Choe	Former Deputy Chairman of Development Bank of Singapore and Chairman of Singapore Power Limited
Mr. Hans W. Reich	Former Chairman of Kreditanstalt für Wiederaufbau and Chairman of Citigroup Public Sector Group
Mr. Andrew L.T. Sheng	Former Chairman of SFC of Hong Kong SAR
Mr. Uli Sigg	Former Swiss Ambassador to China, Switzerland
Sir David Wright	Vice Chairman of Barclays
Mr. Toyoo Gyohten	Former Vice-Minister of Finance of Japan and President of the Institute for International Monetary Affairs of Japan

SUMMARY OF PROVISIONS RELATING TO OUR BONDS IN GLOBAL FORM

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

The Bonds will be represented by a global bond which will be delivered to and held by a sub-custodian nominated by the CMU. The global bond will be held for the account of the CMU Members or persons for whom CMU Members act on behalf of. Interests in our global bond will only be shown on, and transfers of interests will be effected through, records maintained by the CMU.

The global bond will become exchangeable in whole, but not in part, for definitive bonds in the denomination of RMB 1,000,000 each and with interest coupons attached if any of the following events occurs:

- an event of default (as set out in terms and conditions of the Bonds) entitling the investors of the Bonds to accelerate the maturity of the Bonds has occurred and is continuing; or

- we have been notified by the Issuing and Paying Agent that the CMU has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no successor clearing system is available.

Since the CMU can act only on behalf of the CMU Member, who in turn may act on behalf of persons who hold interests through them, or indirect participants, the ability of persons having interests in the global bond to pledge such interests to persons or entities that are not CMU Member, or otherwise take action in respect of such interests, may be affected by the lack of definitive bonds.

While the global bond representing the Bonds is held by or on behalf of the CMU, payments of interest or principal will be made to the persons for whose account a relevant interest in the global bond is credited as being held by the CMU at the relevant time, as notified to the Fiscal Agent by the CMU in a relevant CMU instrument position report (as defined in the rules of CMU) or in any other relevant notification by the CMU. Such payment will discharge our obligations in respect of that payment. Any payments by the CMU Members to indirect participants will be governed by arrangements agreed between the CMU Members and the indirect participants and will continue to depend on the interbank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU Members.

Payments, transfers, exchanges and other matters relating to interests in the global bond may be subject to various policies and procedures adopted by the CMU from time to time. None of us, the Issuing and Lodging Agent, the Fiscal Agent, the Paying Agent, or any of their agents will have any responsibility or liability for any aspect of the CMU's records relating to, or for payments made on account of, interests in the global bond, or for maintaining, supervising or reviewing any records relating to such interests.

For so long as all of our Bonds are represented by a global bond and the global bond is held by or on behalf of the CMU, notices to investors of our Bonds may be given by the Fiscal Agent by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the business day preceding the date of despatch of such notice as holding interests in the global bond for communication to the Bondholders. Any such notice shall be deemed to have been given to the investors of our Bonds on the second day after the day on which such notice is delivered to the persons shown in the relevant CMU Instrument Position Report as aforesaid. Indirect participants will have to rely on the CMU Members (through whom they hold our Bonds, in the form of interests in the global bond) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU Members.

The CMU is under no obligation to maintain or continue to operate CMU and the CMU is under no obligation to perform or continue to perform the procedures described above. Accordingly, CMU and such procedures may be discontinued or modified at any time. None of us, the Issuing and Lodging Agent, the Fiscal Agent, the Paying Agent, nor any of their affiliates or agents will have any responsibility for the performance by the CMU or the CMU Members of their respective obligations under the rules and procedures governing their operations.

TAXATION OF BONDS

The following summary of certain taxation provisions under the PRC and Hong Kong SAR laws is based on current law and practice. It does not purport to be comprehensive and does not constitute legal or tax advice. You (particularly if you are subject to special tax rules, such as banks, dealers, insurance companies and tax-exempt entities) should consult your own tax advisers regarding the tax consequences of an investment in the Further Bonds.

PRC Taxation

In the opinion of King & Wood, acting as PRC legal counsel for the sole lead manager and bookrunner, the following summary accurately describes the principal PRC tax consequences of ownership of the Bonds 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 Bonds, 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, the tax so charged on interest paid on the Bonds to non-PRC holders which, or who, are residents of Hong Kong SAR (including enterprises and individuals) for purposes of the avoidance of double taxation arrangement between China and Hong Kong SAR will be 7% of the gross amount of the interest pursuant to the arrangement between China and Hong Kong SAR. We will apply on behalf of the investors of our Bonds to the State Administration of Taxation of China for an exemption from such income tax on the payment of interest in respect of the Bonds. Should we fail to receive such exemption, we will pay additional amounts to the investors of our Bonds so that you receive the full amount of the scheduled payment, as further set out in the terms and conditions of the Bonds.

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 Bonds. For other investors of our Bonds, according to the PRC Enterprise Income Tax Law and its implementation rules, it is unclear whether the capital gains of non-resident enterprises derived from a sale or exchange of our Bonds will be subject to PRC income tax. If such capital gains are determined as income sourced in China by PRC tax authority, those non-resident enterprise holders, other than Hong Kong SAR residents, may be subject to enterprise income tax at a rate of 10% of the gross proceeds (unless other tax preferential treatments are provided by any special tax arrangements).

Hong Kong SAR Taxation

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

Stamp Duty. The Bonds are not subject to Hong Kong SAR stamp duty either upon issue or on any subsequent transfer.

Profits Tax. Profits tax is charged on every person carrying on a trade, profession or business in Hong Kong SAR in respect of assessable profits arising in or derived from Hong Kong SAR from such trade, profession or business.

Estate Duty. Estate duty is not charged in Hong Kong SAR with respect to estates forming on or after February 11, 2006.

SUBSCRIPTION AND SALE

We have entered into a subscription agreement with Barclays Bank PLC as sole lead manager and bookrunner dated March 23, 2012 in relation to the Further Bonds (the "Subscription Agreement", as may be supplemented from time to time). Pursuant to the Subscription Agreement, subject to certain conditions contained therein, we have agreed to sell to the sole lead manager and bookrunner, and the sole lead manager and bookrunner has agreed to subscribe for, or procure purchasers or subscribers to subscribe for, the aggregate principal amount of the Further Bonds.

The Subscription Agreement provides that we will indemnify the sole lead manager and bookrunner against certain liabilities in connection with any loss arising out of the offer and sale of the Further Bonds. The Subscription Agreement provides that the obligations of the sole lead manager and bookrunner to pay for and accept delivery of the Further Bonds are subject to certain conditions precedent, and entitles the sole lead manager and bookrunner to terminate the Subscription Agreement in certain circumstances.

In connection with the offering of the Further Bonds, the sole lead manager and bookrunner may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the sole lead manager and bookrunner. Stabilizing transactions involve bids to purchase the Further Bonds in the open market for the purpose of pegging, fixing or maintaining the price of the Further Bonds. Syndicate covering transactions involve purchases of the Further Bonds in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the Further Bonds to be higher than it would otherwise be in the absence of those transactions. If the sole lead manager and bookrunner engages in stabilizing or syndicate covering transactions, it may discontinue them at any time.

The sole lead manager and bookrunner and certain of its 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 sole lead manager and bookrunner or certain of its affiliates may purchase the Further Bonds and be allocated the Further Bonds for asset management and/or proprietary purposes but not with a view to distribution.

The sole lead manager and bookrunner or its affiliates may purchase the Further Bonds 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 Further Bonds and/or other securities of ours and/or our subsidiaries or associates at the same time as the offer and sale of the Further Bonds 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 Further Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Further Bonds).

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Further Bonds 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 the sole lead manager and bookrunner that would, or is intended to, permit the public offering of the Further Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto or any other offering or publicity material relating to the Further Bonds, in any country or jurisdiction where action for that purpose is required, except to the extent provided in the following paragraph. Accordingly, the Further Bonds 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 Further Bonds may be distributed or published, by us or the sole lead manager and bookrunner, 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 the sole lead manager and bookrunner.

Hong Kong SAR

The sole lead manager and bookrunner has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong SAR, by means of any document, any Further Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws 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 Ordinance (Cap. 32 of the Laws 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 Further Bonds, 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 Further Bonds 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 the Laws of Hong Kong SAR) and any rules made under that Ordinance.

United States

The Further Bonds have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons. The sole lead manager and bookrunner has represented that it has not offered or sold the Further Bonds, and has agreed that it will not offer or sell the Further Bonds to U.S. persons. Accordingly, neither it, its affiliates, nor any person acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Further Bonds. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, under U.S. Treas. Reg. S1.163-5(c)(2)(i)(C), or the C Rules, Further Bonds must be issued and delivered outside the United States and its possessions in connection with their original issue. The sole lead manager and bookrunner has represented that it has not offered, sold or delivered, and has agreed that it will not offer, sell or deliver, directly or indirectly, Further Bonds within the United States or its possessions in connection with their original issue. Further, in connection with the original issue of Further Bonds, the sole lead manager and bookrunner has represented that it has not communicated, and has agreed that it will not communicate, directly or indirectly, with a prospective purchaser if either of the sole lead manager and bookrunner or such purchaser is within the United States or its possessions or otherwise involve the sole lead manager and bookrunner's U.S. office in the offer or sale of Further Bonds. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

The People's Republic of China

The sole lead manager and bookrunner has represented, warranted and agreed that the Further Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in China except as permitted by the laws of China.

Japan

The Further Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan, or the Financial Instruments and Exchange Act. Accordingly, the sole lead manager and bookrunner has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Further Bonds 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

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the sole lead manager and bookrunner has represented and agreed 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 Further Bonds which are the subject of the offering contemplated by this Offering Circular 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 Further Bonds to the public in that Relevant Member State:

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

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the sole lead manager and bookrunner; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Further Bonds shall require us or the sole lead manager and bookrunner to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression **an offer of Further Bonds to the public** in relation to any Further Bonds 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 Further Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Further Bonds, 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 and includes any relevant implementing measure in each Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

United Kingdom

The sole lead manager and bookrunner has represented, warranted and agreed that:

(a) 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 the Further Bonds in circumstances in which Section 21(1) of the FSMA does not apply to us; and

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

Singapore

The sole lead manager and bookrunner has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the sole lead manager and bookrunner has represented, warranted and agreed that it has not offered or sold any Further Bonds or caused such Further Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Further Bonds or cause such Further Bonds 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 such Further Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Further Bonds may not be circulated or distributed, nor may any Further Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, the persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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 Further Bonds 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 (as defined in Section 239(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 Further Bonds pursuant to an offer made under Section 275 of the SFA, except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

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

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

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

Taiwan

The offer of Further Bonds has not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in a circumstance which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorised to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Further Bonds in Taiwan.

GENERAL INFORMATION

The Further Bonds will be lodged and cleared through the CMU. For persons seeking to hold a beneficial interest in the Further Bonds through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with the CMU operator. The CMU Instrument Number and the Common Code for the Further Bonds are BCMKFC12005 and 073445400, respectively.

Our board of directors and our shareholders have authorized the issue and terms of the Further Bonds pursuant to (i) the approval of PBOC dated December 29, 2011 and (ii) the approval of NDRC dated January 4, 2012, each pursuant to the Interim Measures for the Administration of the Issuance of Renminbi Bonds in Hong Kong SAR by Financial Institutions Within the Territory of China, or the Interim Measures, jointly issued by PBOC and NDRC in June 2007. We have obtained all necessary consents, approvals and authorizations in China in connection with the issue and performance of the Further Bonds, all of which are in full force and effect. 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 approval of PBOC, dated December 29, 2011, approving the issuance of the Bonds (in Chinese with English translation),
- copies of the approval of NDRC, dated January 4, 2012, approving the issuance of the Bonds (in Chinese with English translation),
- copies of the fiscal agency agreement or an agreed form thereof before such agreement has been executed,
- copies of the deed of covenant or an agreed form thereof before such agreement has been executed,
- conformed copies of the global bond with full terms and conditions,
- copies of this Offering Circular, and
- copies of our latest annual financial statements prepared by us in accordance with the International Financial Reporting Standards and audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, or PwC Zhong Tian, in accordance with the International Standards on Auditing (in Chinese and English).

We will apply for registration of the proceeds of the Further Bonds with the local SAFE branch office within 10 working days after completion of the offering of our Further Bonds pursuant to the Interim Measures. However, the validity and enforceability of the Further Bonds will not be affected by non-registration of the proceeds of the Further Bonds. In addition, we will apply for ratification of each principal or interest payment with the local SAFE branch office five working days prior to each principal or interest payment date pursuant to the Interim Measures. If we fail to obtain such ratification, the repayment of the principal and/or interest of the Further Bonds will be adversely affected. Since the issuance of the Further Bonds has been approved by PBOC and NDRC pursuant to the Interim Measures, we do not expect the local SAFE branch office will refuse the above registration and ratification. The term "working day" means a day other than a Saturday or Sunday or any public holidays in China.

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

PwC Zhong Tian, our independent accountants and auditors for the year ended December 31, 2010, has given and not withdrawn its written consent to the inclusion in this Offering Circular of its report dated May 27, 2011 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 years ended, December 31, 2009 and 2010, and no consolidated management accounts have been prepared in respect of the period from January 1, 2011 to the date of this Offering Circular.

For the year ended December 31, 2011, our independent accountants and auditors have been changed from PwC Zhong Tian to Deloitte Touche Tohmatsu CPA Limited for rotation purposes.

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 December 31, 2010, the date of our latest financial statements, that is material in the context of the issue of the Further Bonds.

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 Further Bonds nor aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened.

The following are the terms and conditions substantially in the form in which they will be endorsed on the definitive bonds and referred to in the global bond.

The RMB 1,000,000,000 4.2% bonds due 2027 (the "Further Bonds") of China Development Bank Corporation (the "Bank") shall be consolidated and form a single series with the RMB 1,500,000,000 4.2% bonds due 2027 of the Bank issued on January 19, 2012 (the "Original Bonds" and, together with the Further Bonds, the "Bonds"). The Bonds are subject to, and have the benefit of, a deed of covenant dated January 19, 2012 (the "Original Deed of Covenant") and a supplemental deed of covenant to be dated on or about March 30, 2012 (the "Supplemental Deed of Covenant" and, together with the Original Deed of Covenant, the "Deed of Covenant") and are the subject of a fiscal agency agreement dated January 17, 2012 (the "Original Fiscal Agency Agreement") and a supplemental fiscal agency agreement to be dated on or about March 28, 2012 (the "Supplemental Fiscal Agency Agreement" and, together with the Original Fiscal Agency Agreement, the "Fiscal Agency Agreement") between the Bank, Bank of Communications Co., Ltd. Hong Kong Branch as calculation agent (the "Calculation Agent", which expression includes any successor calculation agent appointed from time to time in connection with the Bonds) and as fiscal agent (the "Fiscal Agent", which expression includes any successor Fiscal Agent appointed from time to time in connection with the Bonds) and the paying agents named therein (together with the Fiscal Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds). References herein to the "Agents" are to the Paying Agents and the Calculation Agent and any reference to an "Agent" is to any one of them.

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to their detailed provisions. The holders of the Bonds (the "Bondholders") and the holders of the related interest coupons (the "Couponholders" and the "Coupons", respectively) are bound by, and are deemed to have notice of, all the provisions of the Deed of Covenant and the Fiscal Agency Agreement applicable to them. Copies of the Deed of Covenant and the Fiscal Agency Agreement are available for inspection by Bondholders during normal business hours at the Specified Office (as defined in the Fiscal Agency Agreement) of the Fiscal Agent, the initial Specified Office of which is set out below.

1 Form, Denomination and Title

The Bonds are in bearer form in the denomination of RMB 1,000,000, each with Coupons attached at the time of issue. Title to the Bonds and the Coupons will pass by delivery. The holder of any Bond or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

2 Status

The Bonds and the Coupons constitute direct, unconditional, unsubordinated and, subject to the creation of any security permitted or approved in accordance with Condition 3 (*Negative Pledge*), unsecured obligations of the Bank. The Bonds and the Coupons 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).

3 Negative Pledge

So long as any of the Bonds or Coupons remains outstanding, 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 Bonds 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:

"Accountholder" means each person who is for the time being shown in the records of the CMU as the holder of a particular principal amount of the Bonds;

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

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

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

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

"Public External Indebtedness" means any indebtedness of the Bank for money borrowed (including indebtedness represented by bonds, notes, debentures or other similar instruments) or any guarantee by the Bank of indebtedness for money 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 money owed to any financial institution in the PRC; and

"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.

4 **Interest**

(a) *Accrual of interest and payments*: The Bonds bear interest from January 19, 2012 (the "Issue Date"), payable semi-annually in arrear on January 19 and July 19 in each year (each, an "Interest Payment Date"); provided that if any Interest Payment Date would otherwise fall on a day which is not a business day, it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date is herein referred to as an "Interest Period". In this Condition, "business day" means any day (other than a Sunday or a Saturday) on which (i) if the Bonds are lodged with the CMU, the CMU is operating and (ii) commercial banks in Hong Kong settle Renminbi payments and banks in Beijing, PRC are not authorised or obligated by law or executive order to be closed.

(b) *Cessation of interest*: Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (ii) the day which is seven days after the Fiscal Agent has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Rate of Interest*: The Bonds bear interest at 4.2 per cent. per annum and references to "Rate of Interest" in these Conditions shall be to the rate of interest applicable to the Bonds.

(d) *Calculations of Interest*: The amount of interest payable in respect of each Bond for any Interest Period (the "Interest Amount") shall be calculated by multiplying the Rate of Interest, the principal amount of such Bond and the actual number of days elapsed in such Interest Period and then dividing the product thereof by 365 (half a cent being rounded upwards in respect of the Interest Amount calculated for each Bond). The Calculation Agent shall notify the Bank, the Paying Agents and the Bondholders, of the Interest Amount payable in respect of the Bonds on the business day prior to the relevant Interest Payment Date for each Interest Period.

5 Redemption and Purchase

(a) *Scheduled redemption*: Unless previously purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, January 19, 2027.

(b) *No Other Redemption*: The Bank shall not be entitled to redeem the Bonds otherwise than as provided in Condition 5(a) (*Scheduled redemption*) above.

(c) *Purchase*: Subject to applicable laws and regulations, the Bank may at any time purchase Bonds in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith. Any Bonds purchased by the Bank may, at the Bank's discretion, be held, resold or surrendered to the Fiscal Agent for cancellation.

(d) *Cancellation*: All Bonds redeemed by the Bank and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

6 Payments

(e) *Principal*: Payments of principal shall (subject as provided below) be made in Renminbi only by transfer to a Renminbi account maintained by or on behalf of the payee with a bank in Hong Kong against presentation and (provided that payment is made in full) surrender of Bonds at the Specified Office of any Paying Agent.

(f) *Interest*: Payments of interest shall (subject as provided below) be made in Renminbi only by transfer to a Renminbi account maintained by or on behalf of the payee with a bank in Hong Kong against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent.

(g) *Payments Subject to Fiscal Laws*: All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(h) *Unmatured Coupons Void*: On the due date for redemption pursuant to Condition 5 (*Redemption and Purchase*) or Condition 8 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(i) *Partial Payments*: If a Paying Agent makes a partial payment in respect of any Bond or Coupon presented to it for payment, such Paying Agent will enface thereon a statement indicating the amount and the date of such payment.

7 Taxation

All payments of principal and/or interest in respect of the Bonds and the Coupons will be made free and clear of, and without deduction or withholding for or on account of any present or future taxes, duties, assessment or governmental charges of whatever nature imposed or levied by or on behalf of the PRC or by or within any of its political subdivisions or authorities having power to tax (a "PRC Tax"), unless deduction or withholding of such PRC Tax is compelled by law. In that event, the Bank shall pay such additional amounts as will result in the receipt by holders of the Bonds of the amounts which would otherwise have been receivable in respect to principal, and/or interest had no such deduction or withholding been required, except that no such additional amount shall be payable in respect of any Bond for or on account of:

(a) a Bondholder who is subject to such PRC Tax in respect of such Bond by reason of his being connected with the PRC (or any of its political subdivisions) other than merely by holding such Bond or receiving principal or interest in respect of such Bond; or

(b) a Bondholder 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) a Bondholder presenting a Bond for payment more than 30 days after the Relevant Date, except to the extent that the holder of such Bond would have been entitled to such additional amounts on presenting the same for payment on the last day of such 30-day period.

In these Conditions, "Relevant Date", in relation to any payment due on a Bond, means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in Hong Kong by the Fiscal Agent on or prior to such due date, the date on which the full amount having been so received and notice to that effect has been given to the Bondholders in accordance with Condition 14 (*Notices*).

The obligation of the Bank 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 Bonds; provided the Bank 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 Fiscal Agency Agreement or as a consequence of the issue of the Bonds.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*).

8 Events of Default

If any of the following events (each, an "Event of Default") occurs and is continuing:

(a) *Non-payment*: failure by the Bank to pay any amount of principal or interest in respect of the Bonds 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 of its other obligations under or in respect of the Bonds or the Fiscal 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), by holders of an aggregate principal amount of not less than 10 per cent. of the Outstanding Bonds, 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 U.S.$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 Bonds) 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 of the Bondholders; 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 Bonds or the Fiscal Agency Agreement;

then each Bondholder may declare the principal of the Bonds to be due and payable immediately by written demand given to the Bank and the Fiscal Agent at the Specified Office of the Fiscal Agent, unless prior to receipt of such demand by the Fiscal Agent, all such defaults have been cured. The Bank shall notify Bondholders and the Fiscal Agent promptly upon becoming aware of the occurrence of any Event of Default, but will not be obligated to furnish any periodic evidence as to the absence of defaults.

9 **Prescription**

Claims for principal shall become void unless the relevant Bonds are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant coupons are presented for payment within six years of the appropriate Relevant Date.

10 **Replacement of Bonds**

If any Bond (including for the purpose of this Condition any Coupon) is lost, stolen, mutilated, defaced or destroyed, the Bank shall issue, and the Fiscal Agent shall authenticate and deliver, a substitute Bond, subject to all applicable laws, upon payment by the claimant of the expenses and reasonable charges incurred in connection with such replacement. In each case, the applicant for a substitute bond shall be required to furnish to the Bank and to the Fiscal Agent an indemnity under which it will agree to pay the Bank and the Fiscal Agent for any losses they may suffer relating to the Bond that was lost, stolen, mutilated, defaced or destroyed. The Bank and the Fiscal Agent may require that the applicant present other documents and proof. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

11 **Fiscal Agent and Agents**

The Fiscal Agency Agreement contains provisions relating to the obligations and duties of the Fiscal Agent and for the indemnification of the Fiscal Agent and for its relief from responsibility for actions that it takes. The Fiscal Agent is entitled to enter into business transactions with the Bank without accounting for any profit resulting therefrom.

In acting under the Fiscal Agency Agreement and in connection with the Bonds and the Coupons, the Agents act solely as agents of the Bank and (to the extent provided therein) the Fiscal Agent and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders or Couponholders, except that the monies paid to and held by the Fiscal Agent as payment of principal of or interest on the Bonds will be received and held by the Fiscal Agent in trust for the Bondholders and Couponholders.

The initial Agents and their initial Specified Offices are listed below. The Bank reserves the right (with the prior approval of the Fiscal Agent) at any time to vary or terminate the appointment of any Agent and to appoint a successor Fiscal Agent or additional or successor paying agents; provided, however, that the Bank shall at all times maintain a Paying Agent in Hong Kong. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Bondholders.

12 Meetings, Modification of Conditions and Waiver

(a) *Calling of Meeting, Notice and Quorum*: The Bank may call a meeting of holders of Bonds 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 Fiscal Agency Agreement or the Bonds to be made, given or taken by holders of the Bonds or to modify, amend or supplement the terms and conditions of the Bonds. Any such meeting shall be held at such time and at such place in Hong Kong as the Bank shall determine and as shall be specified in a notice of such a meeting that shall be furnished to the holders of Bonds 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 Bonds, 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 Bank, and as shall be specified in a notice of such meeting that shall be furnished to holders of the Bonds, 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 Bonds shall have requested the Fiscal Agent to call a meeting of the Bonds, 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 Bonds 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 Bondholders, a person shall be a holder of Outstanding Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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, may make such reasonable and customary regulations consistent herewith as it shall deem advisable for any meeting of holders of the Bonds, including attendance at such meeting and voting, the proof of the appointment of proxies in respect of holders of Bonds, 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 Bank and the Fiscal Agent may modify, amend or supplement the terms of the Bonds in any way, and the holders of the Bonds 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 Bonds; 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 Bonds 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 Bonds 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 Bonds; (B) reduce or cancel, or change the method of calculating, any amounts payable in respect of the Bonds; (C) change the provision of the Bonds describing circumstances in which the Bonds 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 Bonds 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 Bonds 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 Bonds the vote or consent of the holders of which is necessary to modify, amend or supplement the terms and conditions of the Bonds 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 Bank to pay additional amounts as provided in Condition 7 (*Taxation*); or (J) change the status of the Bonds as described in Condition 2 (*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 Bondholders, 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 Bonds then Outstanding represented at such meeting; and (b) in respect of a Reserved Matter a resolution passed at a meeting of the Bondholders, 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 Bonds then Outstanding represented at such meeting.

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

It shall not be necessary for the vote or consent of the holders of the Bonds 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 Bond 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 Bond or any Bond 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 12(b) (*Voting and Consents*) hereof shall be conclusive and binding on all holders of Bonds, 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 Bonds. Notice of any modification or amendment of, supplement to, or request, demand, authorisation, direction, notice, consent, waiver or other action with respect to the Bonds or the Fiscal 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 Bonds affected thereby, in all cases as provided in the relevant Bonds.

Bonds 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 Bank as to any matter provided for in such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action. New Bonds modified to conform, in the opinion of the Fiscal Agent and the Bank, to any such modification, amendment, supplement, request, demand, authorisation, direction, notice, consent, waiver or other action taken, made or given in accordance with Condition 12(b) (*Voting and Consents*) hereof may be prepared by the Bank authenticated by the Fiscal Agent and delivered in exchange for Outstanding Bonds.

(d) *"Outstanding" Defined*: For purposes of the provisions of the Bonds, any Bond authenticated and delivered pursuant to the Fiscal Agency Agreement shall, as of any date of determination, be deemed to be "Outstanding", except:

(i) Bonds duly cancelled by the Fiscal Agent or duly delivered to the Fiscal Agent for cancellation;

(ii) Bonds which have become due and payable at maturity or otherwise, and with respect to which, in each case, monies sufficient to pay the principal thereof and any interest thereon shall have been paid or duly provided for; or

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Fiscal Agency Agreement,

provided, however, that in determining whether the holders of the requisite principal amount of Outstanding Bonds are present at a meeting of holders of the Bonds for quorum purposes or have consented to or voted in favour of any request, demand, authorisation, direction, notice, consent, waiver, amendment, modification or supplement hereunder, or have delivered any notice in relation to the Bonds, Bonds owned, directly or indirectly, by the Bank will be disregarded and deemed not to be Outstanding, except that in determining whether the Fiscal Agent shall be protected in relying upon any such request, demand, authorisation, direction, notice, consent, waiver, amendment, modification, or supplement, or any such notice from holders, only Bonds that the Fiscal Agent knows to be so owned shall be so disregarded.

13 **Further Issues**

The Bank may from time to time, without the consent of Bondholders or Couponholders, create and issue further Bonds having the same terms and conditions as the Bonds in all respects, except for the issue date, issue price and the first payment of interest thereon. Additional Bonds issued in this manner will be consolidated with and will form a single series with the Bonds.

14 **Notices**

(a) *Publication*: Notices to the Bondholders 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, notices will be valid if published in an English and/or Chinese language newspaper, as the case may be, with general circulation in Hong Kong. Any such notice will be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made. Couponholders (if any) will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition 14.

(b) *CMU*: For so long as all of the Bonds are represented by the Global Bond lodged in the CMU, notices to Bondholders may be given by the Agent by delivery of the relevant notice to accountholders shown in a CMU Instrument Position Report issued by the CMU on the business day preceding the date of despatch of such notice as holding interests in the Global Bond for communication to the relative Bondholders rather than by publication as required by Condition 14(a) (*Publication*). Any such notice shall be deemed to have been given to the Bondholders on the second day after the day on which such notice is delivered to the persons shown in the relevant CMU Instrument Position Report as aforesaid.

However, for so long as the Bonds are represented by a Global Bond held by or on behalf of the CMU, any Bondholder must deliver his or her notice to the Bank or the Fiscal Agent by a direct or indirect Accountholder, with whom the Bondholder maintains his or her ownership in the Bonds.

15 Governing Law and Jurisdiction

(a) *Governing Law*: The Fiscal Agency Agreement, the Bonds and the Coupons are governed by, and shall be construed in accordance with, the laws of Hong Kong.

(b) *Arbitration*:

(i) Any dispute, controversy or claim arising out of or relating to the Bonds or the Coupons, including any question regarding the breach, termination, existence or invalidity thereof, shall be settled by arbitration in accordance with the United Nations Commission on International Trade Law Arbitration Rules (the "Rules") then in force and as may be amended by the rest of this Condition.

(ii) The appointing authority shall be Hong Kong International Arbitration Centre ("HKIAC") who shall administer the arbitration. The place of arbitration shall be in Hong Kong at HKIAC and the language of the arbitration shall be English.

(iii) The arbitral tribunal (the "Tribunal") shall consist of three arbitrators: one to be appointed by the Bank and two to be appointed by HKIAC.

(iv) Where disputes arise under the Bonds, the Coupons and under any of the Associated Contracts which, in the reasonable opinion of the first Tribunal to be appointed in any of the disputes, are so closely connected that it is expedient for them to be resolved in the same proceedings, that Tribunal shall have the power to order that the proceedings to resolve that dispute shall be consolidated with those to resolve any of the other disputes (whether or not proceedings to resolve those other disputes have yet been instituted), provided that no date for the final hearing of the first arbitration has been fixed. If the tribunal so orders, the parties to each dispute which is a subject of its order shall be treated as having consented to that dispute being finally decided:

(x) by the Tribunal which ordered the consolidation unless the HKIAC decides that the Tribunal would not be suitable or impartial; and

(y) in accordance with the procedure, at the seat and in the language specified in the arbitration agreement in the contract under which the Tribunal which ordered the consolidation was appointed, save as otherwise agreed by all parties to the consolidated proceedings.

(v) The award of the Tribunal shall be final and binding and shall be the exclusive remedy 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. Judgment upon the award may be entered in any court having jurisdiction thereof.

(vi) By agreeing to arbitration, the Bank does not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies in aid of arbitration as may be available under the jurisdiction of a court, the Tribunal shall have full authority to request the court to grant provisional remedies and to award damages for the failure of any person to comply with the Tribunal's orders to that effect.

(vii) For the avoidance of doubt, the Bank agrees that any dispute, controversy or claim arising out of or relating to the Bonds or the Coupons, 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 purpose of this Condition, Associated Contract means each of:

(i) the Subscription Agreement dated January 12, 2012 between the Bank, Barclays Bank PLC, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited, Deutsche Bank AG, Hong Kong Branch, Standard Chartered Bank (Hong Kong) Limited and The Royal Bank of Scotland plc relating to the subscription and offering of the Original Bonds;

(ii) the Subscription Agreement dated March 23, 2012 between the Bank and Barclays Bank PLC relating to the subscription and offering of the Further Bonds;

(iii) the Fiscal Agency Agreement; and

(iv) the Deed of Covenant.

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

(d) *Waiver of Immunity:* In respect of any proceedings described above, the Bank shall irrevocably consent to the giving of any relief and the issue of any process in connection with such proceedings, including, without limitation, the making, enforcement or execution (against any of the assets of the Bank whatsoever, irrespective of their uses or intended uses), of any order or judgment made or given, in any such proceedings, and to the extent that the Bank may in any jurisdiction claim for itself or its assets, or have attributed to itself or its assets, any right of immunity on the grounds of sovereignty from any legal action, suit, proceeding, execution, attachment or other legal process, the Bank shall irrevocably agree not to claim and will waive such immunity in the face of the courts (if required) to the fullest extent permitted by law.

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2011/SH-078/LYSK/NQIN

Independent auditor's report

To the Shareholders of China Development Bank Corporation

We have audited the consolidated financial statements of China Development Bank Corporation (the "Bank") and its subsidiaries (together, the "Group") set out on pages 3 to 85, which comprise the consolidated statement of financial positions as at 31 December 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

This report, including the opinion, has been prepared for and only for the Shareholders in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Shanghai, China
27 May 2011

CHINA DEVELOPMENT BANK CORPORATION
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts expressed in millions of Rmb unless otherwise specified)

	Note	2010	2009
Interest income	7	222,730	194,996
Interest expense	7	(135,142)	(120,773)
Net interest income		87,588	74,223
Fee and commission income	8	5,902	4,312
Fee and commission expense		(242)	(304)
Net fee and commission income		5,660	4,008
Dividend income	9	257	97
Net trading and foreign exchange losses	10	(7,319)	(2,511)
Net gains on investment securities	11	3,107	319
Impairment losses on assets	12	(20,302)	(20,329)
Operating expenses	13	(19,009)	(16,956)
Other income, net	14	2,127	3,054
Operating profit		52,109	41,905
Share of profit of associates and joint ventures accounted for using the equity method, net of tax		135	126
Profit before income tax		52,244	42,031
Income tax expense	15	(14,795)	(8,720)
Net profit		37,449	33,311
Attributable to:			
Shareholders of the Bank		37,374	33,226
Non-controlling interest		75	85

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

Chen Yuan
Chairman

Jiang Chaoliang
Vice Chairman and President

Li Jiping
Vice President, in charge of the finance function

Hu Xiaoming
Head of Finance

CHINA DEVELOPMENT BANK CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts expressed in millions of Rmb unless otherwise specified)

	Note	2010	2009
Profit for the year		37,449	33,311
Other comprehensive income			
Exchange differences on translation of foreign operations		(36)	(92)
Net gains on available-for-sale financial assets			
- Unrealised net (losses) /gains arising during the year, before tax		(3,254)	10,918
- Net reclassification for realised net gains, before tax		(2,446)	(127)
Income tax relating to components of other comprehensive income	16	1,334	(4,411)
Other comprehensive income for the year, net of tax		(4,402)	6,288
Total comprehensive income for the year		33,047	39,599
Total comprehensive income attributable to:			
Shareholders of the Bank		32,974	39,514
Non-controlling interest		73	85

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

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Hu Xiaoming
Head of Finance

CHINA DEVELOPMENT BANK CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010
(All amounts expressed in millions of Rmb unless otherwise specified)

	Note	2010	2009
ASSETS			
Cash and balances with the PBOC	17	127,952	287,781
Due from banks	18	171,856	49,874
Securities purchased under resale agreements	19	43,447	66,105
Financial assets at fair value through profit and loss			
- Trading securities	20	33,942	22,345
- Derivative financial assets	21	10,502	7,154
- Financial assets designated at fair value through profit and loss		1,863	—
Loans and advances to banks, net		528	1,183
Loans and advances to customers, net	22	4,426,548	3,642,219
Investment securities			
- Available for sale	23	158,685	300,770
- Held to maturity	23	3,456	3,524
- Loans and receivables	23	38,726	101,558
Investment in associates and joint ventures	24	7,440	3,518
Fixed assets, net	25	31,735	17,978
Deferred income tax assets	26	16,791	17,522
Other assets	27	37,616	18,329
TOTAL ASSETS		5,111,087	4,539,860
LIABILITIES AND EQUITY			
Liabilities			
Deposits from financial institutions	28	191,651	160,420
Due to customers	29	407,596	388,103
Financial assets sold under repurchase agreements		11,628	9,328
Derivative financial liabilities	21	9,865	9,575
Borrowings from governments and financial institutions	30	287,651	266,840
Debt securities in issue	31	3,693,375	3,228,275
Subordinated debts in issue	32	80,435	80,425
Current income tax liabilities		6,809	8,214
Deferred income tax liabilities	26	403	1,111
Other liabilities	33	20,343	8,854
Total liabilities		4,709,756	4,161,145
Equity			
Capital and reserves attributable to shareholders of the Bank			
Share capital		300,000	300,000
Capital surplus and reserves	34	51,907	40,438
Retained earnings	35	48,188	37,361
		400,095	377,799
Non-controlling interest		1,236	916
Total equity		401,331	378,715
TOTAL LIABILITIES AND EQUITY		5,111,087	4,539,860

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

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Head of Finance

CHINA DEVELOPMENT BANK CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts expressed in millions of Rmb unless otherwise specified)

		Attributable to shareholders of the Bank				
	Note	**Share capital**	**Capital surplus and reserves**	**Retained earnings**	**Non-controlling interest**	**Total**
At 31 December 2009/ 1 January 2010		300,000	40,438	37,361	916	378,715
Net profit		—	—	37,374	75	37,449
Other comprehensive income		—	(4,400)	—	(2)	(4,402)
Total comprehensive income for 2010		—	(4,400)	37,374	73	33,047
Non-controlling interest from new acquisition		—	—	—	247	247
Dividends		—	—	(10,678)	—	(10,678)
Appropriation to general reserve and regulatory reserve	34	—	15,869	(15,869)	—	—
At 31 December 2010		300,000	51,907	48,188	1,236	401,331
At 31 December 2008/ 1 January 2009		300,000	23,579	23,002	831	347,412
Net profit		—	—	33,226	85	33,311
Other comprehensive income		—	6,288	—	—	6,288
Total comprehensive income for 2009		—	6,288	33,226	85	39,599
Dividends		—	—	(8,296)	—	(8,296)
Appropriation to general reserve and regulatory reserve	34	—	10,571	(10,571)	—	—
At 31 December 2009		300,000	40,438	37,361	916	378,715

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

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CHINA DEVELOPMENT BANK CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts expressed in millions of Rmb unless otherwise specified)

	2010	2009
Cash flows from (used in) operating activities		
Profit before income tax	52,244	42,031
Adjustments:		
Impairment losses on assets	20,302	20,329
Depreciation and amortisation	1,079	672
Interest expense for debt securities and subordinated debts in issue	122,640	107,799
Interest expense for borrowings from governments and financial institutions	5,417	6,697
Interest income for investment securities	(6,255)	(6,697)
Net gains on investment securities	(3,107)	(319)
Net (gains)/losses on disposal of fixed assets and other assets	(1)	2
Dividend income	(257)	(97)
Net changes in:		
Statutory reserve with the PBOC and due from banks	(43,281)	665
Securities purchased under resale agreements	22,658	(55,230)
Financial assets at fair value through profit and loss	(28,852)	5,488
Loans and advances	(822,803)	(814,069)
Other assets	7,552	(522)
Deposits from financial institutions	31,423	44,854
Due to customers	20,064	142,692
Financial assets sold under repurchase agreements	2,300	7,838
Other liabilities	2,471	270
Income tax paid	(14,854)	(21,906)
Net cash outflows from operating activities	(631,260)	(519,503)

CHINA DEVELOPMENT BANK CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts expressed in millions of Rmb unless otherwise specified)

	Note	2010	2009
Cash flows from (used in) investing activities			
Purchases of investment securities		(678,156)	(741,600)
Proceeds from disposal of investment securities		889,673	626,988
Acquisition of subsidiaries, net of cash acquired		1,106	—
Payments for investment in associates and joint ventures		(3,637)	(1,683)
Cash dividends received		115	97
Purchases of fixed assets and other assets		(9,293)	(8,321)
Proceeds from disposal of fixed assets and other assets		11	254
Net cash inflows/(outflows) from investing activities		199,819	(124,265)
Cash flows from (used in) financing activities			
Proceeds from debt securities and borrowed funds		834,376	764,947
Dividends paid to shareholders		(10,678)	(8,296)
Repayments of debt securities and borrowed funds		(345,271)	(253,443)
Interest payment on debt securities and borrowed funds		(122,863)	(118,062)
Net cash inflows from financing activities		355,564	385,146
Net increase in cash and cash equivalents		(75,877)	(258,622)
Effect of exchange rate changes on cash and cash equivalents		(890)	(55)
Cash and cash equivalents, at beginning of year		347,948	606,625
Cash and cash equivalents, at end of year	36	271,181	347,948
Supplemental disclosures of cash flow information			
Interest received		226,358	197,757
Interest paid		(141,008)	(123,668)

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

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Head of Finance

1 GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

China Development Bank Corporation (the "Bank") is a joint stock commercial bank established jointly by the Ministry of Finance (the "MOF") and Central Huijin Investment Ltd. ("Huijin") with a registered capital of Rmb 300,000 million. The Bank was formerly known as China Development Bank, a wholly state-owned policy bank, established on 17 March 1994 in the People's Republic of China (the "PRC" or "China"). In accordance with the Master Implementation Plan for the Joint Stock Reform (the "Joint Stock Reform Plan") approved by the State Council of the PRC, China Development Bank was converted into a joint stock corporation on 11 December 2008.

The Bank is licensed (No. B0999H111000001) as a financial institution by the China Banking Regulatory Commission (the "CBRC") and is registered with a business enterprise license (No. 100000000016686) issued by the State Administration of Industry and Commerce of the PRC.

The Bank and its subsidiaries (together, the "Group") are dedicated to the mission of strengthening the competitiveness of China and improving the living standards of its people in support of the State's key medium- to long-term strategies and policies, through their medium- to long-term lending and investment activities. The Group is dedicated to promoting the development of the market through well-planned financing, balancing established techniques and pioneering initiatives. In support of the State's policies to implement disciplined development and build a harmonious society, the Group directs funding to the construction of critical infrastructure, as well as helping China's economy transform and rebalance growth, the Group's funding goes to promoting coordinated regional development, urbanisation, SMEs, agriculture, rural communities and farmers, as well as special programs for education, low-income housing, medical and health care and environmental protection. The Group is particularly attentive to supporting financially disadvantaged people and sectors within the economy. In response to the call of the State to encourage domestic enterprises to "Go Global", the Group also engages in a wide range of activities focused on international cooperation.

These consolidated financial statements have been approved for issue by the Board of Directors on 27 May 2011.

2 PRINCIPAL ACCOUNTING POLICIES

The principal 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.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS 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.

(a) ***Standards and amendments effective on or after 1 January 2010***

The following standards and amendments, which became effective in 2010, are relevant to the Group:

IFRS 3 Revised - business combination. The revised standard continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

IAS 36 Amendment - Impairment of assets. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, "Operating segments" (that is, before the aggregation of segments with similar economic characteristics).

IAS 38 - Intangible assets. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

IFRIC 9 - Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the "fair value through profit or loss" category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

The above amendment does not have a significant impact on the Group's operating results, financial position or comprehensive income, with additional disclosures provided and comparative information represented to the extent applicable.

(b) ***Early adoption of standards***

IAS 24 - Related Party Disclosures. The previous version of IAS 24 did not contain any specific guidance for government-related entities. The Group was therefore required to disclose transactions with the government and other government-related entities. The amendment introduces an exemption from all of the disclosure requirements of IAS 24 for transactions between government-related entities and the government, and all other government-related entities, except for the nature and amount of individually significant transactions and a qualitative or quantitative indication of extent for collectively significant transactions. The Group has early adopted this exemption and has applied retrospectively. The early adoption of IAS 24 does not have any material effect on the Group's operating results, financial position or comprehensive income but has an impact on related party disclosure. The disclosures in Note 39 have been updated accordingly.

The remainder of the revised standard amending the definition of related parties will be adopted in the annual period beginning 1 January 2011 and will not have any impact on the Group's operating results, financial position or comprehensive income.

(c) ***Standards, amendments and interpretations effective in 2010 but not relevant to the Group's operations***

IAS 1 Amendment	Presentation of Financial Statements
IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate
IAS 27 Revised	Consolidated and Separate Financial Statements
IFRS 2 Amendments	Group Cash-settled Share-based Payment Transactions
IFRS 5 Amendment	Non-current Assets Held for Sale and Discontinued Operations
IAS 39 Amendment	Financial Instruments: Recognition and Measurement — Amendments for Eligible Hedged Items
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distribution of Non-Cash Assets to Owners
IFRIC 18	Transfers of assets from customers

The application of these standards, amendments and interpretations has no effect on the Group's operating results, financial position or comprehensive income.

(d) ***Standards, amendments and interpretations issued but not yet effective and have not been early adopted.***

The following standards, amendments and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 February 2010 or later periods:

Amendment to IAS 32	Classification of rights issues	1 February 2010
Amendment to IFRS 1	Limited exemption from comparative IFRS 7 disclosures	1 July 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRIC 14	Prepayments of a minimum funding requirement	1 January 2011
Amendment to IFRS 7	Disclosures — Transfer of financial assets	1 July 2011
Amendment to IAS 12	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IFRS 9 and additions to IFRS 9	Financial Instruments: Classification and measurement	1 January 2013

Except for IFRS 9, the application of these standards, amendments and interpretations is not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

IFRS 9 and Additions to IFRS 9 were issued in November 2009 and October 2010, respectively, and replace those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into one of two measurement categories: those to be measured subsequently at fair value or those to be measured subsequently at amortised cost. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- A financial instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- In cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

While adoptions of IFRS 9 and Additions to IFRS 9 are mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the impact of the standards on the consolidated financial statements and the timing of its application.

2.2 **Consolidation**

(a) ***Subsidiaries***

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) ***Transactions with Non-controlling interests***

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

(c) ***Associates and joint ventures***

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control. These economic activities typically, though not necessarily, are undertaken through separately established entities.

Investment in associates and joint ventures are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement; its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments.

Except where the Group is responsible for liabilities of associates or joint ventures or has paid advances to associates or joint ventures, the net loss on the Group's investment is limited to the net book value of the investment.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures; unrealised losses are also eliminated unless the transaction provided evidence of impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 **Foreign currency translation**

(a) ***Functional and presentation currency***

The functional currency of domestic operation 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 "functional currency"). The presentation currency of the Group 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, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains 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 recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised 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.

(c) ***Group companies***

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 shareholders' equity are translated at the rate prevailing at the date when they occurred;

- income and expenses for each income statement are translated at the exchange rate prevailing on the date when the items occurred or similar exchange rates; and

- all resulting exchange differences are recognised in other comprehensive income.

2.4 **Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(a) ***Classification***

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing 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 categorised as held for trading.

Financial assets, such as debt securities held, containing one or more embedded derivatives which significantly modify the cash flows, are designated at fair value through profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (1) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates at fair value through profit or loss; (2) those that the Group upon initial recognition designates as available for sale; or (3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) *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.

The Group shall reclassify the entire held to maturity category as available for sale if the entity has, during the current accounting year or during the two preceding accounting years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than sales or reclassifications due to a significant deterioration in the issuer's creditworthiness.

(iv) *Available for sale financial assets*

Available for sale financial assets are those non-derivative financial assets that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(b) ***Recognition and measurement***

(i) *Initial recognition*

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date - the date on which the Group commits to purchase or sell the assets. Loans and advances are recognised when cash is advanced to the borrowers.

Financial assets are initially recognised at fair value together with of transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the income statement.

(ii) *Subsequent measurement*

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in the consolidated statement of comprehensive income, until the financial assets are derecognised or impaired at which time the cumulative gains or losses previously recognised in the consolidated statement of comprehensive income should be recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

(c) ***Determination of fair value***

The fair value of quoted financial assets in active markets is based on current bid prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen in valuation technique and tests for validity using prices from any observable current market transactions in the same instruments.

(d) ***De-recognition of financial assets***

Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or where the Group has transferred substantially all risks and rewards of ownership, or where the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

(e) ***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 fair valued through profit or loss 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 group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of 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 Group 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 becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- 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, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;
- 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.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

(i) *Assets carried at amortised cost*

The impairment loss for financial assets carried at amortised cost 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. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for impairment losses in the income statement.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

(ii) *Assets classified as available for sale*

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss is removed from other comprehensive income and recognised in the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement.

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 recognised in the income statement, the impairment loss is reversed through the income statement. With respect to equity instruments, such reversals are made through the available for sale 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.

2.5 **Derivative financial instruments and embedded derivatives**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives are recognised immediately in the consolidated income statement under "Net trading and foreign exchange losses".

Certain derivatives embedded in other financial instruments, such as credit default derivatives allowing a bond issuer to transfer the credit risk of the underlying bond, which it may not own, to another party, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

While certain derivative transactions are intended to provide effective economic hedges of specific interest rate and foreign exchange risks under the Group's risk management positions, they do not qualify for hedge accounting under the specific requirements of IAS 39 and are therefore treated as derivatives held for trading with changes in fair value reported as "Net trading and foreign exchange losses".

The Group has no derivative positions that are accounted for as hedging instruments.

2.6 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.7 **Sale and repurchase agreements**

Financial assets sold to counterparty with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement are referred to as repos. Financial assets purchased from a counterpart with an obligation to re-sell to the counterparty at a pre-determined price on a specified future date under a resale agreement are referred to as reverse repos.

Repos are initially recorded as securities sold under repurchase agreements at the actual amount of cash received from the counterparty. The financial assets used to collateralise repurchase agreements are recorded as trading securities, investment securities or loan and advances. Reverse repos are initially recorded as financial assets purchased under resale agreements at the actual amount of cash paid to the counterparty. The financial assets received as collateral under reverse repo agreements are not recognised on the statement of financial position. The difference between sale (purchase) and repurchase (resale) price is recognised as interest over the life of the agreements using the effective interest method.

2.8 **Fixed assets**

The Group's fixed assets comprise buildings, office equipment, motor vehicles, aircraft and construction in progress.

All fixed assets 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 costs are included in the asset's carrying amount or are recognised 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 income statement 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
Buildings	30 - 35 years	3%-5%
Office equipment	5 - 11 years	3%-5%
Leasehold improvements	Lesser of 5 years or the lease period	5%
Motor vehicles	4-6 years	3%-5%
Aircraft	20 years	5%-15%

No depreciation is provided against construction in progress.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.9 **Leases**

(a) ***Lease classification***

Leases of assets, where the entity has substantially all the risks and rewards of ownership, are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

(b) ***Finance lease***

When the Group is the lessor under a finance lease, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable in "Loans and advances". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Unearned finance income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

(c) ***Operating lease***

When the Group is the lessee under an operating lease, rental expenses are charged in "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period is expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

When the Group is the lessor under operating leases, the assets subject to the operating leases are still accounted for as the Group's assets. Rental income is recognised as "Other income, net" in the income statement on a straight-line basis over the lease term.

2.10 **Intangible assets**

Intangible assets are identifiable non-monetary assets without physical substance held by the Group, including goodwill, computer software and other intangible assets.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment loss on goodwill cannot be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from allowance for impaired loans and investment securities, changes in fair value of financial guarantees, and revaluation of certain financial assets and liabilities including derivative instruments. The rate of 25% is used in the determination of deferred income tax. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available for sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

2.13 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

Financial liabilities at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the income statement. Other financial liabilities are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost with any difference between proceeds net of transaction costs and the redemption value being recognised in the income statement over the period of the other financial liabilities using the effective interest method.

If the Group purchases its own debt, such debt is removed from the consolidated statement of financial position.

2.14 Employee benefits

(a) *Retirement benefit obligations*

In accordance with the policies of relevant local governments, employees participate in various defined contribution retirement schemes managed by local Labour and Social Security Bureaus (the "Local Bureaus"). The Group contributes to pension and insurance schemes administered by Local Bureaus using applicable contribution rates of the pension and insurance schemes stipulated in the relevant local regulations. Upon retirement of the employees, the Local Bureaus are responsible for the payment of the basic retirement benefits to the retired employees.

Contributions made by the Group to the above retirement schemes are expensed in the income statement as incurred. The Group has no further legal obligation to pay additional pensions even if the pension schemes that the Group has participated in are not sufficient to provide all benefits that the employees are entitled to for the services they have provided in the current period or previous periods.

The Group has paid supplemental retirement benefits to all retired employees and early retirement benefits to those employees who accepted an early retirement arrangement. Early retirement benefits are made from the date of early retirement through the normal retirement date. Supplemental retirement benefits include supplemental pension income payments and medical expense coverage. Early retirement benefits refer to the expenses on benefits paid to those employees who have not reached retirement age but accepted an early retirement arrangement approved by management of the Group.

The liability related to the above supplemental benefit obligations and early retirement obligations existing at the end of each reporting period, is calculated by independent actuaries using the projected unit credit method and is recorded as a contingent liability in the statement of financial position. Gains or losses from changes in actuarial assumptions and revisions of standard payments of supplemental pension benefits and early retirement benefits are recognised in "Operating expenses" in the income statement. No liability has been recorded related to benefits that current employees may receive in the future, as the Group has not established a pension plan or supplemental entitlements for the current employees.

(b) ***Other employee benefits***

Pursuant to local government regulations, all domestic employees participate in various local housing funds administered by local governments. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are expensed as incurred.

2.15 Provisions

Provisions are recognised in the income statement when (i) the Group has a present legal or constructive obligation, as a result of past events, (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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.16 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 recognised 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 recognised as a provision but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow becomes probable, it will then be recognised as a provision.

2.17 Financial guarantee contracts

Financial guarantee contracts provide for specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of initial measurement less amortisation calculated and the best estimate of the contingent liabilities required to settle any financial obligation arising at the end of reporting period. Contingent liabilities are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any change in the contingent liability amount relating to guarantees is taken to the income statement as "Other income, net".

2.18 Fiduciary activities

The Group acts as a trustee and in other fiduciary capacities that result in the holding or managing assets on behalf of other institutions. These assets and any income or losses arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an agent, at the direction of third-party lenders who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, however the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the consolidated financial statements of the Group.

2.19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.20 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the related service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Fees and commissions arising from negotiating or participating in the negotiation of, a transaction for a third party, such as the purchase or sale of businesses, or issuance of securities, or brokerage are recognised on completion of the underlying transaction.

Portfolio and other management advisory, service fees and fees from financial guarantees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

2.21 Dividend income

Dividends are recognised in the income statement when the Group's right to receive payment is established.

2.22 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with the People's Bank of China (the "PBOC" or the "Central Bank"), amounts due from banks and government securities.

2.23 Segment reporting

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 business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group has the following business segments: banking, equity investment and leasing.

3 FINANCIAL RISK MANAGEMENT

3.1 Strategies adopted in managing financial risks

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, identification, monitoring and reporting of some degree of risk or combination of risks. Taking risk is core to the financial business of the Group, and operational risks are an inevitable consequence of being in business. The Group's aim is, therefore, to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group raises funds primarily through the issuance of debts at both fixed and floating rates, and seeks to earn interest margins by investing these funds in State medium- to long- term lending projects in infrastructure sectors, basic industries and pillar industries. With the basic saving and lending interest rate regulated by the PBOC, and debt issuing rates fluctuating, the Group seeks to increase its net interest margins by issuing bonds with differing maturities, and reducing its cost of funding to the extent possible.

The Group carries out a range of vanilla derivative financial instruments transactions, including currency forward, currency and interest rate swaps, and 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 analyse risk, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means 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 practice.

The most important types of financial risks are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

3.2 **Credit risk**

The Group takes on exposure to credit risk which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation or falling in its credit rating. 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 that bring debt securities and derivatives into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

In 2010, there is no material change to the Group's risk management strategy and approach.

Providing project financing supports to infrastructure sectors is one of the key business focuses of the Group. Since 2008, debt levels at local government financing vehicles ("LGFVs") have grown quickly. Complying with the policies and guidelines released by the central government and the CBRC to strengthen the monitoring of debt levels at LGFVs, the Group employed cash flow analysis for infrastructure loans to LGFVs. The Group also took other additional credit enhancement actions such as obtaining additional collaterals to mitigate its credit risks exposures.

3.2.1 ***Credit risk measurement***

(a) *Loans and advances*

The Group measures and manages the credit quality of loans and advances based on the "Guiding Principles on the Classification of Loan Risk Management" issued by the CBRC, which requires banks to classify loans into the following five grades: "pass", "special-mention", "substandard", "doubtful" and "loss", among which loans classified in the "substandard", "doubtful" and "loss" grades are regarded as non-performing loans.

- "pass": Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

- "special-mention": Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.

- "substandard": Borrowers' abilities to service their loans are in question as they cannot rely entirely on normal business revenues 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 recognised 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 reviews its credit assets on a timely basis, and such assets are centrally monitored by the Loan Management Department and reported to management for approval.

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 dimensional risk rating framework that assesses both customer credit rating based on the probability of default and the project credit rating based on 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, district rating and industry ratings.

(b) *Debt securities and derivatives*

For debt securities, 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 securities are viewed as a way to gain a better credit quality mapping 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.

(c) *Undrawn credit commitments, letters of guarantee issued, letters of credit issued and bank bill acceptance*

For loan commitments, letters of guarantee issued, letters of credit issued and bank bill acceptance, the Group generally manages the credit risk using the five-grade system and its internal credit rating system in the same way as it manages loans and advances.

3.2.2 ***Risk limit control and mitigation policies***

The Group manages limits and controls concentrations of credit risk wherever they are identifiable - in particular, to individual counterparties and groups, and to industries and geographical regions.

The Group has processed in place the credit limit management framework to assess the levels of credit risk it undertakes in relation to single borrowers and group clients, to control the credit limits for industrial and regional new arising loan portfolios, and also to set the appropriate oversea credit limit. Such risks are monitored periodically and are subject to review at the Governors' Meeting of Risk Management.

The exposure to any one customer is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to the trading and non-trading portfolio 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 interest and capital repayment obligations. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

Other specific control and mitigation measures are outlined below.

(a) *Collateral*

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral for advances, which is common practice. The Group has implemented guidelines on the acceptability of specific classes of collateral or credit risk mitigation, and reviews the valuation of collateral periodically.

The principal collateral types are charges over rights and business assets such as toll rights, real estate, land use rights, equity securities, cash deposits and machinery.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets.

(b) *Credit related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit, which represent irrevocable assurance that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. In some cases, guarantee deposits are received by the Group to lessen the credit risks related to certain of these commitments provided by the Group. The guarantee deposit which is a certain percentage of the notional amount of the guarantee and letters of credit and other credit related commitments is determined by the creditworthiness of the customer.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, 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 unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining their level of creditworthiness. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.2.3 ***Impairment and provisioning policies***

The impairment allowance shown in the statement of financial position at year end is derived from asset quality grading mentioned in Note 3.2.1(a), which assists management to determine whether objective evidence of impairment exists under IAS 39, based on the principles set out in Note 2.4(e).

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis using discounted cash flow analysis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability and the anticipated receipts for that individual account.)

Collectively assessed impairment allowances are provided for: (i) portfolios of assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

3.2.4 ***Maximum exposure to credit risk before collateral held or other credit enhancements***

	2010	2009
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the PBOC	127,944	287,781
Due from banks	171,856	49,874
Securities purchased under resale agreements	43,447	66,105
Trading securities	32,889	21,345
Derivative financial assets	10,502	7,154
Loans and advances to banks, net	528	1,183
Loans and advances to customers, net	4,426,548	3,642,219
Investment debt securities*	183,111	365,092
Other	34,671	16,463
Subtotal	5,031,496	4,457,216
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	84,100	135,658
Letters of credit issued	14,244	14,105
Bank bill acceptance	4,803	2,037
Undrawn credit commitments	1,800,672	1,664,381
Subtotal	1,903,819	1,816,181
At 31 December	6,935,315	6,273,397

* Investment debt securities consist of debt securities classified as available for sale, held to maturity and loans and receivables.

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2010 and 31 December 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

3.2.5 ***Loans and advances to customers***

	2010	2009
Neither past due nor impaired	4,489,503	3,681,881
Past due but not impaired	529	267
Individually impaired	30,662	34,696
Gross	4,520,694	3,716,844
Less: allowance for impairment		
- Individually assessed	(12,243)	(14,651)
- Collectively assessed	(81,903)	(59,974)
	(94,146)	(74,625)
Net	4,426,548	3,642,219

(a) *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 system adopted by the Group.

	2010	2009
Pass grade	3,729,056	3,011,318
Special-mention grade	760,447	670,563
	4,489,503	3,681,881

(b) *Loans and advances to customers past due but not impaired*

In general, past due of less than 90 days for loans and advances to customers does not necessarily indicate impairment, unless other information is available to indicate the contrary. The past-due loans of Rmb 449 million (2009: Rmb 267 million) were individually assessed and no impairment was identified. Over 90 days past-due student loans totalling Rmb 80 million were not identified as impaired. In accordance with relevant policy requirements, certain losses from student loans could be compensated by government grants. Therefore, these past-due student loans were not identified as impaired loans.

The gross amount of loans and advances to customers that were past due but not impaired is as follows:

	2010	**2009**
Past due up to 30 days	449	109
Past due 30-60 days	—	158
Past due over 90 days	80	—
	529	267

(c) *Loans and advances individually impaired*

Impaired loans and advances are listed below:

	2010	**2009**
Individually impaired loans and advances	30,662	34,696
Less: impairment allowance for individually assessed	(12,243)	(14,651)
	18,419	20,045

All impaired loans were individually assessed and allowance provided accordingly.

(d) *Loans and advances to customers renegotiated*

Loans and advances to customers with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. Restructuring policies are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. All renegotiated loans are subject to a surveillance period of six months. During the surveillance period, renegotiated loans remain as non-performing loans. After the surveillance period, renegotiated loans will not be classified as non-performing loans upon review if certain criteria are met. As at 31 December 2010, the total renegotiated loans amounted to Rmb 7,338 million (2009: Rmb 15,381 million).

3.2.6 ***Debt securities***

The table below presents an analysis of debt securities based on Standard & Poor's or similar rating criteria:

	AAA	AA	A	Lower than A	Unrated * PRC government and government bodies	Unrated * Other	Total
2010							
Government and quasi-government	9,653	—	854	—	165,732	—	176,239
Financial institutions	437	806	4,605	704	—	3,562	10,114
Corporate	—	1,919	—	—	—	27,728	29,647
Total	10,090	2,725	5,459	704	165,732	31,290	216,000
2009							
Government and quasi-government	15,973	—	1,066	—	311,057	—	328,096
Financial institutions	229	1,036	10,358	4,958	—	11,620	28,201
Corporate	—	1,896	102	2,053	—	26,089	30,140
Total	16,202	2,932	11,526	7,011	311,057	37,709	386,437

* The unrated debt securities held by the Group issued by PRC Government and PRC government bodies are from issuers such as MOF, PBOC, PRC policy banks and Huijin.

3.2.7 ***Concentration of risks of financial assets with credit risk exposure***

(a) *Financial assets by geographical distribution:*

	Eastern China	Central China	Western China	Overseas	Total
Balances with the PBOC	109,128	12,812	6,004	—	127,944
Due from banks	76,376	4,411	2,354	88,715	171,856
Securities purchased under resale agreements agreements	43,447	—	—	—	43,447
Trading securities	30,525	560	1,804	—	32,889
Derivative financial assets	5,631	742	976	3,153	10,502
Loans and advances to banks, net	528	—	—	—	528
Loans and advances to customers, net	1,972,995	915,288	1,068,845	469,420	4,426,548
Investment debt securities	163,687	199	211	19,014	183,111
Other	34,334	194	138	5	34,671
At 31 December 2010	2,436,651	934,206	1,080,332	580,307	5,031,496
At 31 December 2009	2,379,044	797,823	891,499	388,850	4,457,216

Eastern China includes Beijing, Liaoning, Hebei, Tianjin, Shandong, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong and Hainan.

Central China includes Jilin, Heilongjiang, Shanxi, Henan, Hubei, Anhui, Hunan and Jiangxi.

Western China includes Xinjiang, Tibet, Gansu, Qinghai, Ningxia, Inner Mongolia, Shaanxi, Sichuan, Chongqing, Guizhou, Yunnan and Guangxi.

Overseas refers to regions outside Mainland China, including Hong Kong and other countries and areas.

(b) *Financial assets by industry*

	2010		2009	
	Amount	**%**	**Amount**	**%**
Loans and advances to customers				
Water conservation, environmental protection and public utilities	1,102,815	24	977,125	26
Road transportation	861,865	19	711,326	19
Electric power, heating and water production and supply	600,378	14	543,401	16
Petroleum, petrochemical and chemical industry	432,099	10	285,780	8
Manufacturing industry	321,659	7	237,152	6
Mining industry	229,359	5	213,902	6
Railway transportation	171,288	4	123,755	3
Other transportation	134,202	3	166,698	4
Urban public transportation	101,838	2	83,871	2
Education	105,521	2	74,084	2
Telecommunication and other information transmission service	74,719	2	60,440	2
Other	373,946	8	230,876	6
Accrued interest receivable	11,005	—	8,434	—
	4,520,694	100	3,716,844	100
Less: allowance for impairment	(94,146)		(74,625)	
Loans and advances, net	4,426,548		3,642,219	

	Government and quasi-government	Financial institutions	Corporate	Total
Other financial assets				
Balances with the PBOC	127,944	—	—	127,944
Due from banks	—	171,856	—	171,856
Securities purchased under resale agreements	—	43,447	—	43,447
Derivative financial assets	2,565	3,509	4,428	10,502
Trading securities	17,337	258	15,294	32,889
Loans and advances to banks, net	—	528	—	528
Investment debt securities	158,902	9,856	14,353	183,111
Other	—	28,489	6,182	34,671
At 31 December 2010	306,748	257,943	40,257	604,948
Cash and balances with the PBOC	287,781	—	—	287,781
Due from banks	—	49,874	—	49,874
Securities purchased under resale agreements	—	66,105	—	66,105
Derivative financial assets	—	3,604	3,550	7,154
Trading securities	8,818	1,671	10,856	21,345
Loans and advances to banks, net	—	1,183	—	1,183
Investment debt securities	319,279	26,530	19,283	365,092
Others	—	14,154	2,309	16,463
At 31 December 2009	615,878	163,121	35,998	814,997

3.3 **Market risk**

Market risk is the risk that the losses would arise on both balance sheet items and off-balance sheet items because of unfavourable changes in market prices (interest rate, foreign exchange rate, equity price and consumer price index). In terms of equity risk, market risk is the foreign exchange risk and liquidity risk arisen on equity investment. The Group's market risk comprises three major types of risk: currency risk, interest rate risk and equity price risk.

The objective of the Group's market risk management is to manage and control market risk exposures within an acceptable range to optimise 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.

The management of market risk is principally undertaken in the Group using risk limits approved by the Board of Directors and its affiliated committee. The Governors' Meeting on Risk Management and Asset & Liability Committee ("ALCO") will supervise overall market risk by holding meetings and reviewing risk management reports periodically to ensure that all market risks are consolidated and considered.

In 2010, the Group elevated its market risk management capabilities with the implementation of the RISK MANAGER system and the Value at Risk ("VaR") measurement, including its corresponding capital impact calculation. In addition, the Group built a working systemof stress testing, back testing and model validation in accordance with the relevant regulatory requirements.

Classification between trading portfolios and banking portfolios

The Group's exposures to market risk mainly exist in its trading portfolios and banking portfolios.

Trading portfolios include those positions arising from market-making, proprietary position-taking and client driven transactions.

Banking portfolios primarily arise from the interest rate and exchange rate management of the Group's assets and liabilities. Banking portfolios mainly consist of investments classified as available for sale, held to maturity, and loans and receivables of the Group.

The market risks arising from trading and non-trading activities are managed by the Treasury Department and the Risk Management Department ("RMD") within the scope of their respective roles and responsibilities. The RMD assumes the responsibility for the overall risk management and the periodical submission of the market risk reports to the Governors' Meeting of Risk Management.The Treasury Department,acting as the office supporting the ALCO, is in charge of the overall control and management of interest rate risk and foreign exchange risk arising from all balance sheet items.

Market risk measurement tools and management approaches

Market risk is measured using VaR and sensitivity analysis indicators, and monitored through risk limits.

Trading portfolios

In addition to VaR calculated for trading portfolios, the Group monitors and manages its various risk exposures using risk limits, sensitivity analysis, and stress testing.

VaR is an estimate of potential maximum losses which might arise from unfavourable market movements within certain holding period and confidence level.

The Group performs daily backtesting for its market risk measurement model, to verify its accuracy and reliability. The back testing result will be reported to senior management periodically.

As a supplement to VaR, the Group adopts stress testing approach. Stress testing scenarios are developed based on the Group'sunique business features, and are designed to estimate the potential maximum losses from extremely unfavourable conditions. The Group also continues adjusting and refining its trading portfolios stress testing scenarios and measurements to capture impact of market price volatility on VaR, and to improve its ability in identifying market risks.

The Group sets risk limits based on its risk management capabilitiesover interest rate risk, foreign exchange risk and capital capacity. The Group also establishes appropriate risk limits for each trading product combination, trading desk and each trader. The RMD is responsible for the identification and measurement of various risk exposures from all trading products, and the day-to-daymonitoring of the execution of the risk limits.

Banking portfolios

The Group monitors the market risk for banking portfolios mainly through the use of VaR for foreign exchange risk and sensitivity analysis forinterest rate risk. The RMD is responsible of foreign exchange risks VaR calculation and reports the results to Governors' Meeting of Risk Management regularly.The Treasury Department is responsible for the accurate and timely identification and measurement of interest rate risk and foreign exchange risk using gap analysis, sensitivity analysis, and EAR/VaR, and prepares the quarterlyassets and liabilities analysis report to the ALCO.

For sensitivity analysis of interest rate risk and foreign exchange risk, please refer to 3.3.1 interest rate risk and 3.3.2 foreign exchange risk (including trading portfolios and banking portfolios).

3.3.1 ***Interest rate risk***

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce in the event that unexpected movements arise.

Currently, benchmark interest rates for loans and deposits within Mainland China are set by the PBOC. The Group operates its business predominantly in China under the interest rate scheme regulated by the PBOC. Generally speaking, the interest rates of interest bearing assets and liabilities with the same currency and maturity date will move in the same direction. According to the PBOC regulations, interest rates on loans denominated in Rmb can be set up to 10% below the PBOC benchmark interest rates, and interest rates on deposits denominated in Rmb cannot be higher than the PBOC benchmark interest rates. The PBOC adjusted the benchmark interest rates for deposits and loans upwards totalling 0.5% on 20 October 2010 and 26 December 2010.

The primary objective of such interest rate risk management is to reduce potential adverse effects on net interest income and economic value due to interest rate movements.

The Group proactively manages its exposure to interest rates. The Governors' Meeting on Risk Management and ALCO supervise overall interest risk management and closely monitor changes in interest rates.In order to control its interest rate exposure, the Group employs various actions to appropriately match interest rate for assets and liabilities among all currencies. The Group also uses financial instruments as economic hedges against interest rate exposure.

Analysis of interest rate risk is complicated by assumptions made regarding optionality in certain product areas, and behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts. The prospective change in future net interest income will be reflected in the current realisable value of these positions, should they be sold or closed prior to maturity.

In terms of measuring and managing the interest rate risk, the Group regularly measures interest rate repricing gaps, and monitors the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling).

Repricing Gap Analysis

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Non-interest bearing	Total
2010							
Financial assets:							
Cash and balances with the PBOC	127,312	—	—	—	—	640	127,952
Due from banks	106,615	367	40,000	—	—	24,874	171,856
Securities purchased under resale agreements	43,447	—	—	—	—	—	43,447
Trading securities	7,789	20,643	4,622	888	—	—	33,942
Financial assets designated at fair value through profit and loss	—	—	—	—	—	1,863	1,863
Derivative financial assets	—	—	—	—	—	10,502	10,502
Loans and advances to banks, net	523	—	—	—	—	5	528
Loans and advances to customers, net	1,925,465	2,292,123	115,885	39,987	53,088	—	4,426,548
Investment securities	59,171	62,780	11,397	48,045	2,888	16,586	200,867
Other	—	—	—	—	—	34,671	34,671
Total financial assets	2,270,322	2,375,913	171,904	88,920	55,976	89,141	5,052,176
Financial liabilities:							
Due to financial institutions and customers	433,389	29,006	93,125	41,510	1,869	348	599,247
Securities sold under repurchase agreements	10,168	1,460	—	—	—	—	11,628
Derivative financial liabilities	—	—	—	—	—	9,865	9,865
Borrowings from governments and financial institutions	96,679	58,441	124,636	4,960	2,935	—	287,651
Debt securities and subordinated debts in issue	618,354	1,129,563	812,945	718,586	494,362	—	3,773,810
Other	—	—	—	—	—	10,967	10,967
Total financial liabilities	1,158,590	1,218,470	1,030,706	765,056	499,166	21,180	4,693,168
Total interest repricing gap	1,111,732	1,157,443	(858,802)	(676,136)	(443,190)	67,961	359,008
2009							
Total financial assets	2,123,608	2,026,514	102,461	159,618	28,921	57,854	4,498,976
Total financial liabilities	1,061,758	1,199,949	1,044,500	426,963	390,221	21,113	4,144,504
Total interest repricing gap	1,061,850	826,565	(942,039)	(267,345)	(361,300)	36,741	354,472

Sensitivity of net interest income

The table below sets out the impact on net interest income of a 100 basis points parallel fall or rise in all yield curves.

Assuming no management actions, such a series of incremental parallel rises in all yield curvesby 100 basis points would increase planned net interest income while such a series of incremental parallel falls in all curves by 100 basis points would decrease planned net interest income.

Impact of a shift in yield curve on net interest income of the Group:

	2010	**2009**
+100 basis points parallel shift in all yield curves	17,170	13,999
- 100 basis points parallel shift in all yield curves	(17,170)	(13,999)

The interest rate sensitivities set out in the table above are for management purposes only and are illustrative based on simplified scenarios and assumptions, including that all positions will be retained and rolled over upon maturity. The figures represent the effect on net interest income of the projected yield curve scenarios and are subject to the Group's current interest rate exposures. However, the effect has not taken into account future risk management measures that will be undertaken by the Group to mitigate interest rate risk. In practice, the Group proactively seeks different measures to minimise the interest rate risk. The projections above also assume that interest rates on various maturities will move within similar ranges, and therefore do not reflect any potential effect on net interest income in the event that some interest rates may change and others remain unchanged.

3.3.2 ***Foreign exchange risk***

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group conducts the majority of its businesses in Rmb, with certain foreign currency transactions in USD, Euros ("EUR"), Japanese Yen ("JPY") and to a much lesser extent, other currencies. Through foreign currency swaps, the Group maintains its foreign currency risk mainly in USD. 19 June 2010, PBOC announced that further improvements will implemented on Rmb exchange rate mechanism, to enhance the flexibility of Rmb exchange rate. The value of the Rmb appreciated by 3.01% against the USD during the year ended 31 December 2010 (2009: 0.09%). The Group's exposure to currency risk could be increased if the Rmb exchange rate shows further upward movement trends.

For trading portfolios, the RMD monitors overnight trading positions based on the authorised limits on a daily basis.

For banking portfolios, the Group's principle regarding controls of exchange rate risk is to attempt to match its assets and liabilities in each currency and to maintain exchange rate risk within established limits. The Group also enters into certain derivative contracts to hedge its open foreign currency position.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the year. Rmb amounts are provided for comparative purposes. Included in the table are the Group's assets and liabilities at carrying amounts in Rmb, categorised by the original currency.

	Rmb	USD	Other	Total
2010				
Financial assets:				
Cash and balances with the PBOC	127,319	632	1	127,952
Due from banks	84,299	75,791	11,766	171,856
Securities purchased under resale agreements	43,447	—	—	43,447
Trading securities	33,942	—	—	33,942
Financial assets designated at fair value through profit or loss	1,863	—	—	1,863
Derivative financial assets	5,005	5,256	241	10,502
Loans and advances to banks, net	—	528	—	528
Loans and advances to customers, net	3,552,951	826,291	47,306	4,426,548
Investment securities	175,101	12,486	13,280	200,867
Other	33,231	1,371	69	34,671
Total financial assets	4,057,158	922,355	72,663	5,052,176
Financial liabilities:				
Due to banks and customers	516,094	73,847	9,306	599,247
Financial assets sold under repurchase agreements	11,628	—	—	11,628
Derivative financial liabilities	3,661	5,976	228	9,865
Borrowings from governments and financial institutions	27,198	250,858	9,595	287,651
Debt securities in issue and subordinated debts	3,736,648	37,162	—	3,773,810
Other	4,760	209	5,998	10,967
Total financial liabilities	4,299,989	368,052	25,127	4,693,168
Net on-balance sheet position	(242,831)	554,303	47,536	359,008
Currency forwards and swaps	229,632	(165,700)	(60,806)	3,126
Commitments to extend credit	1,632,344	238,686	32,789	1,903,819
2009				
Total financial assets	3,751,665	706,173	41,138	4,498,976
Total financial liabilities	3,807,999	320,089	16,416	4,144,504
Net on-balance sheet position	(56,334)	386,084	24,722	354,472
Currency forwards and swaps	229,630	(201,066)	(27,449)	1,115
Commitments to extend credit	1,581,304	219,774	15,103	1,816,181

The table below summarises the effect of exchange gains or losses given a 1% possible movement in exchange rate of USD against Rmb:

	2010	2009
	Gain(loss)/Rmb	Gain(loss)/Rmb
Possible movement in exchange rate of USD against Rmb:		
Rise 1%	5,543	3,799
Fall 1%	(5,543)	(3,799)

In determining the exchange gain or loss due to the possible exchange movements, simplified assumptions and scenarios are adopted and do not take into account:

- changes in the Group's open USD position at end of the subsequent reporting period;
- the impact on the customers' behaviour due to the movement of the exchange rate;
- the effect of economic hedge on the Group's open USD position through certainderivatives transactions; and
- the impact on market price as a result of the movement of exchange rate.

3.4 **Liquidity risk**

Liquidity risk is the risk when although the Group is able to meet its payment obligations associated with its financial liabilities, however is unable to rise enough funds at a reasonable cost to meet the assets enhancement needs or to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay debtors and depositors and fulfil commitments to lend.

In 2010, the Bank issued fixed and floating rate debt securities to fulfil its funding requirements. All Rmb bonds issued by the Bank before 31 December 2010 are deemed as quasi-government bonds and carry a risk weighting of 0%. In accordance with responses from the CBRCon 6 July 2010, all Rmb bonds issued by the Bankwill continue to enjoy theircurrent sovereign debt credit rating till the end of 2011. The credit rating of Rmb bonds issued by the Bank after 31 December 2011 will be decided in due course.

3.4.1 ***Objective of liquidity risk management and process***

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits, debt securities in issue and subordinated debts, loan drawdown, guarantees and other calls on cash settled derivatives.

To ensure the mismatching of the cash flow and the maturities of assets and liabilities within a reasonable scale is the fundamental mission of the Group. It is impracticable for banks ever to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but runs the risk of incurring losses. The Group strives to manage its mismatched positions within a reasonable range.

Liquidity risk managementis performed by the ALCO. The Treasury Department is the executive function department for detailed daily operating. The Group's liquidity and funding management process includes:

- Projecting cash flows by major currency and considering the level of liquid assets necessary in relation thereto;
- Monitoring balance sheet liquidity gaps;
- Managing the concentration and profile of debt maturities; and
- Maintaining debt financing plans.

The Group does not maintain cash resources to meet all of these liquidity needs as the Group has the ability to refinance by issuing new debts in the market.In addition, experience shows that a minimum level of re-investment of maturing funds such as term deposit from customers can be predicted with a high level of certainty. Management maintainsan appropriate level of highly liquid assets to cover withdrawals at unexpected levels of demand.

3.4.2 ***Funding approach***

Sources of liquidity are regularly reviewed by the Group to maintain a wide diversification by provider, product, term currency and geography.

The Group'spolicy is to seek a long-term healthy balance between its funding requirements and demand from investors by maintaining a presence in, and regularly returning to, the debt capital markets for required funds under its different funding programs. Each of the Group's annual funding requirements are met through the issuance of either fixed rate or floating rate plain vanilla debt securities and debt securities with embedded options that allow the Group or the bond holders to redeem them prior to the bonds' respective maturity. However, bonds with options to redeem only comprise a small portion of all bonds issued.

3.4.3 ***Financial instruments cash flows***

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the end of reporting period (31 December 2010) as well as cash flows from derivatives, whether settled in net or gross. The amounts disclosed in the table are the contractual undiscounted cash flows.

	On demand	Up to 1 months	1-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
2010								
Non-derivative cash flows								
Due to financial institutions and customers	385,409	29,312	14,468	25,292	116,149	45,523	2,185	618,338
Financial assets sold under repurchase agreements	—	1,352	64	7,319	3,183	—	—	11,918
Borrowings from governments and financial institutions	—	20,889	62,281	67,014	134,143	10,544	2,177	297,048
Debt securities in issue and subordinated debts	—	40,172	26,241	535,041	1,955,427	1,826,794	873,141	5,256,816
Other	2,682	355	43	815	854	6,218	—	10,967
Total financial liabilities	388,091	92,080	103,097	635,481	2,209,756	1,889,079	877,503	6,195,087
Total financial assets	278,348	112,211	154,165	789,661	2,268,834	1,713,835	1,155,518	6,472,572
Derivativecash flows								
Derivatives settled on a net basis:								
Derivatives liabilities	—	58	(36)	99	(582)	(1,107)	(512)	(2,080)
Derivatives settled on a gross basis:								
Total inflow	—	27,428	12,646	265,697	63,993	722	11	370,497
Total outflow	—	(12,387)	(11,764)	(221,773)	(62,155)	(786)	(12)	(308,877)
2009								
Non-derivative cash flows								
Due to financial institutions and customers	343,381	35,784	38,485	26,256	78,244	44,576	—	566,726
Financial assets sold under repurchase agreements	—	1,229	—	4,500	4,814	—	—	10,543
Borrowings from governments and financial institutions	—	23,262	62,930	57,298	118,507	16,596	1,226	279,819
Debt securities in issue and subordinated debts	—	43,829	46,567	317,515	1,631,668	1,445,771	627,233	4,112,583
Other	—	109	13	1,018	248	150	—	1,538
Total financial liabilities	343,381	104,213	147,995	406,587	1,833,481	1,507,093	628,459	4,971,209
Total financial assets	339,992	184,666	267,553	672,818	1,814,282	1,456,804	927,405	5,663,520
Derivative cash flows								
Derivatives settled on a net basis:								
Derivatives liabilities	—	(127)	(263)	(770)	(4,030)	(1,579)	(492)	(7,261)
Derivatives settled on a gross basis:								
Total inflow	—	23,231	40,179	234,881	56,339	7,668	13	362,311
Total outflow	—	(23,012)	(39,569)	(233,546)	(56,561)	(7,893)	(15)	(360,596)

3.4.4 ***Off-Balance sheet financial items***

Letters of guarantee issued, letters of credit issued, bank bill acceptance and undrawn credit commitments are also included below based on the earliest contractual maturity date.

	Up to 1 months	1- 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
2010							
Letters of guarantee issued . . .	3,289	7,792	14,265	24,576	27,635	6,543	84,100
Letters of credit issued	902	1,891	4,871	6,580	—	—	14,244
Bank bill acceptance	900	859	3,044	—	—	—	4,803
Undrawn credit commitments . .	343,849	171,131	561,711	673,894	50,087	—	1,800,672
	348,940	181,673	583,891	705,050	77,722	6,543	1,903,819
2009							
Letters of guarantee issued	5,907	15,898	47,499	34,741	21,028	10,585	135,658
Letters of credit issued	78	385	2,123	11,519	—	—	14,105
Bank bill acceptance.	21	545	1,471	—	—	—	2,037
Undrawn credit commitments . .	383,918	162,719	624,487	475,135	18,122	—	1,664,381
	389,924	179,547	675,580	521,395	39,150	10,585	1,816,181

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amounts under commitments because the Group does not generally expectthird party to draw all of its funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since some of these commitments will either expire or terminate due to the customers' inability to fulfill the conditions of drawdown.

3.5 **Fair value of financial assets and liabilities**

Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value for a financial instrument is the bid price for the asset held or the offer price for the liability issued in an active market. If the market for a financial instrument is not active, fair value is determined using a valuation technique as illustrated in Note 2.4. The valuation technique makes maximum use of observable market data and relies as little as possible on the Group specific 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.

3.5.1 ***Financial instruments measured at fair value using a valuation technique***

The total amount of the change in fair value estimated using a valuation technique that was recognised in profit or loss during the year was gain of Rmb 3,745 million (2009: loss of Rmb 14,691 million). To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

3.5.2 ***Financial instruments not measured at fair value***

In respect of assets and liabilities carried at other than fair value, the following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

(a) *Cash and balances with the PBOC, due from banks, securities purchased under resale agreements, deposits from financial institutions, current account balances of customers, financial assets sold under repurchase agreements, current receivables or payables within other assets and other liabilities respectively.*

Given that these financial assets and liabilities are short-term in nature and reprice to current market rates frequently, the carrying amount approximates the fair value.

(b) *Investment securities classified as held to maturity and loans and receivables*

The fair value of listed securities is estimated using bid market price. The fair value of unlisted securities is estimated using valuation techniques that take into consideration future earning streams and valuations of equivalent quoted securities.

(c) *Loans and advances*

The carrying amount of variable rate loans and advances to customers is a reasonable estimate of fair value because interest rates are tied to the market rates and are adjusted when applicable. The fair value of fixed rate loans to customers is estimated using a discounted cash flow analysis utilising the rates currently offered for loans of similar remaining maturities. For impaired loans, fair value is estimated by discounting the future cash flows over the time period, which they are expected to be recovered.

(d) *Fixed interest-bearing deposits and borrowings*

The fair value of fixed interest-bearing deposits and borrowings is estimated using a discounted cash flow analysis utilising the rates currently offered for deposits and borrowings with similar remaining maturities.

(e) *Debt securities in issue and subordinated debt*

The fair value of debt securities 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 model is used based on a current yield curve appropriate for the remaining term to maturity.

The estimated fair values of financial instruments, of which the respective amortised cost are different, at 31 December 2010 and 31 December 2009 are summarised as follows:

	Amortised Cost		**Fair Value**	
	2010	**2009**	**2010**	**2009**
Financial assets				
Investment securities				
- Held to maturity	3,456	3,524	3,384	3,450
- Loans and receivables	38,726	101,558	38,778	101,581
Loans and advances to customers, net	4,426,548	3,642,219	4,418,843	3,638,172
Financial liabilities				
Due to financial institutions and customers	599,247	548,523	590,390	548,599
Borrowings from governments and financial institutions	287,651	266,840	288,952	267,990
Debt securities in issue and subordinated debts	3,773,810	3,308,700	3,760,120	3,335,177

3.5.3 ***Financial instruments measured at fair value***

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities on exchanges and debt instruments issued by certain governments.

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes debt instruments traded in inactive markets and the majority of the OTC derivative contracts. The sources of input parameters like yield curve or counterparty credit risk are Bloomberg and Reuters.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

	Level 1	Level 2	Level 3	Total
At 31 December 2010				
Financial assets				
Financial assets at fair value through profit and loss				
- Trading securities - debt	—	33,941	—	33,941
- Trading securities - equity	1	—	—	1
- Derivative financial assets	—	7,669	2,833	10,502
- Financial assets designated at fair value through profit and loss	—	—	1,863	1,863
Available-for-sale financial assets				
- Investment securities - debt	6,675	132,128	3,296	142,099
- Investment securities - equity	10,972	—	5,614	16,586
Total	17,648	173,738	13,606	204,992
Financial liabilities				
- Derivative financial liabilities	—	(7,051)	(2,814)	(9,865)

	Level 1	Level 2	Level 3	Total
At 31 December 2009				
Financial assets				
Financial assets at fair value through profit and loss				
- Trading securities - debt	—	21,345	—	21,345
- Derivative financial assets	—	4,867	2,287	7,154
- Others	—	1,000	—	1,000
Available-for-sale financial assets				
- Investment securities - debt	—	249,278	19,721	268,999
- Investment securities - equity	15,570	—	5,038	20,608
- Other	—	11,163	—	11,163
Total	15,570	287,653	27,046	330,269
Financial liabilities				
- Derivative financial liabilities	—	(6,877)	(2,698)	(9,575)

Reconciliation of Level 3 Items

	Financial assets at fair value through profit and loss		**Available for sale financial assets**		**Total financial assets**	**Total financial liabilities**
	Financial assets designated at fair value through profit and loss	**Derivative financial assets**	**Debt securities**	**Equity securities**		**Derivative financial liabilities**
At 1 January 2010	—	2,287	19,721	5,038	27,046	(2,698)
Total gains/(losses)	88	597	1,939	—	2,624	(167)
- profit/(loss)	88	597	2,071	—	2,756	(167)
- other comprehensive income	—	—	(132)	—	(132)	—
Sales	(2)	—	(18,364)	—	(18,366)	—
Purchases	1,777	139	—	576	2,492	(139)
Settlements.	—	(190)	—	—	(190)	190
At 31 December 2010	1,863	2,833	3,296	5,614	13,606	(2,814)
Total losses for the period included in profit or loss for assets/liabilities held at 31 December 2010	5	736	—	—	741	(306)

Reconciliation of Level 3 Items

	Financial assets at fair value through profit and loss	**Available for sale financial assets**		**Total financial assets**	**Total financial liabilities**
	Derivative financial assets	**Debt securities**	**Equity securities**		**Derivative financial liabilities**
At 1 January 2009	4,723	37,638	4,795	47,156	(5,847)
Total gains/(losses)	(873)	1,669	—	796	902
- profit/(loss)	(873)	142	—	(731)	902
- other comprehensive income	—	1,527	—	1,527	—
Sales	—	(19,586)	—	(19,586)	—
Purchases	429	—	243	672	(429)
Settlements.	(1,992)	—	—	(1,992)	2,676
At 31 December 2009	2,287	19,721	5,038	27,046	(2,698)
Total losses for the period included in profit or loss for assets/liabilities held at 31 December 2009	(444)	(24)	—	(468)	473

Total gains or losses for the year included in profit or loss as well as total gains or losses relating to assets/liabilities held at the end of the reporting period are presented in "Net trading and foreign exchange losses" and "Net gains/(losses) on investment securities".

3.6 **Capital management**

The Group's objectives when managing capital, which is a broader concept than the "equity" presented on the face of the consolidated statement of financial position, are:

- to comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- to maintain a strong capital base to support the development of its business.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

4.1 **Impairment losses on loans and advances**

The Group reviews its loan portfolios to assess impairment periodically, unless circumstances indicate possible impairment at an interim date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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 experience.

4.2 **Impairment of investment securities**

The Group determines the impairment of investment securities according to IAS 39 - Recognition and Measurement of Financial Instruments. The determination of impairment requires a high degree of judgment on the part of the management. In making this judgment, the Group evaluates, among other factors, the duration extent to which the fair value of an investment is less than its cost, underlying asset quality of the investee (for example, delinquency ratio and loss coverage ratio), and the financial health and near-term business outlook (for example, industry performance and credit ratings). In determining whether the previously recognised 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 recognised (such as an improvement in the debtor's credit rating).

4.3 **Fair value of financial instruments**

The fair value of financial instruments that are quoted in active markets is determined by market price; 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 analysis and option pricing models, and other valuation techniques commonly used by market participants. To the extent practical, the Group uses only observable market data, such as interest rate yield curve and foreign exchange rate, in the valuation models in determining the fair value of derivatives and other financial tools. Where valuation techniques are used to determine fair values, they are validated using prices from any observable current market transactions in the same instruments.

With respect to the PRC Government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated interest rate of the related instrument with reference to other similar Government directed transactions where applicable. In this regard, there are no relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor available.

4.4 **Income taxes**

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group makes estimates for items of uncertainty taking into account existing taxation laws and the responses from the government. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such a determination is made.

5 SEGMENT INFORMATION

The Group has four main business segments:

Banking operations

This segment consists of corporate banking, debt issuance and treasury operations. The corporate banking operations consist of lending, deposits, agency services, consulting and advisory services, cash management services, remittance and settlement services and guarantee services. Debt issuance is the main source of funding to corporate banking operations. The treasury operations consist of money market transactions, foreign exchange transactions, bond market transactions, customer-based interest rate and foreign exchange derivative transactions and asset and liability management.

Equity investment operations

This segment consists of equity investment activities.

Leasing operations

This segment consists of finance leasing and operational leasing business.

Brokerage and underwriting operations

This segment consists of brokerage, proprietary trading and underwriting operations.

	Banking	Equity investment	Brokerage and underwriting operations	Leasing	Consolidation and adjustments	Total
2010						
Interest income	220,862	343	44	1,694	(213)	222,730
Interest expense	(133,921)	(19)	(5)	(1,427)	230	(135,142)
Net interest income	86,941	324	39	267	17	87,588
Include: net interest income from external customers	86,739	322	39	488	—	87,588
inter segment net interest income/(expenses)	202	2	—	(221)	17	—
Fee and commission income	5,806	—	123	—	(27)	5,902
Fee and commission expense	(242)	—	—	—	—	(242)
Net fee and commission income	5,564	—	123	—	(27)	5,660
Include: net fee and commission from external customers	5,537	—	123	—	—	5,660
inter segment net fee and commission	27	—	—	—	(27)	—
Other income/(expense), net	(3,883)	1,493	7	721	(31)	(1,693)
Operating expenses	(38,540)	(383)	(106)	(314)	32	(39,311)
Profit before income tax	50,082	1,434	63	674	(9)	52,244
Income tax	(14,405)	(267)	(17)	(108)	2	(14,795)
Net profit	35,677	1,167	46	566	(7)	37,449
Total assets	5,011,894	47,781	4,013	58,796	(11,397)	5,111,087
Total liabilities	(4,667,352)	(1,587)	(1,633)	(50,659)	11,475	(4,709,756)

Other information:

	Banking	Equity investment	Brokerage and underwriting operations	Leasing	Consolidation and adjustments	Total
2010						
Depreciation and amortisation	363	20	6	23	—	412
Capital expenditure	8,110	4,745	9	10,431	—	23,295
Impairment loses on assets	20,163	57	—	73	9	20,302
Total income from external customers*						
Mainland China	82,535	322	162	172	—	83,191
Hong Kong	116	—	—	168	—	284
Other countries/areas	9,625	—	—	148	—	9,773
Total	92,276	322	162	488	—	93,248
Total non-current assets**						
Mainland China	31,128	388	687	249	—	32,452
Hong Kong	54	—	—	—	—	54
Other countries/areas	—	—	—	21,707	—	21,707
Total	31,182	388	687	21,956	—	54,213
Investment in associates and joint ventures						
Mainland China	11	6,091	—	—	—	6,102
Hong Kong	—	96	—	—	—	96
Other countries/areas	—	1,242	—	—	—	1,242
Total	11	7,429	—	—	—	7,440

* Total income from external customers is income generated from outside the Group, including net interest income, net fee and commission income from external customers.

** Non-current assets include fixed asset, intangible assets and goodwill.

	Banking	Equity investment	Leasing	Consolidation and adjustments	Total
2009					
Interest income	193,771	351	1,107	(233)	194,996
Interest expense	(120,225)	(11)	(851)	314	(120,773)
Net interest income	73,546	340	256	81	74,223
Include: net interest income from external customers	73,500	284	439	—	74,223
inter segment net interest income/(expenses)	46	56	(183)	81	—
Fee and commission income	4,323	—	—	(11)	4,312
Fee and commission expense	(304)	—	—	—	(304)
Net fee and commission income	4,019	—	—	(11)	4,008
Include: net fee and commission from external customers	4,008	—	—	—	4,008
inter segment net fee and commission	11	—	—	(11)	—
Other income/(expense), net	(95)	269	537	374	1,085
Operating expenses	(36,872)	(152)	(311)	50	(37,285)
Profit before income tax	40,598	457	482	494	42,031
Income tax	(8,753)	85	(52)	—	(8,720)
Profit before income tax	31,845	542	430	494	33,311
Total assets	4,464,017	50,482	36,221	(10,860)	4,539,860
Total liabilities	(4,141,072)	(1,812)	(28,633)	10,372	(4,161,145)

Other information:

	Banking	Equity investment	Leasing	Consolidation and adjustments	Total
2009					
Depreciation and amortisation	252	21	22	—	295
Capital expenditure	4,123	11	10	—	4,144
Impairment losses on assets	20,247	—	132	(50)	20,329
Total income from external customers					
Mainland China	73,676	284	283	—	74,243
Hong Kong	50	—	—	—	50
Other countries/areas	3,782	—	156	—	3,938
Total	77,508	284	439	—	78,231
Total non-current assets					
Mainland China	7,199	311	11,489	—	18,999
Hong Kong	—	—	—	—	—
Other countries/areas	—	—	1,759	—	1,759
Total	7,199	311	13,248	—	20,758
Investment in associates and joint ventures					
Mainland China	11	2,346	—	—	2.357
Hong Kong	—	—	—	—	—
Other countries/areas	—	1,161	—	—	1,161
Total	11	3,507	—	—	3,518

6 INVESTMENT IN SUBSIDIARIES

Details of the principal subsidiaries held by the Bank are as follows:

Name of company	Place of incorporation	Registered capital (in millions)	% of interest held	Principal business
China Development Bank Capital Co., Ltd.	Mainland China	Rmb 35,000	100% Directly held	Equity investment
CDB Securities Co., Ltd	Mainland China	Rmb 2,370	100% Directly held	Brokerage and underwriting
CDB Leasing Co., Ltd.	Mainland China	Rmb 8,000	89% Directly held	Leasing
Upper Chance Group Limited	Hong Kong, China	GBP 1,584	100% Directly held	Investment holding

On 23 February 2010, the Group acquired 100% shares of Aviation Securities Co., Ltd ("Aviation Securities") with a consideration of Rmb 1,124 million. After the acquisition, the Group further invested Rmb 1,850 million into Aviation Securities. On 17 June 2010, Aviation Securities changed its name into CDB Securities Co., Ltd ("CDB Securities"). From the date of acquisition, the Bank consolidated CDB Securities as a wholly-owned subsidiary. In accordance with IAS 27, transactions and balances between the Bank and its subsidiaries were eliminated on consolidation. Please also see note 41 for more information.

7 NET INTEREST INCOME

	2010	2009
Interest income		
Balances with the PBOC and financial institutions	1,692	2,102
Loans and advances to customers, net	213,002	185,808
Investment securities	6,255	6,697
Securities purchased under resale agreements and other	1,781	389
	222,730	194,996
Interest expense		
Deposits from financial institutions	3,574	3,499
Due to customers	3,273	2,639
Borrowings from governments and financial institutions	5,416	6,697
Debt securities and subordinated debts in issue	122,640	107,799
Other	239	139
	135,142	120,773
Net interest income	87,588	74,223

Interest income accrued on identified impaired financial assets was Rmb 121 million (2009: Rmb 189 million).

8 FEE AND COMMISSION INCOME

	2010	2009
Arrangement fee	1,636	1,200
Loan administration and service fee	1,483	1,753
Consultancy and advisory fee	1,163	357
Guarantee and credit commitment fees	1,067	722
Brokerage fee	111	—
Other	442	280
	5,902	4,312

9 DIVIDEND INCOME

	2010	2009
Dividends from financial assets designated at fair value	5	—
Available for sale equity investment	252	97
	257	97

10 NET TRADING AND FOREIGN EXCHANGE LOSSES

	2010	2009
Net losses from foreign exchange and foreign exchange products		
- Foreign exchange translation losses / (gains)	18,977	(862)
- Net realised and unrealised (gains)/losses on foreign exchange derivatives	(11,727)	3,884
Net gains from interest rate products	75	(161)
Other	(6)	(350)
	7,319	2,511

11 NET GAINS ON INVESTMENT SECURITIES

Net gains on investment securities relate to disposal of following investments:

	2010	2009
Available for sale	3,107	318
Other	—	1
	3,107	319

12 IMPAIRMENT LOSSES ON ASSETS

	2010	2009
Loans and advances to customers	20,230	20,189
Investment securities		
- Available for sale	18	91
- Loans and receivables	—	9
- Investment in associates	40	—
Other	14	40
	20,302	20,329

13 OPERATING EXPENSES

	2010	2009
Business tax and surcharges	12,126	10,923
Staff costs	2,822	2,326
Administration expenses	1,230	933
Occupancy	476	461
Supervision fee	425	585
Depreciation and amortisation	412	295
Travel expenses	394	325
Service fees	236	272
Stamp duty and other taxes	168	344
Other	720	492
	19,009	16,956

The Group's senior management remuneration policy is in accordance with relevant government regulations. The total remuneration amount does not have a significant impact on financial statements.

14 OTHER INCOME, NET

	2010	2009
Aircraft and other leasing income, net	1,681	941
Reversal for possible losses on financial guarantees (Note 37)	531	2,256
Other	(85)	(143)
	2,127	3,054

15 INCOME TAX EXPENSE

	2010	2009
Current tax	13,429	14,058
Deferred tax (Note 26)	1,366	(5,338)
	14,795	8,720

The actual income tax expense differs from the statutory income tax for the following reasons:

	2010	2009
Profit before tax	52,244	42,031
Tax calculated at the statutory rate of 25%	13,061	10,508
Effect of different tax rates on subsidiaries	(82)	(80)
Non-taxable income:		
- Interest income	(968)	(526)
- Dividend income	(36)	(12)
Unrealisable deferred tax assets	2,083	117
Others	737	(1,287)
	14,795	8,720

16 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2010			2009		
	Before tax amount	Tax benefit	Net-of tax amount	Before tax amount	Tax expense	Net-of tax amount
Fair value gains on available-for-sale financial assets	(5,700)	1,334	(4,366)	10,791	(4,411)	6,380
Share of other comprehensive income of associates	(36)	—	(36)	(92)	—	(92)
Other comprehensive income for the year (net presentation)	(5,736)	1,334	(4,402)	10,699	(4,411)	6,288

17 CASH AND BALANCES WITH THE PBOC

	2010	2009
Cash in hand	8	6
Balances with the PBOC, other than statutory reserve	127,817	287,700
Amount included in cash and cash equivalents (Note 36)	127,825	287,706
Statutory reserve with the PBOC	127	75
	127,952	287,781

18 DUE FROM BANKS

	2010	2009
Deposits with banks, included in cash equivalents (Note 36)	127,847	49,130
Long-term deposits with banks	43,569	599
Restricted balances with banks	440	145
	171,856	49,874
Current	131,856	49,814
Non-Current	40,000	60

19 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

As at 31 December 2010 and 31 December 2009, all of the Group's securities purchased under resale agreements were transacted with domestic commercial banks.

20 TRADING SECURITIES

	2010	2009
Government bonds, included in cash equivalents (Note 36)	1,249	—
Other government and quasi-government bonds	16,088	8,818
Debt securities with financial institutes	258	1,671
Corporate debt securities	15,294	10,856
Wealth management products	1,053	1,000
	33,942	22,345

As at 31 December 2010, all of the Group's trading securities were listed securities, of which Rmb 84,929 million was pledged as collateral under repurchase agreements (2009: Rmb 633 million).

21 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The fair values of derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of market fluctuations and foreign exchange rate movements relative to their terms. The aggregated contractual or notional amounts of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregated fair values of derivative financial assets and liabilities can fluctuate from time to time. The table below provides a detailed breakdown of the contractual or notional amount and the fair values of the Group's derivative financial instruments outstanding at 31 December 2010 and 31 December 2009.

	2010			2009		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency swaps	334,799	3,644	(2,151)	345,851	1,867	(3,150)
Currency options	—	—	—	—	—	—
Currency forwards	11,383	693	(687)	16,685	352	(346)
Subtotal	346,182	4,337	(2,838)	362,536	2,219	(3,496)
Interest rate derivatives						
Interest rate swaps	299,919	5,662	(6,411)	249,656	4,511	(5,244)
Interest rate floor options	13,947	500	(500)	14,380	406	(406)
Subtotal	313,866	6,162	(6,911)	264,036	4,917	(5,650)
Credit derivatives						
Credit default swaps	1,558	3	(116)	1,420	—	(411)
Other derivatives	—	—	—	905	18	(18)
Total	661,606	10,502	(9,865)	628,897	7,154	(9,575)
Current		2,771	(2,068)		1,508	(1,797)
Non-Current		7,731	(7,797)		5,646	(7,778)

22 LOANS AND ADVANCES TO CUSTOMERS, NET

The composition of loans and advance to customers is as follows:

	2010	2009
Loans to customers	4,509,689	3,708,410
Accrued interest receivable	11,005	8,434
	4,520,694	3,716,844
Less: Allowance for impaired loans		
- Individually assessed	(12,243)	(14,651)
- Collectively assessed	(81,903)	(59,974)
	(94,146)	(74,625)
Loans and advances to customers, net	4,426,548	3,642,219
Current	652,243	618,949
Non-Current	3,774,305	3,023,270

Substantially all of the Group's loans and advances are provided to projects in infrastructure, basic and pillar industries, people's livelihood areas and international co-operation areas. As at 31 December 2010, loans to customers included finance lease receivables of Rmb 28,320 million (2009: Rmb 18,251million).

As at 31 December 2010, Rmb 15,014 million of the Group's loans and advances to customers was pledged as collateral under repurchase agreements (2009: Rmb 9,442 million).

Movements of allowance for impaired loans are set out below:

	Individually assessed	Collectively assessed	Total
At 1 January 2010	14,651	59,974	74,625
Net (reversal)/charge for the year	(2,108)	22,338	20,230
Write-off	(228)	—	(228)
Recovery of loans and advances written off in previous year	18	—	18
Unwinding of discount on allowance	(75)	—	(75)
Exchange differences	(15)	(409)	(424)
At 31 December 2010	12,243	81,903	94,146
At 1 January 2009	14,404	43,470	57,874
Net charge for the year	3,693	16,496	20,189
Write-off	(3,391)	—	(3,391)
Unwinding of discount on allowance	(55)	—	(55)
Exchange differences	—	8	8
At 31 December 2009	14,651	59,974	74,625

23 INVESTMENT SECURITIES

	2010	2009
Available for sale		
Debt securities		
- listed	126,402	238,256
- unlisted	15,697	30,743
Equity securities		
- listed	10,972	15,570
- unlisted	5,614	5,038
Wealth management products	—	5,001
Money market fund	—	6,162
	158,685	300,770
Held to maturity		
Debt securities		
- listed	3,456	3,456
- unlisted	—	68
	3,456	3,524
Loans and receivables		
Receivable from the MOF*	36,780	89,447
Debt securities, unlisted	563	2,877
Other	1,512	9,367
Less: Allowance for impairment	(129)	(133)
	38,726	101,558
	200,867	405,852
Current	127,863	234,474
Non-Current	73,004	171,378

* In 2010, the Group has received balances due from MOF Rmb 526,700 million.

As at 31 December 2010, there is no investment securities pledged as collateral to third parties under agreements to repurchase (2009: Rmb 657 million).

As at 31 December 2010, available for sale debt securities included in cash equivalents were Rmb 14,158 million (2009: Rmb 11,112 million).

Group has not sold any HTM products before their maturity dates in 2010. All securities sold by Group were under their trading agreement.

24 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2010	2009
At 1 January	3,518	2,502
Addition and transfer-in	3,872	982
Share of results after tax	127	126
Share of other comprehensive income	(37)	(92)
Less: provision for impairment	(40)	—
At 31 December	7,440	3,518

Particulars of the principal associates and joint ventures of the Group were as follows:

Name of company	Place of incorporation	Registered capital (in million)	% of Interest Indirectly held	% of right to vote	Principal business
Associates					
Tianjin Eco-City Investment & Development Co., Ltd.	Mainland China	Rmb 3,000	20%	20%	Land and infrastructure development
Kai Yuan City Development (Xi'an) Investment Center (Corporation)	Mainland China	Rmb 3,000	49%	49%	Investment Management Consulting
Chongqing San Xia Investment Guarantee Group Limited	Mainland China	Rmb 2,500	20%	20%	Insurance & Guarantee/ Consulting
Chinese Cultural Industry Equity Investment (Shanghai) Center	Mainland China	Rmb 2,000	33%	33%	Equity investment consulting
Guangxi Kai Yuan Investment Limited	Mainland China	Rmb 1,600	52%**	52%	Investment Management/ Consulting
New Exploitation Joint Venture Investment Corporation	Mainland China	Rmb 1,500	50%**	50%	Equity fund
CITIC Prospect Basic Infrastructure Investment Concentrate Trust Program	Mainland China	Rmb 1,232	67%*	67%	Stock and bond investment
CDB Caofeidian Investment Limited	Mainland China	Rmb 1,000	30%	30%	Urban Instruction & Investment
China-Africa Investment Development limited	Mainland China	Rmb 1,000	45%	40%	Mineral Resource Investment
China-Africa Agriculture Investment Limited	Mainland China	Rmb 1,000	45%	43%	Agriculture
Joint venture					
Suzhou Industrial Park Guo Chuang Venture Investment Corporation	Mainland China	Rmb 1,000	50%	50%	Investment Fund and Consulting
Pak-China Investment Company Ltd.	Pakistan	USD 200	50%	50%	Stock and bond investment

* As prescribed in the CITIC Prospect Basis Infrastructure Investment Concentrate Trust Program, the Group only has significant influence rather than control over the trust.

** According to the respective companies' constitutions, the Group does not have controlling interests.

25 FIXED ASSETS, NET

	2010	2009
Cost	29,601	17,043
Accumulated depreciation	(2,755)	(1,798)
Net book value	26,846	15,245
Construction in progress	4,889	2,733
	31,735	17,978

The net book value of fixed assets consisted of the following:

	Buildings and leasehold improvements	Office equipment	Motor vehicles	Aircraft and 3G devices	Construction in process	Total
Cost						
At 1 January 2010	3,545	529	186	12,783	2,733	19,776
Acquisition of subsidiaries	55	48	3	—	—	106
Add: Additions and transfer-in	1,802	242	62	10,412	3,999	16,517
Less: Disposals and transfer-out	(9)	(30)	(27)	—	(1,843)	(1,909)
At 31 December 2010	5,393	789	224	23,195	4,889	34,490
Accumulated depreciation						
At 1 January 2010	722	248	151	677	—	1,798
Acquisition of subsidiaries	13	38	2	—	—	53
Add: Additions	188	71	33	659	—	951
Less: Disposals	(8)	(20)	(19)	—	—	(47)
At 31 December 2010	915	337	167	1,336	—	2,755
Net book value						
At 31 December 2010	4,478	452	57	21,859	4,889	31,735
At 31 December 2009	2,823	281	35	12,106	2,733	17,978

26 DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 25% (2009: 25%).

(1) Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and when the deferred income tax related to the same fiscal authority. Deferred income tax assets and liabilities, before offsetting qualifying amounts, are attributable to the following items:

	2010	2009
Deferred income tax assets	16,791	17,522
Deferred income tax liabilities	(403)	(1,111)
Total	16,388	16,411

(2) Deferred income tax assets and liabilities, before offsetting qualifying amounts, are attributable to the following items:

	2010	2009
Deferred income tax assets		
Allowance for impaired loans	11,885	9,841
Allowance for other impaired financial assets	4,971	4,934
Unrealised losses on trading securities and derivatives	2,631	2,494
Allowance for available for sale investments	125	716
Fair value changes of available for sale investments	203	265
Temporary differences in exchange losses	—	2,019
Provision for possible losses on financial guarantees	300	455
Salaries and welfare payable-retirement benefit obligation and other	267	364
	20,382	21,088
Deferred income tax liabilities		
Unrealised gains on trading securities and derivatives	(2,786)	(1,895)
Fair value changes of available for sale investments	(1,208)	(2,604)
Transaction cost on issuance of debt and other	—	(178)
	(3,994)	(4,677)
Deferred income tax assets and liabilities, net	16,388	16,411

(3) Offsetting items of deferred tax assets and liabilities are as follows:

	2010	2009
Deferred tax assets	(3,591)	(3,566)
Deferred tax liabilities	3,591	3,566

(4) The movements of the deferred income tax asset and liability account are as follows:

	2010	2009
At 1 January	16,411	15,484
Income statement charge	(1,366)	5,338
Unrealised (gains)/losses on charges in fair value of available for sale investments	1,334	(4,411)
Acquisition of subsidiaries	9	—
At 31 December	16,388	16,411

(5) The deferred tax charge in the consolidated income statement comprises the following temporary differences:

	2010	2009
Allowance for impaired loans	2,044	3,775
Allowance for other impaired financial assets	37	(259)
Unrealised losses on trading securities and derivatives	(754)	3,533
Allowance for available for sale investments	(591)	(79)
Temporary differences in exchange losses	(2,019)	(650)
Provision for possible losses on financial guarantees	(155)	(793)
Other	72	(189)
Total	(1,366)	5,338

27 OTHER ASSETS

	2010	2009
Receivable from sales of debt securities	28,129	13,473
Prepayment for leasing equity and other	3,891	761
Prepayment to vendors	1,594	1,164
Goodwill *	1,191	560
Other intangible assets	767	170
Prepayment for equity investment	210	445
Trading deposits with third parties (Note 36)	102	—
Other	1,732	1,756
	37,616	18,329

* The goodwill is mainly attributable to CDB Leasing Co., Ltd which was acquired in 2008 and CDB Securities Co., Ltd under the acquisition agreement made during 2010 (Note 41). As at 31 December 2010, the goodwill attributable to CDB Leasing Co., Ltd and CDB Securities Co., Ltd was Rmb 560 million and Rmb 629 million respectively. The remaining goodwill is Rmb 2 million.

28 DEPOSITS FROM FINANCIAL INSTITUTIONS

	2010	2009
Demand deposits	53,043	25,040
Term deposits	138,608	135,380
	191,651	160,420
Current	64,755	64,520
Non-Current	126,896	95,900

29 DUE TO CUSTOMERS

	2010	2009
Demand deposits	329,735	312,788
Term deposits	61,466	71,069
Guarantee deposits	1,984	1,857
Certificates of deposit issued in Hong Kong	14,411	2,389
	407,596	388,103
Current	395,509	376,052
Non-Current	12,087	12,051

30 BORROWINGS FROM GOVERNMENTS AND FINANCIAL INSTITUTIONS

	2010	2009
Borrowings from domestic banks and financial institutions	266,227	247,184
Borrowings from foreign banks - import credit	12,546	14,034
Borrowings from other foreign banks and non-bank financial institutions	5,275	1,056
Borrowings from foreign governments	3,603	4,566
	287,651	266,840
Current	143,224	141,351
Non-Current	144,427	125,489

31 DEBT SECURITIES IN ISSUE

	Weighted average interest rate per annum (%)	2010	2009
Rmb bonds issued in domestic market	3.44 (2009: 3.44)	3,648,648	3,157,729
Rmb bonds issued in Hong Kong	2.56 (2009: 2.34)	8,026	3,011
Foreign currency bonds issued in domestic market	0.83 (2009: 0.92)	26,538	53,583
Foreign currency bonds issued in overseas market	4.91 (2009: 4.73)	10,625	14,213
Debt securities in issue, gross		3,693,837	3,228,536
Less: Purchased by the Group		(462)	(261)
Debt securities in issue		3,693,375	3,228,275
Current		422,952	335,607
Non-Current		3,270,423	2,892,668

At 31 December 2010, Rmb bonds issued in the domestic markets with provisions allowing the bond holders to redeem them prior to the bonds' maturity amounted to Rmb 270,390 million (2009: Rmb 300,390 million). If the bond holders choose not to exercise their redemption option on a specified redemption date, the Bank is obligated to pay higher interest rates on some of the bonds. None of the other bonds are subject to redemption prior to their stated maturities.

At 31 December 2010, Rmb bonds issued in domestic market include three debt securities with financial institutions totalling at Rmb 41,930 million with the same effective date and maturity. The bond holders of these three securities could convert part or all of the security with the other two at any coupon date.

The Bank did not have any delinquencies relating to payment of principal or interest (2009: nil).

32 SUBORDINATED DEBT IN ISSUE

	Weighted average interest rate per annum (%)	2010	2009
Rmb debts issued in domestic market	4.64 (2009: 4.61)	80,435	80,425
Current		780	787
Non-Current		79,655	79,638

The subordinated debts 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 debts.

33 OTHER LIABILITIES

	2010	2009
Business tax and surcharges payable	4,216	3,234
Payable to third parties on leasing equipments	2,630	—
Purchase payable to leasing equipment vendor	2,076	—
Deferred interests income on leasing equipment	1,283	—
Lease security deposit	957	594
Government subsidies for education loans	2,408	1,259
Payable for security purchases on behalf of customers	1,559	—
Payable for investment in debt securities purchased	1,068	—
Provision for possible losses on financial guarantees	1,113	1,644
Salary and welfare payable-retirement benefit obligation	1,052	924
Others	1,981	1,199
	20,343	8,854
Current	9,544	6,252
Non-Current	10,799	2,602

34 CAPITAL SURPLUS AND RESERVES

	Capital surplus	Statutory surplus reserve	General surplus reserve	General banking reserve	Revaluation reserve for available for sale investments	Currency translation differences	Total Reserves
At 1 January 2010	(13,002)	5,125	2,074	33,383	12,950	(92)	40,438
Net change in available for sale investments, net of deferred tax of Rmb 1,334 million	—	—	—	—	(4,366)	—	(4,366)
Appropriation to statutory surplus reserve	—	3,533	—	—	—	—	3,533
Appropriation to general surplus reserve	—	—	3,051	—	—	—	3,051
Appropriation to general banking reserve	—	—	—	9,285	—	—	9,285
Currency translation differences	—	—	—	—	—	(34)	(34)
At 31 December 2010	(13,002)	8,658	5,125	42,668	8,584	(126)	51,907
At 1 January 2009	(13,002)	2,074	—	27,937	6,570	—	23,579
Net change in available for sale investments, net of deferred tax of Rmb (4,411) million	—	—	—	—	6,380	—	6,380
Appropriation to statutory surplus reserve	—	3,051	—	—	—	—	3,051
Appropriation to general surplus reserve	—	—	2,074	—	—	—	2,074
Appropriation to general banking reserve	—	—	—	5,446	—	—	5,446
Currency translation differences	—	—	—	—	—	(92)	(92)
At 31 December 2009	(13,002)	5,125	2,074	33,383	12,950	(92)	40,438

(1) **Revaluation reserve for available for sale investments**

The movement of revaluation reserve for available for sale investments, including related impacts on deferred taxes, are as follows:

	2010	2009
At 1 January	12,950	6,570
Unrealised (losses)/gains from changes in fair value	(3,254)	10,918
Less: Deferred income taxes	888	(4,443)
Net gains transferred to net profit on disposal and impairment	(2,446)	(127)
Less: Deferred income taxes	446	32
At 31 December	8,584	12,950

(2) **Statutory and general surplus reserve**

According to relevant laws and regulations, the Bank is required to appropriate 10% of net profit, as reported in its statutory financial statements, to statutory surplus reserve. When statutory surplus reserve accounts for more than 50% of the Bank's capital, the Bank would not be required to further appropriate statutory surplus reserve. Upon approval from Shareholders' General Meeting, the statutory surplus reserve appropriated by the Bank can be used to supplement any losses of the Bank or to contribute to the Bank's capital, with the remaining balance being no less than 25% of share capital.

As approved in the Board meeting held on 27 May 2011, the Bank appropriated 10% of its undistributed profits as reported in its 2010 statutory financial statements amounting to Rmb 3,533 million to the statutory surplus reserve (2009: Rmb 3,051 million).

In addition, on 27 May 2011, Board of Directors of the Bank proposed a profit appropriation to the general surplus reserve amounting to Rmb 3,533 million, which is still subject to the approval from the Shareholders' General Meeting (2009: Rmb 3,051 million).

(3) **General banking reserve**

Pursuant to circulars issued by the MOF in 2005, the Bank is required to maintain adequate reserves for unforeseeable risks and future losses. Therefore, a general banking reserve has been established by the Bank through appropriation from retained earnings. As a guiding principle, the balance of the general banking reserve should not be less than 1% of the aggregate amount of all risk assets as at the balance sheet date. General banking reserve also includes other general banking reserve prepared by subsidiaries according to their respective industry or local law.

On 27 May 2011, the Board of Directors of the Bank proposed a profit appropriation to general banking reserves amounting to Rmb 7,352 million, which is still subject to the approval from the Shareholders' General Meeting (2009: Rmb 9,279 million).

According to Group's subsidiaries' Board resolution, Group's subsidiaries appropriated of their undistributed profits Rmb 6 million to general banking reserve and transaction risk reserve (2009: 2 million).

35 RETAINED EARNINGS

(1) **Dividends**

On 27 May 2011, the Board of Directors of the Bank proposed a cash dividend amounting to Rmb 10,600 million, which is still subject to the approval from the Shareholders' General Meeting. On 4 June 2010, the Shareholders' General Meeting approved the 2009 cash dividend amounting to Rmb 10,678 million.

(2) As at 31 December 2010, the Group's retained earnings included Rmb 218 million of subsidiaries' surplus reserve (2009: Rmb 84 million), of which Rmb 134 million were related to current year's retained earnings attributable to the Bank (2009: Rmb 36 million).

36 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises the following balances with an original maturity of less than three months:

	2010	2009
Cash and balances with the PBOC (Note 17)	127,825	287,706
Due from banks (Note 18)	127,847	49,130
Government bonds (Note 20 and 23)	15,407	11,112
Trading deposit with third party(Note 27)	102	—
	271,181	347,948

37 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Legal proceedings

As at 31 December 2010, the Group was involved as defendant 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 of the Group.

	2010	2009
(2) Capital commitments		
Capital commitment in respect of equity investments		
- authorised but not contracted for	5,842	11,569
- contracted but not provided for	11,793	4,736
Capital commitment in respect of fixed assets		
- authorised but not contracted for	1,073	1,321
- contracted but not provided for	15,640	5,737
	34,348	23,363
(3) Commitments to extend credit		
Letters of guarantee issued	84,100	135,658
Letters of credit issued	14,244	14,105
Bank bill acceptance	4,803	2,037
Undrawn credit commitments	1,800,672	1,664,381
	1,903,819	1,816,181

The changes of possible losses on financial guarantees are recorded in "other income, net". Refer to Note 14.

(4) **Operating lease commitments**

	2010	2009
Future minimum lease income under non-cancellable operating leases as lessor are as follows:		
Within one year	1,742	1,329
Between one and five years	6,620	6,640
Five years above	15,085	5,964
	23,447	13,933

	2010	2009
Future minimum lease payments under non-cancellable operating leases as lessee are as follows:		
Within one year	225	343
Between one and five years	381	646
Five years above	42	1
	648	990

38 FIDUCIARY ACTIVITIES

The Group provides asset management and entrusted loan administration services to third parties. Assets that are held in a fiduciary capacity are not included in these financial statements, and the risk of loss is borne by third-party lenders. As at 31 December 2010 and 31 December 2009, the balance of managed loans amounted to approximately Rmb 926,644 million and Rmb 852,475 million, respectively, and entrusted loans amounted to approximately Rmb 48,751 million and Rmb 4,371 million, respectively.

39 RELATED PARTY AND RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control.

(1) Ministry of Finance

As at 31 December 2010, the MOF owned a 51.3% of the issued share capital of the Bank.

The MOF is a ministry under the State Council, primarily responsible for, among others, state fiscal revenues, expenditures and taxation policies. The Group enters into transactions with the MOF in its ordinary course of business, including subscription and redemption of government bonds as well as a receivable from the MOF. Details of the significant balances and interest rate ranges of such balances with the MOF are as follows:

	2010	2009
PRC Government bonds	6,163	6,072
Receivable from the MOF, including accrued interest	36,780	89,447
Rates range		
PRC Government bonds	1.77-4.08%	0.89-4.07%
Receivable from the MOF	3%	3%

(2) Huijin

As at 31 December 2010, Huijin owned a 48.7% of the issued share capital of the Bank.

Huijin is a wholly state-owned company incorporated in accordance with the PRC Company Law, with a registered capital of Rmb 552,117 million. Authorised by the State Council, Huijin exercises the rights and fulfils the obligations as an investor on behalf of the State in key state-owned financial institutions.

In 2010, the Group made underwriting of Huijin 2010 Rmb bonds tranche No.1 and No.2 as the leading underwriter. The transaction was carried out at normal commercial terms and the fee and commission income charged for the transaction was Rmb 34.16 million.

Details of the balances and interest rate ranges of the bonds issued by Huijin are as follows:

	2010	2009
Available for sale	7,732	—
Rates range	3.14-4.2%	—

There are also some other banks and non financial institutions controlled by Huijin. Transactions between the Group and such entities are carried out following general commercial terms, including bonds trading, trustee services, derivatives trading, and transfer of credit assets.

Due to the special nature of Huijin, it is agreed that all the entities under the control of Huijin are deemed as controlled by the government, therefore it is not considered that there is an entity with control, common control or material impact.

(3) **Balances with subsidiaries**

Included in the following captions of the Bank's statement of financial position are balances with subsidiaries.

	2010	2009
Derivative financial instruments (Notional amount: 2010:7,028; 2009: 7,985)	549	366
Loans and advances, net	8,522	7,500
Other receivables	52	—
Due to customers	(1,320)	(1,450)
Deposits from financial institutions	(611)	(758)
Debt securities in issue	(462)	(262)

Transactions between the Bank and its subsidiaries are carried out on general commercial terms. All transactions or balances with subsidiaries were eliminated in the consolidated financial statements.

(4) **Commitments with subsidiaries**

Capital commitment

	2010	2009
Equity investment		
- Equity investment authorised but not contracted	5,026	—
- Equity investment contracted but not yet executed.	18	—
Total	5,044	—

(5) **Transactions with associates and joint ventures**

For general information regarding the Group's principal associates and joint ventures, refer to Note 24.

The Group's transactions and balances with associates and joint ventures during 2010 and as at 31 December 2010 were insignificant.

(6) **Transactions with government-related entities**

Consistent with the Group's mission and strategy, substantially all of the Group's business transactions are conducted with government-related entities. In accordance with revised IAS24, the Group does not have any individually significant transactions or collectively significant transactions with government-related entities that are required to be disclosed, all the transactions between the Group and government-related entities are carried out in ordinary course of business.

40 SUBSEQUENT EVENT

On 16 April 2011, the National Council for Social Security fund (the "SSF") signed the 'Agreement of Share Subscription in China Development Bank Corporation' with the Bank and its existing shareholders of MOF and Huijin. In accordance with the agreement, SSF makes total capital contribution of Rmb 10 billion, comprising of share capital of Rmb 6.7 billion and capital surplus of Rmb 3.3 billion, into the Bank. As of the release date of this financial statement, the full amount of the capital contribution has been made with the updating of shareholding registration still in progress.

41 BUSINESS COMBINATIONS

On 23 February 2010, the Bank acquired 100% ordinary shares of Aviation Securities.

(1) **Consideration**

Total purchase consideration	1,124
Less: Fair value of net assets acquired	(495)
Goodwill:	629

The above goodwill reflects the synergy that the Group could achieve from this acquisition.

(2) The details of the fair value of the assets and liabilities acquired as at 23 February 2010 are as follows:

	Fair value
Cash and cash equivalents:	2,230
Other current assets	37
Fixed assets	53
Other non-current assets	27
Less: Trading deposit from third party	(1,768)
Tax payable	(21)
Provision for contingent liabilities	(23)
Other liabilities	(40)
Net assets acquired	495

On 23 February 2010, the carrying amounts of the assets and liabilities of Aviation Securities approximate their fair value.

(3) Revenue, net profit and cash flow statement for the subsidiary from date of acquisition to 31 December 2010

	2010.2.23-2010.12.31
Operating Revenue	168
Net profit	45
Net cash inflow from operating activities	208
Change in net cash resulting from cash flows	941

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Printed by MERRILL IFN
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