The bonds are not equivalent to a time deposit, are unsecured and are not guaranteed. This is an investment product.If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice. You should read this prospectus before deciding whether to buy the bonds.

Prospectus

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 2.70% Bonds due 2013

Denomination: RMB 10,000

We, China Development Bank Corporation, were formerly a PRC government policy-oriented 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 Renminbi 2.70% bonds due 2013. 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 May 11 and November 11 of each year, beginning on May 11, 2011. If any date for payment in respect of the bonds is not a business day in Hong Kong SAR or Beijing, you will not be entitled to the payment until the next business day unless the next business day would thereby fall into the next calendar month, in which event we will make such payment on the immediately preceding business day. 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 investors 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.

We have registered a copy of this prospectus, with a letter from our auditors consenting to the inclusion of their audit report, with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong). Neither the Registrar of Companies nor the Securities and Futures Commission, or SFC, takes any responsibility for the contents of this prospectus or any other document so registered. The SFC takes no responsibility as to the contents of this prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. SFC authorisation does not imply SFC's endorsement or recommendation of the bonds referred to in this prospectus.

The 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.

The bonds will not be listed on any securities exchange. The bonds will be issued in bearer form and represented by a global bond held in the Central Moneymarkets Unit Services, or CMU, operated by the Hong Kong Monetary Authority, or HKMA. The global bond will be deposited for safekeeping with a sub-custodian for the CMU nominated by HKMA, as the CMU operator. The sub-custodian will be the legal holder of our bonds. Your placing bank through which you subscribe for the bonds will arrange to hold the bonds for you in an account at CMU (either its own account or the account of its direct or indirect custodian with CMU). We will pay interest and principal on our bonds to CMU and you will have to rely on your placing bank to ensure that payments on your bonds are credited to your account by your placing bank. Any notices we give after the issuance of the bonds will be given through CMU, and you will have to rely on your placing bank to ensure that our notices reach you. If we default on any of our bonds, you will have to rely on your placing bank to enforce your claims against us. Please refer to the section entitled "How to Buy Our Bonds — How Do I Hold My Bonds? What Must I Rely on My Placing Bank to Do for Me?" on page 14 of this prospectus for detailed explanations.

Joint Lead Managers and Bookrunners

BANK OF CHINA (HONG KONG) LIMITED	**HSBC**	**STANDARD CHARTERED BANK (HONG KONG) LIMITED**

Placing Banks

Bank of China (Hong Kong) Limited	**Bank of Communications Co., Ltd. Hong Kong Branch**	**The Bank of East Asia, Limited**	**China Construction Bank (Asia) Corporation Limited**
Chiyu Banking Corporation Limited	**Chong Hing Bank Limited**	**Citibank (Hong Kong) Limited**	**CITIC Bank International Limited**
Dah Sing Bank, Limited	**DBS Bank (Hong Kong) Limited**	**Fubon Bank (Hong Kong) Limited**	**Hang Seng Bank Limited**
The Hongkong and Shanghai Banking Corporation Limited	**Industrial and Commercial Bank of China (Asia) Limited**	**Nanyang Commercial Bank, Limited**	**Public Bank (Hong Kong) Limited**
Shanghai Commercial Bank Limited	**Standard Chartered Bank (Hong Kong) Limited**	**Wing Hang Bank, Limited**	**Wing Lung Bank Limited**

October 15, 2010

IMPORTANT

You are warned that the market value of the bonds may fluctuate. You should therefore ensure that you understand the nature of the bonds and carefully study the risk warnings set out in this prospectus and, where necessary, seek independent professional advice, before you invest in the bonds.

The prospectus for the bonds include particulars given in compliance with section 342C of the Companies Ordinance for the purpose of giving information with regard to us as the issuer and the bonds.

Our directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. They confirm, having made all reasonable enquiries, that to the best of their knowledge and belief this prospectus 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).

The bonds constitute our general unsecured contractual obligations and are not guaranteed. If you invest in the bonds, you are relying upon our creditworthiness.

Our prospectus is also available in a Chinese translation from each placing bank listed on page 12.

本發債章程的中文版本可於本發債章程第12頁所列的各配售銀行索取。

Forward-looking Statements

We have made forward-looking statements in this prospectus. 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. 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.

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Certain Definitions and Conventions

Unless otherwise indicated, all references in this prospectus 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 prospectus 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 prospectus 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 prospectus 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 prospectus 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 prospectus 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 prospectus. 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 prospectus could have been or can be converted into any other currency at any particular rate or at all.

KEY FACTS STATEMENT

This section provides you with key information about the bonds, and may not contain all the information that may be important to you. You should read and understand the entire prospectus before making your investment decision.

Quick Facts; What Are the Key Features of the Bonds?	
Issuer	China Development Bank Corporation
Interest Rate	2.70% per year.
Subscription Period	9:00 a.m., October 19, 2010 to 2:00 p.m., November 5, 2010.
Subscription Price	100% of the principal amount of the bonds (i.e. RMB 10,000 per bond).
Handling Fee	0.15% of the principal amount of the bonds you purchase, unless otherwise waived or reduced by the placing bank you choose.
Issue Date	November 11, 2010.
Total Issue Amount	We (China Development Bank Corporation) have been authorized by our shareholders' general meeting and board of directors and we have obtained approvals from PBOC and NDRC to issue up to RMB 5 billion in aggregate principal amount of the bonds, including the bonds offered to retail investors pursuant to this prospectus and to institutional investors under arrangements set out in separate documents, as well as other bonds that we may issue under different terms and conditions. We will decide the total principal amount of the bonds to be issued in light of investor demand and our funding requirements.
Maturity Date	The interest payment date falling in November 2013, which is currently expected to be November 11, 2013.
Principal Repayment	We (China Development Bank Corporation) will repay 100% of the principal amount of the bonds on the maturity date **if we are solvent and you hold the bonds at the maturity date, and if an event of default has not occurred during the term of the bonds.**
Interest Payment Dates	At the end of every six months on May 11 and November 11 of each year, beginning May 11, 2011, until the maturity date.
Denomination, Minimum Purchase and Transfer Amount	RMB 10,000.
Ranking	If we (China Development Bank Corporation) 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 our creditors whose claims are preferred by law to rank ahead of the holders of the bonds.
Is There Any Guarantee or Collateral Arrangement?	**The bonds are not secured on any of our assets or any collateral.** **The bonds are not guaranteed. You will be relying on the creditworthiness of us alone when you invest in the bonds.**
Listing and Liquidity	The bonds will not be listed. There may only be a limited trading market for the bonds or no market at all: you should be prepared to hold the bonds to maturity.
Governing Law	Hong Kong law.

What Are the Key Risks of Investing in the Bonds?

- **Credit risk** — when you buy our bonds, you will be relying on the creditworthiness of China Development Bank Corporation and no one else. Our bonds are **NOT** guaranteed by the PRC government or our shareholders, nor are they secured by any collateral. If we (China Development Bank Corporation) become insolvent or default on our obligations under the bonds, you can only claim as an unsecured creditor against China Development Bank Corporation. **In the worst case scenario, you could lose all your investment;**
- **Renminbi is not freely convertible and may adversely affect the liquidity of our bonds** — the PRC government regulates the conversion between Renminbi and other currencies, which may affect the liquidity of our bonds;
- **Our bonds have a limited upside** — the maximum return in Renminbi is limited to the interest payments of 2.70% per year;
- **It may be difficult to effect service of legal process and enforce judgments against us and our management** — we (China Development Bank Corporation) were incorporated in China and substantially all our business, assets and operations are located in China. Therefore, you may have difficulties in enforcing judgments and effecting service of legal process against us and our management in Hong Kong SAR;
- **Exchange rate risks** — our bonds are denominated in Renminbi. The value of your investment in Hong Kong dollar terms may decline if the value of Renminbi depreciates against the Hong Kong dollar;
- **Interest rate risks** — our bonds will carry a fixed interest rate. Consequently, the value of our bonds in the secondary market will vary with the fluctuations in the Renminbi interest rates. If Renminbi interest rate increases significantly, the market value of your investment may be adversely affected;
- **Limited secondary market** — our bonds will not be listed and cannot be traded on any securities exchange. There is no liquid secondary market for our bonds. If you try to sell the bonds before maturity, the sale price may be lower than the amount you invested;
- **Not covered by Investor Compensation Fund** — our bonds are not listed on any stock exchange and are not covered by the Investor Compensation Fund.
- **NOT equivalent to a time deposit; NOT protected under the Hong Kong Deposit Protection Scheme NOR guaranteed by the Hong Kong SAR Government's Exchange Fund** — Investment involves risks. This is an investment product and is not equivalent to a time deposit. The bonds are not protected under the Hong Kong Deposit Protection Scheme nor guaranteed by the Hong Kong SAR Government's Exchange Fund. The investment decision is yours but you should not invest in the bonds unless the placing bank who sells the bonds to you has explained to you that the bonds are suitable for you having regard to your financial situation, investment experience and investment objectives; and
- **Limited Payout** — The payout under the bonds is limited to the nominal amount of the bonds together with all interest payments payable during the term of the bonds.

English Version of the Terms and Conditions Prevails Over Chinese Translation.

If there is any inconsistency between the Chinese translation of the terms and conditions of the bonds and the English version, the English version will prevail over the Chinese translation. If you do not understand the English version, you should obtain independent professional advice.

You Do Not Have Direct Contractual Rights to Enforce the Bonds.

The bonds will be represented by a global bond and no individual bearer certificates will be issued to you with respect to your holding of the bonds. To assert your rights as an investor in the bonds, you will have to rely on your placing bank to take action on your behalf. If your placing bank fails to take action in accordance with your instructions or it becomes insolvent or defaults on its obligations, you will need to take action against your placing bank in accordance with the terms of arrangement between you and your placing bank.

Description of the Bonds

The bonds:

- will be in bearer form in the denomination of RMB 10,000.
- will bear interest at 2.70% per year from November 11, 2010.
- will pay interest semi-annually on May 11 and November 11 of each year, beginning on May 11, 2011.
- will be redeemed at par upon maturity, together with any accrued and unpaid interest, on the interest payment date falling in November 2013, which is currently expected to be November 11, 2013.
- rank equally with our existing and future unsecured and unsubordinated indebtedness (but after our secured indebtedness or claims of our creditors that are preferred by law to rank ahead of the holders of the bonds).

We (China Development Bank Corporation) have been authorized by our shareholders' general meeting and board of directors and we have obtained approvals from the People's Bank of China, or PBOC, and the National Development and Reform Commission, or NDRC, to issue up to RMB 5 billion in aggregate principal amount of the bonds, including bonds offered to retail investors pursuant to this prospectus and to institutional investors under arrangements set out in separate documents, as well as other bonds that we may issue under different terms and conditions. We will decide the total principal amount of the bonds in light of investor demand and our funding requirements. We will apply for registration of the proceeds of the bonds with the local branch office of State Administration of Foreign Exchange, or SAFE, within 10 working days after completion of the offering of our bonds pursuant to the applicable PRC regulations. 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 applicable PRC regulations. Please see the section entitled "Other Information About Our Issuance of Bonds — SAFE Registration" on page 63 of this prospectus.

Is There Any Guarantee or Collateral?

No.

Who is This Product For?

Investors who are willing to take the credit risk of China Development Bank Corporation and wish to invest in Renminbi denominated bonds providing periodic fixed interest payments for three years after the issue date and principal repayment in Renminbi on the interest payment date in November 2013, which is currently expected to be November 11, 2013.

Under the Code of Conduct for Persons Licensed by or Registered with the SFC, the placing bank who sells our bonds to you is required to assess whether our bonds are suitable for you having regard to your financial situation, investment experience and investment objectives. You should not invest in our bonds unless such placing bank has explained to you that our bonds are suitable for you having made such an assessment.

How Can You Buy the Bonds?

You can buy our bonds from any of the placing banks listed on page 12 of this prospectus. Some of the placing banks may allow you to give application instructions for our bonds through internet or by telephone. Please refer to the section entitled "Application Channels" in this prospectus for details of such facilities and a warning of some of their inherent risks. The placing bank with which you place your order will ask you to fill in its order form and will be required to ensure you have been informed of, and able to make a series of confirmations and acknowledgements set forth in the section "How to Buy Our Bonds — What Confirmations and Acknowledgements Do I Have to Make?" on page 12 of this prospectus. You should not sign the order form unless you fully understand such confirmations and acknowledgements. When you place your order, you pay the subscription price of the bonds you order plus a handling fee to the placing bank, unless otherwise waived or reduced by the placing bank you choose.

Do You Need a Renminbi Bank Account?

You would need to have a Renminbi bank account when you subscribe for our bonds, and you may need to accumulate sufficient Renminbi to pay the subscription price. If you are not allotted any bonds or your application is successful only in part, the whole or appropriate portion of the subscription price will be returned to you by crediting into your Renminbi bank account. If your application is successful, you will need to maintain a Renminbi bank account to receive the principal and interest (payable semi-annually) under the bonds which will be paid in Renminbi by us and be credited to your Renminbi bank account by your placing bank.

When you open a Renminbi bank account or settle Renminbi payments, you may be subject to certain regulatory restrictions as set forth on page 13 of this prospectus. For example, the daily maximum exchange limit for individuals is RMB 20,000.

What Fees and Charges Do You Need to Pay?

You need to pay 0.15% of the principal amount of the bonds you purchase as handling fee to the placing bank, unless otherwise waived or reduced by the placing bank you choose. Other than the subscription price and handling fee, you do not need to pay any other fees, charges or expenses for buying our bonds from a placing bank.

What Are the Continuing Disclosure Obligations?

We (China Development Bank Corporation) as issuer will give notice of any changes in our financial condition or other circumstances which could reasonably be expected to have a material adverse effect on our ability to fulfil our commitments under the bonds.

Any notices we give after the bonds are issued will be given through the fiscal agent; you will have to rely on your placing bank to forward the notices to you.

What if the Bonds are Over-subscribed?

We (China Development Bank Corporation) intend to allocate at least one bond to everyone who applies. The remaining bonds will then be allocated to investors approximately in proportion to the number of the bonds each investor has validly applied for. If our bonds are so over-subscribed that we cannot even allocate one bond to each applicant, we will choose by ballot.

Do Placing Banks Receive Any Commission?

We (China Development Bank Corporation) have appointed the placing banks listed on page 12 to take orders for our bonds. We will pay them a commission which is 0.18% of the total principal amount of bonds allotted to each successful applicant who applied through it. There are no soft commission or rebate arrangements between us and any of the placing banks.

Can You Revoke Your Application? Is There a Cooling-off Period?

You may not revoke your application once you submit the order form to the relevant placing bank. There is no cooling-off period.

Is There Any Market Making Arrangement?

We (China Development Bank Corporation) have agreed with each placing bank that they will make a market for the bonds in over-the-counter transactions under a market making agreement. You can contact the placing bank that holds your bonds in your securities or investment account at any time after the issue date to ask for a price at which you can sell your bonds. The market making arrangements do not assure that you will have access to a firm bid price for your bonds in a principal amount which you wish to sell. These placing banks have agreed with us to quote prices, but they may in the future be unable to quote a price or may decide to discontinue this service. Prices obtained by different placing banks may not be the same.

We May Buy and Sell Our Own Bonds

We (China Development Bank Corporation) may at any time buy the bonds whether in the open market or by private arrangement, at any price. If purchases are made by tender, we will allow all investors of the bonds to take part. If we do buy back the bonds, we may decide to hold them, resell them or cancel them, at our choice. Our purchases and sales of the bonds in the secondary market may affect the demand and supply of the bonds, which in turn may affect the value of the bonds in the secondary market.

Who is the Legal Holder of the Bonds? How do I Hold my Bonds?

Our 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.

What Must I Rely on My Placing Bank to Do For Me?

You will have to rely on your placing bank to:

- ensure that payments of interest and principal on your bonds are credited to your account with your placing bank;
- pass our notices to you; and
- enforce your claims against us if we (China Development Bank Corporation) default on our obligations under any of the bonds.

Please refer to the section entitled "How to Buy Our Bonds — How Do I Hold My Bonds? What Must I Rely on My Placing Bank to Do for Me?" on page 14 of this prospectus for detailed explanations.

Our Documentation is Governed by Hong Kong Law

All our documentation, including the bonds, is governed by Hong Kong law. We (China Development Bank Corporation) have agreed that the courts of Hong Kong have non-exclusive jurisdiction to settle any dispute in connection with the terms and conditions of the bonds and the deed of covenant.

Enforceability of Judgments of the Hong Kong Courts in China

We (China Development Bank Corporation) have elected to submit to the non-exclusive jurisdiction of the Hong Kong courts on matters arising out of or in connection with the terms and conditions and the deed of covenant of the bonds. As a result, the PRC courts may refuse to recognize or enforce judgments of the Hong Kong courts on certain grounds. Please refer to the section entitled "Risk Factors — Risks Relating to China — You may experience difficulties in enforcing judgments and effecting service of legal process against us and our management" on page 25 of this prospectus for detailed explanation.

For More Information

This key facts statement does not contain all the information you need. You must read the entire prospectus before deciding whether to invest.

You can inspect during usual business hours at the specified office of Bank of Communications Co., Ltd. Hong Kong Branch, acting as the fiscal agent, paying agent and calculation agent conformed copies of certain documents in connection with the offering of the bonds set out in the section entitled "Other Information About Our Issuance of Bonds" on page 63.

The fiscal agent, paying agent and calculation agent:

Bank of Communications Co., Ltd. Hong Kong Branch
20 Pedder Street
Central, Hong Kong SAR
Phone: (852) 2162 2511
Toll-free: (852) 2530 5087
Email: settlement@bankcomm.com.hk
Website: http://www.bankcomm.com.hk

You can find the placing banks of our bonds and their contact details on page 12 of this prospectus.

ABOUT CHINA DEVELOPMENT BANK CORPORATION

This section highlights information about China Development Bank Corporation. It is not complete and does not contain all the information that you should consider before investing in the bonds. You should read the entire prospectus carefully.

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 and the PRC Commercial Banking Law. 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, or MOF, and Central Huijin Investment Company Limited, or Huijin, holding 51.3% and 48.7%, 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, 2011 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 have 35 branch offices in China (including one in Hong Kong SAR) and three representative offices, including one overseas representative office in Cairo. In addition, we have received approval from the relevant regulatory authorities to establish a representative office in Moscow and are currently carrying out preparatory work for the launch of our operations. 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 six village banks. Our place of business in Hong Kong is located at Suite 3307-3315, 33/F., 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 PRC 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 authorized 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, 2008 and 2009 is derived from our audited financial statements included in this prospectus beginning on page II-1. We have prepared and presented our financial statements in accordance with the International Financial Reporting Standards. Since this information is only a summary, you should read our complete audited financial statements included in this prospectus.

	As of, or for year ended, December 31,	
	2008	**2009**
	(in millions of RMB)	
Income Statement Data		
Interest income	201,356	194,996
Interest expense	(118,470)	(120,773)
Profit before tax	33,182	42,031
Net profit	25,311	33,311
Balance Sheet Data		
Cash and balance with the central bank	457,602	287,781
Due from other banks	88,187	49,874
Loans, net	2,849,522	3,642,219
Total assets	3,820,102	4,539,860
Total liabilities	3,472,690	4,161,145
Owner's equity	347,412	378,715

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 issuer in China excluding the MOF, 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 collaterals 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 prospectus.

Currently, Moody's Investors Service, Inc., or Moody's, assigns an A1 rating to our long-term foreign currency debt with a positive outlook. Fitch Ratings Inc., or Fitch, assigns an A+ rating to our long-term foreign currency debt with a stable rating outlook. Standard & Poor's Ratings Group, or Standard & Poor's, assigns an A+ rating to our long-term foreign currency debt rating with a stable outlook. You may find our latest credit ratings on our website: www.cdb.com.cn.

Our bonds are not rated.

MORE INFORMATION ABOUT THE BONDS

Further to the quick facts about our bonds outlined in the section entitled "Key Facts Statement," this section is intended to furnish you with more information about the offering and the bonds. It may not contain all the information that you should consider before investing in the bonds. You should read the entire prospectus carefully.

Total Issue Amount	We have been authorized by our shareholders' general meeting and board of directors and we have obtained approvals from PBOC and NDRC to issue up to RMB 5 billion in aggregate principal amount of the bonds, including the bonds offered to retail investors pursuant to this prospectus and to institutional investors under arrangements set out in separate documents, as well as other bonds that we may issue under different terms and conditions. We will decide the total principal amount of the bonds to be issued in light of investor demand and our funding requirements.
Interest Rate	2.70% per year.
Subscription Period	9:00 a.m., October 19, 2010 to 2:00 p.m., November 5, 2010 (unless suspended, cancelled, extended or otherwise changed by us, in which event we will notify you through a public announcement).
Subscription Price	100% of the principal amount of the bonds (i.e. RMB 10,000 per bond).
Handling Fee	0.15% of the principal amount of the bonds you purchase. This is the fee you pay to the placing bank which handles your order, unless otherwise waived or reduced by the placing bank you choose. It is in addition to the subscription price you pay to us.
Issue Date	November 11, 2010. We may decide to close the offer early, or allow more time, without prior notice. The issue date, interest payment dates and maturity date may change accordingly. We also reserve the right to cancel the offer of the bonds at any time on or before the scheduled issue date.
Maturity Date	The interest payment date falling in November 2013, which is currently expected to be November 11, 2013. This is the date we will repay 100% of the principal amount of the bonds. We will not repay principal amount of the bonds before the maturity date.
Interest Payment Dates	At the end of every six months on May 11 and November 11 of each year, beginning May 11, 2011, until maturity. 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 investors 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 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	The denomination of the bonds is RMB 10,000 and you may purchase or transfer bonds of RMB 10,000 or integral multiples of RMB 10,000. You should be aware that, as an individual investor, the daily maximum amount that you may exchange Renminbi is RMB 20,000.
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	We will not secure any other public external indebtedness unless we also secure the bonds on the same terms.
Events of Default	Any investor of our bond or coupon can declare such bond or coupon to be payable immediately if: • we fail to pay interest or principal on the bonds for 30 days after the payment date; • we fail to perform any other obligations under the bonds or the fiscal agency agreement for 60 days after notice from the investors 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 as defined in the section entitled "Terms and Conditions of the Bonds" 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.
Use of Proceeds	We intend to use the net proceeds from the sale of the 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 for any Hong Kong SAR taxes. If we are required by PRC law to withhold or deduct taxes, duties or other charges from payments of principal or interest on our bonds, we will make the withholding or deduction and remit it to the 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 our bonds are represented by a global bond held in CMU, we will deliver any notice and pay interests and principal on our bonds to the relevant account holders in CMU. As you must arrange for your placing bank to hold your bonds in a securities or investment account in CMU, you have to rely on your placing bank to credit payments on your bonds to you and forward any notices to you. If you do not have a securities or investment account, you will have to open one with your placing banks before you can buy our bonds. You must also deliver your notice to us or the fiscal agent through CMU by your placing bank.
Governing Law	All our documentation, including the bonds and the fiscal agency agreement, will be governed by the laws of Hong Kong SAR.
Jurisdiction	The courts of Hong Kong will have non-exclusive jurisdiction to settle any dispute in connection with the terms and conditions of the bonds and the deed of covenant.

Where Can I Buy Some Bonds?

You can buy our bonds from any of the placing banks listed here. Please contact the relevant placing bank to find out more or request from the relevant placing bank a list of branches where you can place your order for our bonds.

Placing Banks

Bank	Hotline Number
Bank of China (Hong Kong) Limited	2105 8900
Bank of Communications Co., Ltd. Hong Kong Branch	2269 9699
The Bank of East Asia, Limited	2211 1311
China Construction Bank (Asia) Corporation Limited	2779 5533
Chiyu Banking Corporation Limited	2232 3633
Chong Hing Bank Limited	3768 6888
Citibank (Hong Kong) Limited	2860 0258
CITIC Bank International Limited	2287 6788
Dah Sing Bank, Limited	2828 8001
DBS Bank (Hong Kong) Limited	2290 8888
Fubon Bank (Hong Kong) Limited	2566 8181
Hang Seng Bank Limited	2998 9898
The Hongkong and Shanghai Banking Corporation Limited	2233 3000
Industrial and Commercial Bank of China (Asia) Limited	2189 5588
Nanyang Commercial Bank, Limited	2622 2633
Public Bank (Hong Kong) Limited	2851 9803
Shanghai Commercial Bank Limited	2818 0282
Standard Chartered Bank (Hong Kong) Limited	2886 8868
Wing Hang Bank, Limited	3199 9182
Wing Lung Bank Limited	2526 5555

You may find further information on application channels for our bonds in the section entitled "Application Channels" in this prospectus.

Do I Need an Application Form?

No, we will not issue an application form for the bonds.

The placing bank with which you place your order will ask you to fill in its order form and to make a series of confirmations and acknowledgements, including that you have read and understood this prospectus. **You may not revoke your application once you submit the order form.**

When you place your order, you pay the subscription price of the bonds you order plus any handling fee to the placing bank. Handling fee is the fee you pay the placing bank which handles your order, calculated as a percentage of the principal amount of the bonds you buy, unless otherwise waived or reduced by the placing bank you choose. It is in addition to the subscription price you pay. Other than the subscription price and handling fee, you do not need to pay any other fees, charges or expenses for buying our bonds from a placing bank.

Your placing bank should be able to explain to you how our bonds work and answer your questions and is responsible for explaining to you whether the bonds are suitable for you having regard to your financial situation, investment experience and investment objectives.

What Confirmations and Acknowledgements Do I Have to Make?

When you apply to buy our bonds (whether in person, over the telephone or through the internet), your placing bank will be required to ensure you have been informed of, and able to make, the following confirmations and acknowledgements:

- you agree to accept the bonds applied for, or any lesser number allotted to you;

- you authorize your placing bank to which you submit your order form to credit any bonds allotted to you to your securities and investment account with it and you understand that, unless we default on our bonds or if CMU closes down, no certificates of title or individual bearer certificates will be available for your bonds and your interest in your bonds is in book-entry form only;

- you agree that if you are not allotted any bonds or if your application is successful only in part, the whole or an appropriate portion of the subscription price will be returned to you without interest at your own risk;

- you understand that the bonds will be held through CMU, which means that you will have to rely on the placing bank selected by you to credit the securities or investment account you hold with that placing bank with payments credited to it through CMU, and to distribute notices to you which it receives from us through CMU;

- you have read and understood this prospectus and have relied on no other information or material relating to the bonds;

- you have read and understood the terms and conditions of the bonds and application procedures set out in this prospectus and agree to be bound by them;

- you understand and accept that we accept no responsibility for the provision of bank services and custody services by the placing banks or for any consequences of, or arising from the use of the bank account and securities or investment account or custody services of any placing bank (including any telephone or internet application facilities offered by any placing bank);

- you agree that neither ourselves nor our respective officers and agents will be liable to any persons in any way for any loss which may be suffered as a result of the sale by the placing banks of your bonds in accordance with the terms and conditions of the operation of your bank account/investment account with them; and

- you confirm that you are not located within the United States and are not a United States Person as defined in Regulation S under the Securities Act, or Regulation S, and are purchasing the bonds in an offshore transaction pursuant to Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

You will be required to confirm that you have read and understood these confirmations and acknowledgements when you instruct your placing bank to apply for the bonds on your behalf. Ensure that you have read and understood these confirmations and that you are comfortable with making the confirmations before you sign or confirm any acknowledgments for your placing bank. If you have any questions on any of these confirmations, you should ask your placing bank for clarification and your placing bank should be able to give you an explanation regarding these confirmations (and if applicable, you should not proceed with a telephone or internet application until your placing bank has provided you with the necessary clarification or explanation).

Are There Any Restrictions on Renminbi Bank Account or Settlement of Renminbi Payment?

You would need to have a Renminbi bank account when you subscribe for the bonds, and you may need to accumulate sufficient Renminbi to pay the subscription price and the handling fee (if any). If you are not allotted any bonds or your application is successful only in part, the whole or appropriate portion of the subscription price will be returned to you by crediting into your Renminbi bank account. If your application is successful, you will need to maintain a Renminbi bank account to receive the principal and interest (payable periodically) under the bonds which will be paid in Renminbi by us and be credited to your Renminbi bank account by your placing bank.

If you are an individual, you may be subject to the following restrictions when you open a Renminbi bank account or settle Renminbi payments, which are currently applicable to Renminbi transactions in Hong Kong SAR:

- Renminbi bank accounts are only available to Hong Kong residents with Hong Kong SAR identity cards;

- the daily maximum exchange limit for Renminbi is RMB 20,000;

- although individual Renminbi account-holders can transfer their Renminbi balance from one bank to another to facilitate subscription and/or purchase of bonds issued by mainland financial institutions such as us in Hong Kong SAR, the account transfer may be subject to restrictions imposed by the bank.

In addition, your Renminbi account will be subject to the terms and conditions of the bank with which the account is opened.

If you are a corporate entity, there are no general legal restrictions on the opening a Renminbi bank account with a RMB participant bank, the ability for you to exchange Renminbi with other currencies, or the ability for you to effect transfers of Renminbi funds between different accounts in Hong Kong. Your bank will need to comply with the usual business rules including know your client and other anti-money laundering requirements in handling these transactions for you.

The above-mentioned restrictions are not exhaustive as different banks could have certain exemptions, different and/or additional restrictions. There may be additional rules, regulations and restrictions under contemplation or to be issued by government authorities of Hong Kong SAR or the PRC that may be relevant to your investment in RMB-denominated bonds. You should check with your placing bank for updates and details.

How Do I Hold My Bonds? What Must I Rely on My Placing Bank to Do for Me?

Our bonds will be issued in bearer form. We do not intend to issue individual certificates for our bonds and will instead issue one global bond to represent the bonds, so you must arrange for your placing bank to hold them in a securities or investment account. If you do not have a securities or investment account already, you will have to open one before you can buy our bonds. You should read the section entitled "Summary of Provisions Relating to Our Bonds in Global Form" on page 61 for additional information.

Discuss this with your placing bank and shop around if you wish. Placing banks charge varying fees to open and maintain these securities and investment accounts and have different arrangements for processing orders. Please ensure you are familiar with the standard terms and conditions which your placing bank will apply to your account and ask your placing bank to explain if you are not familiar with these arrangements. You should note that your total return on an investment in our bonds will be affected by charges levied by your placing bank.

Our bonds will be held in CMU, which is a clearing system run by HKMA. You cannot open a personal account at CMU, it serves only institutions.

The bonds will be represented by a single global bond which we will issue in a principal amount equal to the total principal amount of the bonds. The global bond will be deposited for safekeeping with a sub-custodian for CMU. As long as the sub-custodian is the holder of the global bond, it will be considered the absolute owner of such global bond for all purposes under the fiscal agency agreement. You should read the section entitled "Summary of Provisions Relating to Our Bonds in Global Form" on page 61 for additional information.

If we default on our bonds, or if CMU closes down, we will issue individual bearer certificates for our bonds with coupons attached, but we will not issue individual bearer certificates otherwise. The fiscal agency agreement provides in detail for the arrangements which will apply in the unlikely event that individual certificates have to be issued. If this happens, we will give a notice summarizing these arrangements. If we are unable to deliver this notice through CMU, we will publish it in one English language newspaper and one Chinese language newspaper of general circulation in Hong Kong SAR.

Your placing bank will arrange to hold your bonds for you in an account at CMU, either its own account or the account of its direct or indirect custodian with CMU. We will pay interest and principal on our bonds to the bank accounts of account holders shown in a CMU instrument position report notified to us by CMU as persons holding an interest in the global bond in accordance with the rules and procedures of CMU and you will have to rely on your placing bank to ensure that payments on your bonds are credited to your account with your placing bank. Once we have made any payments in this way, you will have no further rights against us for that payment, even if CMU or your placing bank fails to transmit to you your share of the payment or transmits it late. This is because, so far as we are concerned, we have paid the legal holder of our global bond, which is the sub-custodian for the CMU nominated by HKMA as CMU operator. We have no control over, or knowledge of, the custody arrangements through which you as an investor hold our bonds. Any notices we give after our bonds are issued will also be given through CMU; you will have to rely on your placing bank to ensure that our notices reach you. Similarly, you will have to rely on your placing bank to forward any notices from you to us through CMU. We will execute a deed of covenant dated on or about November 11, 2010 which will confer direct enforcement rights to the placing banks to enforce any claims arising from the bonds. If we default on our bonds, you will need to rely on your placing bank, either as an accountholder at CMU or through its direct or indirect custodian with CMU, to enforce any claims arising from the bonds against us.

Each of the fiscal agent, the paying agent and us will treat the sub-custodian for the CMU nominated by HKMA as CMU operator as the bondholder for all purposes under the terms and conditions of our bonds.

We do not accept any responsibility for the services provided to you by your placing bank.

What Are the Arrangements with the Placing Banks? Is the Offer Underwritten?

We have appointed the placing banks listed in this prospectus to take orders for our bonds. We will pay them a commission which is 0.18% of the total principal amount of bonds allotted to each successful applicant who applied through it.

In addition to offering and selling the bonds to retail investors in Hong Kong SAR, we will also offer and sell the bonds to institutional investors or other investors (including professional investors as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or modified from time to time), whether in Hong Kong SAR or abroad, under arrangements which are not set out in this prospectus. Offers and sales of our bonds to institutional investors or other investors could be made at a lower issue price, or on other terms, than are available to retail investors who buy the bonds through a placing bank specified in this prospectus.

There are no soft commission or rebate arrangements between us and any of the placing banks.

The bonds are sold to you by subscription directly from us.

In relation to the offering of the bonds pursuant to this prospectus, the joint lead managers and bookrunners, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited, have agreed (together with any additional underwriter in respect of the offering to institutional investors or other investors) to underwrite the bonds. The joint lead managers and bookrunners have also assisted us to coordinate and manage the offer and sale of our bonds.

Can I Sell My Bonds Before Their Maturity?

You can contact the relevant placing bank that holds your bonds at any time after the issue date to ask for a price at which you can sell your bonds. We have agreed with such placing banks that they will make a market for the bonds in over-the-counter transactions pursuant to a market making agreement and become market makers. These market makers have agreed with us to quote prices for the bonds. A price at which the market makers are willing to purchase the bonds is referred to as a bid price, and a price at which the market makers are willing to sell the bonds is referred to as an offer price. The ability of the market makers to quote a bid price is subject to each market maker's internal guidelines on restricting exposure to any single entity and the amount of Renminbi available to them. The ability of the market makers to quote an offer price is subject to the availability of the bonds to the market makers. Therefore, the market makers may not be able to quote a price and make a market at any given time and you should note that there is no assurance that you will have access to a firm bid price for the bonds in a principal amount which you wish to sell. In addition, the market makers may decide to discontinue this service. Prices quoted by different placing banks may not be the same.

A price will be quoted for our bonds based on a percentage of the notional amount and the interest accrued on our bonds.

We are not responsible for the establishment or maintenance of a secondary trading market in our bonds.

The value of our 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 for similar securities. Also, the price of our bonds could be affected if there are only very few potential buyers in the market for our bonds.

If you try to sell your bonds before maturity you may receive an offer which is less than the amount you invested; or you may not be able to sell your bonds at all.

Our bonds are not listed and cannot be traded on The Stock Exchange of Hong Kong Limited.

Our bonds are governed by the laws of Hong Kong SAR.

We Have an Agent for Administrative Functions

Administrative matters relating to our bonds are dealt with in the fiscal agency agreement, which we will enter into on or about the end of the subscription period, currently expected to be November 5, 2010, with Bank of Communications Co., Ltd. Hong Kong Branch as our fiscal agent, paying agent and calculation agent. We refer to Bank of Communications Co., Ltd. Hong Kong Branch in such capacities as the agent. This agreement sets out the arrangements between us and the agent for:

- making payments of principal and interest on our bonds and coupons;
- giving notices to the investors of our bonds and coupons;
- issuing individual certificates for our bonds, in the unlikely event that we ever need to do so;
- organizing and running meetings of the investors of our bonds and coupons; and
- keeping records and dealing with other administrative matters.

The agent is our agent, and it owes no duties to you as investors in the bonds.

Where can You Find More Information about Us and the Bonds?

Please read this prospectus carefully before you decide whether to buy our bonds. This prospectus contains important information, including information about:

- our business, financial condition and profitability;
- the risks of buying our bonds;
- Hong Kong SAR taxation applicable to our bonds;
- the arrangements for holding and transferring bonds in CMU and how we make payments and give notices while the bonds are held in CMU;
- the terms and conditions of the bonds set out in this prospectus, including what happens if we default; and
- how your placing bank is likely to hold your bonds and receive notices and payments from us on your behalf.

You can ask for a printed copy of this prospectus at any placing bank where you can buy our bonds.

You can inspect during usual business hours at the specified office of the fiscal agent and paying agent conformed copies of the global bond attached with full terms and conditions, copies of the approval for the issuance of the bonds, the fiscal agency agreement, deed of covenant and other documents in connection with the offering of the bonds set out in the section entitled “Other Information About Our Issuance of Bonds” on page 63.

We have not authorized anyone to give you any information about our bonds other than the information in this prospectus. You should not rely on any other information.

APPLICATION CHANNELS

You may decide to instruct your placing bank to make the application for our bonds in any of the following ways:

- **In Person**. You may go to any designated branch of your chosen placing bank (please telephone the "Hotline numbers" of the placing banks shown in the section "How to buy our bonds" for a list of the designated branches for each placing bank) and give the instructions in person to the placing bank to apply for the bonds on your behalf. If you need to open an investment account with the placing bank with which you have your bank account at the time of giving your application instructions, you must go to a branch of your chosen placing bank to open an investment account before or at the same time as you give your application instructions. You are urged to give your application instructions in good time before the closing of the subscription period of the bonds to ensure the paperwork can be completed.

- **By Internet**. You may make an on-line application if you already have both a bank account and an investment account with a placing bank which offers such facilities and if you have made the necessary arrangements to use the internet banking facilities provided by such placing bank. By making an on-line application through a placing bank, you are required to comply with such placing bank's terms and conditions in respect of the internet baking facilities provided by such placing bank.

  The website of each placing bank which offers on-line application facilities for our bonds are set out below:

Placing bank	**Website address**
Bank of China (Hong Kong) Limited	http://www.bochk.com
Chiyu Banking Corporation Limited	http://www.chiyubank.com
Hang Seng Bank Limited	http://www.hangseng.com/eipo/eng/welcome.html
The Hongkong and Shanghai Banking Corporation Limited	http://www.hsbc.com.hk/ipo
Industrial and Commercial Bank of China (Asia) Limited	http://www.icbcasia.com
Nanyang Commercial Bank, Limited	http://www.ncb.com.hk

  Warning:

  Reference to any website in this prospectus is intended to assist you to access further public information relating to the subject as indicated. You should, however, conduct your own web searches to ensure that you are viewing the most up-to-date information and the website that you are viewing is genuine. Except for the electronic version of this prospectus, information appearing on such websites does not form part of this prospectus. Neither we (China Development Bank Corporation) nor the SFC accepts any responsibility whatsoever that such other information, if available, is accurate and/or up-to-date, and no responsibility is accepted in relation to any such information by any person responsible for this prospectus. The offer of the bonds by us is made solely on the basis of the information contained in this prospectus and prospective investors should exercise an appropriate degree of caution when assessing the value of other information which may appear on such websites.

- **By Telephone**. You may make a telephone application if you already have both a bank account and an investment account with a placing bank which offers such facilities and if you have made the necessary arrangements to use the telephone banking services provided by such placing bank. By making a telephone application through a placing bank, you are required to comply with such placing bank's terms and conditions in respect of the telephone banking services provided by such placing bank.

The phonebanking telephone number of each placing bank which offers telephone application facilities for our bonds are set out below:

Placing bank		
Bank of China (Hong Kong) Limited	Telephone Number: Cantonese: (852) 2836 8763 Putonghua: (852) 2836 8773 English: (852) 2291 8038	
	Service Hours:	
	Monday to Friday	9:00 am to 5:00 pm
	Saturday	9:00 am to 1:00 pm
	Sunday and public holidays	Closed
Chiyu Banking Corporation Limited	Telephone Number: Cantonese: (852) 2232 3882 Putonghua: (852) 2232 3883 English: (852) 2232 3887	
	Service Hours:	
	Monday to Friday	9:00 am to 5:00 pm
	Saturday	9:00 am to 1:00 pm
	Sunday and public holidays	Closed
DBS Bank (Hong Kong) Limited	Telephone Number: Please contact any of DBS Bank (Hong Kong) Limited's branches	
	Service Hours:	
	Monday to Friday	9:00 am to 5:00 pm
	Saturday	9:00 am to 1:00 pm
	Sunday and public holidays	Closed
Nanyang Commercial Bank, Limited	Telephone Number: Cantonese: (852) 2850 1228 Putonghua: (852) 2850 1229 English: (852) 2850 1068	
	Service Hours:	
	Monday to Friday	9:00 am to 5:00 pm
	Saturday	9:00 am to 1:00 pm
	Sunday and public holidays	Closed
Standard Chartered Bank (Hong Kong) Limited	Telephone Number: (852) 2886 8868 (press 2*9)	
	Service Hours:	
	Monday to Friday	9:00 am to 5:30 pm
	Saturday	9:00 am to 12:30 pm
	Sunday and public holidays	Closed

Wing Lung Bank Limited	Telephone Number: (852) 2526 5555	
	Service Hours:	
	Monday to Friday	9:00 am to 5:00 pm
	Saturday	9:00 am to 1:00 pm
	Sunday and public holidays	Closed

Warning:

The internet and telephone application facilities are provided by the above placing banks at their own initiatives. Neither we, the SFC nor the Joint Lead Managers and Bookrunners take any responsibility for such application facilities, including the application procedures and processes adopted by the placing banks.

Please note that internet and telephone application facilities may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can give your application instructions to your chosen placing bank through such application facilities, you are advised to allow ample time, and not to wait until the last day of the subscription period, to give your application instructions. In the event that you have problems connecting to the online or telephone application facilities offered by your chosen placing bank, you may go to any designated branch of your chosen placing bank to give the application instructions in person to your placing bank before the end of the subscription period.

Your investment in our bonds involves risks and uncertainties, including those inherent in any investment. Not all of these risks and uncertainties can be described in this prospectus. Risk factors relating to our business and an investment in our bonds are set out below.

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, 2011 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 and its prospects, our 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 there are no risks as to our future operations as a commercial bank or as to our financial condition and results of operations as a result, 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 collaterals 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, 2009, medium- and long-term loans accounted for 90.54% 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, 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 collaterals, 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, 2009, approximately 63.22% and 10.44% of our loans were secured by collaterals or by guarantees, respectively, with some of the loans secured by both. With respect to collaterals, any decline in the value of such collaterals could reduce the amount we may recover in respect of the underlying loans. In addition, the procedures in China for liquidating or otherwise realizing the value of collaterals may be protracted, and it may be difficult to enforce claims in respect of such collaterals. 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 realize the full value of the collaterals 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 additional 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 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 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 unauthorized 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. As the sub-prime crisis and the European sovereign debt crisis have not yet subsided, these crises may continue to have a significant impact on the global debt capital markets and financial markets. We currently do not hold any debt securities issued by countries such as Iceland, Portugal, Italy, Greece and Spain nor any debt securities of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation (together, Fannie and Freddie) issued in their own names. Due to the requirements of our investment portfolio management, we currently hold a small amount of liquid mortgage-backed securities (MBS) issued by Fannie and Freddie, the balance of which is US$0.83 billion.

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

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 liberalized. 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, 2009, approximately 81.99% and 91.53% of our total loans and indebtedness (including debt securities, subordinated debts and borrowings from governments and other financial institutions) were denominated in Renminbi, respectively, with the remainder denominated in foreign currencies. 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 liberalization 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 liberalization 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 has 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, 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, 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.

Competition in the PRC banking industry is increasing

The banking industry in China is becoming increasingly 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 liberalize 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 increased 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 and the lack of nationwide credit information data, 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.

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

Substantially all 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 2009, 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 in stabilizing cyclical economic fluctuations and maintained appropriate growth levels in our credit operations. At the end of 2009, our non-performing loan ratio was 0.94% and has been maintained at a level under 1% for a record 19th consecutive quarter.

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 organization 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.

You may experience difficulties in enforcing judgments and effecting service of legal process against us and our management

We are a joint stock company incorporated under the laws of China and substantially all of our business, assets and operations are located in China. All of our directors and senior management members reside in China. You may experience difficulties in effecting service of process upon us, including with respect to matters arising under applicable securities law. The High Court of Hong Kong typically entrusts a PRC Higher People's Court of competent jurisdiction to effect the service of legal documents. As a result of the differences in the legal systems between Hong Kong SAR and China as well as the procedures for service of process in the two jurisdictions, the service of legal documents through the PRC Higher People's Courts via such entrustment arrangement may be subject to delay. The laws which we are subject to are different from the laws in other jurisdictions, including Hong Kong SAR, in certain material respects. Moreover, to the best of our knowledge, China is not a party to any treaties with most of the Western nations that provide for reciprocal enforcement of court judgments.

The reciprocal recognition and enforcement of certain judgments under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of Hong Kong Pursuant to Choice of Court Agreements Between Parties Concerned is applicable only when the parties have expressly agreed to submit to the exclusive jurisdiction of the PRC courts or the courts of Hong Kong, and we have not elected to submit to the exclusive jurisdiction of the Hong Kong courts on matters arising out of or in connection with the bonds. As a result, the PRC courts may refuse to recognize or enforce judgments of the Hong Kong courts on grounds such as:

- the judgment was obtained by fraud;
- the judgment was not final and conclusive;
- the judgment was not for a definite sum of money; and
- the judgment either contradicted the basic principles of the PRC law or violated its state sovereignty, security and public interest.

In the event that the PRC courts refuse to recognize or enforce judgments of the Hong Kong courts on matters arising out of or in connection with the bonds on the basis of the above grounds, the legal protections and remedies available to you as our investor may be adversely affected.

Risks Relating to the Bonds

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

The bonds we offer under this prospectus are unsecured and will rank equally with all other unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by laws to rank ahead of the holders of the bonds) that we have issued or may issue. Payments under our 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, reorganization 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 bonds have been fully paid.

Our bonds are not equivalent to a time deposit and may involve investment risks

Investment involves risks. Our bonds are an investment product and are not equivalent to a time deposit. They are not protected under the Hong Kong Deposit Protection Scheme and payments of principal or interest on our bonds are not guaranteed by the Hong Kong SAR Government's Exchange Fund.

Our bonds are not covered by the investor compensation fund

The investor compensation fund in Hong Kong SAR has been established to pay compensation to retail investors of any nationality who suffer pecuniary losses, as a result of a default of a licensed intermediary or authorized financial institution, in relation to exchange-traded products in Hong Kong SAR. As our bonds will not be listed in Hong Kong SAR and cannot be traded on The Stock Exchange of Hong Kong Limited, you are not covered by the investor compensation fund if your placing bank or any other intermediary defaults.

You do not have direct contractual rights to enforce the bonds

The bonds will be represented by a single global bond and no individual bearer certificates will be issued to you with respect to your holding of the bonds. The global bond will be deposited for safekeeping with a sub-custodian for the CMU.

Your placing bank will arrange to hold your bonds for you in an account at the CMU − either its own account or the account of its direct or indirect custodian with the CMU. We will pay interest and principal on the bonds to the bank accounts of the CMU account-holders notified to us by the CMU as persons for whose accounts interests in the global bonds are credited in accordance with the rules and procedures of the CMU. For any payments that need to be made under the bonds, we will treat such CMU account-holders as the bondholders.

As a result, you do not have any direct contractual rights against us if we fail to pay any amount under the bonds in accordance with the terms and conditions of the bonds. To assert your rights as an investor in the bonds, you will have to rely on your placing bank to take action against us.

However, if your placing bank fails to enforce any rights against us on your behalf, or if your placing bank becomes insolvent or defaults on its obligations, you will need to take action against your placing bank subject to the terms of the account agreement or customer agreement or term of business between you and your placing bank. Your placing bank will be able to explain to you your rights against it in this regard. Depending on the account agreement or customer agreement or term of business between you and your placing bank, upon insolvency or default of your placing bank, you may only have a claim as the unsecured creditor of your placing bank regardless of the status of the bonds. Even if the bonds you invest in do not form part of the pool of assets which are applied towards satisfying the claims of the general unsecured creditors of the insolvent or defaulted placing bank, there could still be substantial delay before you could receive the interest and/or principal amount of the bonds. In the worse case scenario, you could lose all your investment. When you buy the bonds you are required to confirm that you understand and agree that we accept no responsibility for the provision of bank services and custody services by the placing banks or for any consequences of, or arising from, the use of the bank account and investment account or custody services of such placing banks.

The trading market for the bonds is expected to be limited

The bonds will not be listed and cannot be traded on The Stock Exchange of Hong Kong Limited or any other securities exchange. Some or all of the placing banks that sell the bonds in this offering will make a market for the bonds in over-the-counter transactions. These placing banks will agree with us to quote a price, but may in the future be unable to quote a price or may decide to discontinue this service. We are not responsible for the establishment or maintenance of a secondary trading market in the bonds. The value of the 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 bonds could be affected if there are only very few potential buyers in the market for our bonds. If you try to sell the bonds before maturity, the sale price may be lower than the amount you invested, or you may not be able to sell the bonds at all.

The PRC government does not guarantee the 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, 2011 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 bonds, are not guaranteed by the PRC government. You, therefore, may not enforce the obligations under the bonds against the PRC government. If you purchase our bonds you are relying solely on our creditworthiness.

Our bonds have a limited upside

Our bonds carry a fixed interest rate of 2.70% per year which is paid in Renminbi semi-annually in arrear. Upon maturity, we will pay investors the principal amount of the bonds plus any unpaid accrued interest. The maximum return on an investment in our bonds is limited to these interest payments in Renminbi. As our bonds are fixed income securities which are structured to provide investors with returns primarily through regular interest payments thereon, investors who hold our bonds through to maturity or who dispose of our bonds in the secondary market may not realize any capital gain.

Your investment in our 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 and international political and economic conditions and by many other factors. We will make all payments of interest and principal with respect to our bonds in Renminbi. As a result, the value of these Renminbi payments in Hong Kong dollar terms may vary with the prevailing exchange rates in the marketplace. For example, when you buy our 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 bonds in Renminbi at maturity, the value of your investment in Hong Kong dollar terms will have declined.

Your investment in our 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 bonds will carry a fixed interest rate. Consequently, the value of our bonds will vary with the fluctuations in the Renminbi interest rates. If you try to sell your 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 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 its 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 the pilot scheme introduced in July 2009. This represents current account activity. The pilot scheme was extended in June 2010 to cover twenty provinces and cities in China and to make RMB trade and other current account item settlement available in all countries worldwide. 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. Hong Kong SAR residents are permitted to convert limited amounts of foreign currencies, including Hong Kong dollars, into Renminbi at such banks on a per-day basis. PBOC has also established a clearing and settlement system for participating banks in Renminbi banking in Hong Kong SAR. On July 19, 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business between PBOC and Bank of China (Hong Kong) Limited, the RMB clearing bank in Hong Kong SAR to further expand the scope of RMB business for banks in Hong Kong SAR. Pursuant to the revised arrangements, all corporates (including investment banks and broker-dealers) are allowed to open RMB accounts in Hong

Kong SAR; there is no limit on the ability of corporates to convert RMB; and there will no longer be restriction on the transfer of RMB funds between different accounts in Hong Kong SAR. However, the current size and types of Renminbi-denominated financial assets is limited in Hong Kong SAR, its growth is subject to many constraints which are corollary of PRC laws and regulations on foreign exchange and may adversely affect the liquidity of our bonds.

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

Under the new PRC Enterprise Income Tax Law and its implementation rules which took effect on January 1, 2008, any gain realized on the transfer of the bonds by non-resident enterprise holders may be subject to the enterprise income tax if such gain is regarded as income derived from sources within China. However, there remain uncertainties as to whether the gain realized from the transfer of the bonds would be treated as income derived from sources within China and be subject to the PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the new PRC Enterprise Income Tax Law and its implementation rules. According to the arrangement between China and Hong Kong SAR, residents of Hong Kong SAR, including enterprise holders and individual holders, will not be subject to the PRC tax on any capital gains derived from a sale or exchange of the bonds.

Therefore, if you, as a non-resident enterprise holder, are required to pay any PRC income tax on gains on the transfer of the bonds (such enterprise income tax is currently levied at the rate of 10% of the gross proceeds, unless there is an applicable tax treaty between China and the jurisdiction in which a non-resident enterprise holder of the bonds resides that reduces or exempts the relevant tax), the value of your investment in the bonds may be materially and adversely affected.

CAPITALIZATION

As of December 31, 2009, our capitalization prepared in accordance with the International Financial Reporting Standards was as follows:

	December 31, 2009
	(in millions of RMB)
Long-term Debt[1]:	
Bonds issued	2,972,306
Other borrowings[2]	233,440
Total long-term debt	3,205,746
Capital Accounts:	
Paid-in capital	300,000
Capital surplus and reserves	40,438
Undistributed profit	37,361
Minority interest	916
Total owner's equity	378,715
Total capitalization	3,584,461

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 capitalization since December 31, 2009.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of our 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 and the PRC Commercial Banking Law. 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 and Huijin holding 51.3% and 48.7%, 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, 2011 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 have 35 branch offices in China (including one in Hong Kong SAR) and three representative offices, including one overseas representative office in Cairo. In addition, we have received approval from the relevant regulatory authorities to establish a representative office in Moscow and are currently carrying out preparatory work for the launch of our operations. 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 six village banks. Our place of business in Hong Kong is located at Suite 3307-3315, 33/F., 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 PRC 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 authorized by the banking regulatory body under the State Council.

As of December 31, 2009, our total assets amounted to RMB 4,539.9 billion, representing an increase of 18.8% from December 31, 2008, and our net loans and advances grew by RMB 792.7 billion, representing an increase of 27.8% from December 31, 2008. 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, 2008 and 2009, our net annual interest income was RMB 82.9 billion and RMB 74.2 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, our capital adequacy ratio was 11.83%.

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, 2011 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 foreign currency debt 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 Shanghai 2010 World Expo, high-speed railway networks, highway networks, 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, 2009, 80% of our outstanding loans were extended to these industries. In 2009, while adhering to our established development strategies, we geared our operations in full support of the State's stimulus package 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 in stabilizing cyclical economic fluctuations. 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 issuer in China excluding the MOF, a major player in the PRC capital market and a leader in financial innovation

Apart from the MOF, we are currently the largest bond issuer (excluding central bank bills) in the PRC with the most comprehensive bond offerings, and the terms of the bonds issued by us range from three months to 30 years. According to the approval in respect of our conversion issued by CBRC, our bonds issued in the PRC interbank bond market prior to December 31, 2011 continue to enjoy the risk weighting of 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, 2009, we had issued financial bonds with an aggregate principal amount of more than RMB 5.0 trillion. In addition, our outstanding financial bonds amounted to more than RMB 3.3 trillion and accounted for 25% of the total outstanding bonds in the PRC interbank bond market (excluding notes issued by PBOC). 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, and the first to issue Renminbi-denominated bonds in Hong Kong SAR.

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. In 2009, 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 centralized 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 organization 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 2009, and has been kept at a level below 1% for 19 consecutive quarters as of December 31, 2009. We also made provisions for non-performing loans in accordance with PRC GAAP at a provision coverage ratio of 213.44%, 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 2009, 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 2009, 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 2008, our net profit increased by 31.61% in 2009 while average ROE increased by 1.91% to 9.17% and average ROA increased by 0.04% to 0.80%. 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 15 members who are distinguished members from political, financial and academic circles around the world. Approximately 54% 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 urbanization, 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 evaluation 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. We have entered into project cooperation agreements with some local governments. Although such agreements do not constitute guarantees, they normally provide for a mechanism whereby the local governments may take measures, when required, to facilitate repayments by local borrowers.

The major factors that we take into consideration before approving a loan for a project include:

- repayment capacity of the borrower,
- level of capitalization 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. We do not consider a loan application as complete until the applicant has obtained approval from the relevant environmental agencies and we are otherwise satisfied with its compliance with the relevant environmental laws and regulations. Under the Law on Environmental Impact Assessment, effective 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. A project company must engage an independent and qualified environmental appraiser to assess the environmental impact and to prepare the environmental impact assessment report for submission to the government. In addition, the law does not permit any project listed in the catalogue to begin construction until government regulators are satisfied with the environmental impact assessment.

Most of our loans are secured by a security interest in the borrower's assets or with a guarantee from the borrower's sponsors or a company affiliated with the borrower. Many of our loans are secured with several of these collateral arrangements. Due to the diverse nature of the collateral securing our loans and in case of potential lack of liquidity of certain assets, we may demand additional collateral to improve the coverage of the loan.

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 39 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 minimize 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, 2009, we extended an aggregate principal amount of approximately RMB 1,345.7 billion of loans denominated in Renminbi and an aggregate principal amount of approximately US$52.8 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(1)

	December 31,	
	2008	2009
	(in millions of RMB)	
Renminbi	2,462,266	3,044,103
Foreign Currency	436,289	664,307
Total Loans	2,898,555	3,708,410

Note:

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

As of December 31, 2009, our total outstanding loans in foreign currencies (before deduction of allowance for impaired loans) were equivalent to RMB 664.3 billion, which consisted of outstanding loans in U.S. dollar equivalent to approximately RMB 635.1 billion and outstanding loans in other foreign currencies equivalent to approximately RMB 29.2 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,	
	2008	2009
	(in millions of RMB)	
Loans with Maturities of up to Five Years	544,770	652,075
Loans with Maturities between Five to Ten Years	480,394	717,405
Loans with Maturities over Ten Years	1,786,188	2,301,403
Total Loans	2,811,352	3,670,883

Note:

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

As of December 31, 2009, the total outstanding amount of our 10 largest borrowers was RMB 430.6 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, 2009 was as follows(1):

- RMB 1,694.8 billion, or 46%, in the eastern China region, covering Beijing, Liaoning, Hebei, Tianjin, Shandong, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong and Hainan;
- RMB 773.2 billion, or 21%, in the central China region, covering Jilin, Heilongjiang, Shanxi, Henan, Hubei, Anhui, Hunan and Jiangxi;
- RMB 880.8 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 322.1 billion, or 9%, in the area outside Mainland China, covering Hong Kong SAR and other areas.

Note:

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

We also provide short-term loans to our borrowers. The maturity of these short-term 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, and are specifically earmarked for short-term financing. Prior to the approval of the 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, 2009, we granted an aggregate of the equivalent of RMB 603.4 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 569.3 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, categorized by industrial sector:

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

	December 31, 2008		December 31, 2009	
	Amounts	**% of Total**	**Amounts**	**% of Total**
	(in millions of RMB, except for percentages)			
Water conservancy, environment protection and public utilities	750,497	26	977,125	26
Road transportation	590,849	20	711,326	19
Electric power and heating	463,874	17	543,401	16
Petroleum, petrochemical and chemical industry	215,655	7	285,780	8
Manufacturing industry	184,315	6	237,152	6
Mining	134,291	5	213,902	6
Railway transportation	91,040	3	123,755	3
Telecommunication and other information transmission service	64,762	2	60,440	2
Other transportation	63,279	2	166,698	4
Urban public transportation	61,808	2	83,871	2
Education	55,364	2	74,084	2
Others	222,821	8	230,876	6
Total	2,898,555	100.0%	3,708,410	100.0%

Note:

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

Loans categorized 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 2009, we made foreign currency loans in the aggregate principal amount of US$52.8 billion as compared to US$51.7 billion in the aggregate principal amount of foreign currency loans we made in 2008. Our foreign currency loans were primarily made in 2009 to support domestic enterprises in their major foreign expansion projects which promote global economic cooperation and development.

We extend loans in foreign currencies to borrowers for their overseas investments or their purchase of products or services from non-PRC suppliers. We make foreign currency loans in U.S. dollars, British pounds, Swiss Francs, Euros and other foreign currencies.

Our loans to finance overseas investments are focused on investments in infrastructure construction and energy exploration. We participated in 2009 in a number of high-profile strategic projects, including the Sino-Russia petroleum project, the Sino-Brazil petroleum project, Sino-Venezuela co-financing Phase II 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, 2009, we had an aggregate amount of outstanding foreign currency loan (after deduction of allowance for impaired loans) equivalent to RMB 652.8 billion, representing 17.96% 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, 2009, we had US$617 million in aggregate of foreign currency-denominated guarantees outstanding and US$2.07 billion in aggregate of outstanding letters of credit. We have also issued Renminbi-denominated guarantees for PRC companies in connection with the financing of their infrastructure projects. As of December 31, 2009, we had RMB 1.1 billion in Renminbi-denominated non-funding guarantees outstanding and RMB 156.76 billion in Renminbi-denominated funding guarantees outstanding. So long as our guarantees or letters of credit in relation to a project remain outstanding, such guarantees and letters of credit will reduce our total funding commitment to such project by a corresponding amount.

Fund Management

In 2009, 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 funds. At the same time, we initiated phase II of the ASEAN Fund, Mianyang Industry Investment 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 eight years between 2002 to 2009, we underwrote 76 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 2009, 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 2009 amounted to RMB 103.5 billion, a historical high.

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. Concurrently, we have vigorously promoted the institutional building of the Inter-bank Consortium of the Shanghai Cooperation Organization or SCO. In 2009, the members of the Inter-bank Consortium further refined the organisation of the Inter-bank Consortium and signed the Agreement on the Cooperation in the Field of Personnel Training and Experience Exchanges among the Member Banks of the SCO Inter-bank Consortium. In addition, the member banks also signed a series of new bilateral financing agreements. Our funds were primarily used to support SCO member state's development in agriculture, telecommunications, small and medium-sized enterprises and energy.

Cooperation with financial institutions. Based the principles of mutual benefits, we established close relationships with financial institutions and seek to capitalize on mutual development opportunities. As of December 31, 2009, we had entered into 25 cooperation agreements with different types of financial institutions such as Bank of China, The People's Insurance Company Of China and China Galaxy Securities. We also entered into financial cooperation agreements and memoranda of understanding with more than 40 foreign financial institutions such as Barclays PLC 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, 2009, we established correspondent banking networks with over 403 domestic and foreign banks, and opened accounts in currencies such as the U.S. dollar, British pound, Euro, 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 is an important step we have taken to fully promote our international cooperation. As of December 31, 2009, we held 2.07% 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, 2009, we raised an aggregate amount of RMB 13.7 billion by issuing assets-backed securities.

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 approval 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 2009, 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 centralized 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 organization 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 2009. The non-performing loan ratio has remained at less than 1% for 19 consecutive quarters as of December 31, 2009. As of December 31, 2009, our total non-performing loans (which include loans provided by our subsidiaries and associate companies) were RMB 34.7 billion, and non-performing loan ratio was 0.94%. 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
- facility rating.

The credit risk in connection with each individual loan is managed through a dual-rating system — borrower rating and facility 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 facility.

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, analyze 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 during 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 endeavor to minimize 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 authorized 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 realizing assets in a cost-efficient manner. In order to minimize liquidity risk, we have established a full set of liquidity management policies and models, including periodic cash flow projection and 12-month advance monitoring, interest rate sensitivity analysis and contingent funding mechanisms. Our primary funding source is the issuance of bonds in the domestic bond markets and international capital market. In addition, we may also borrow from the interbank market, 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 realized a more systematic and standardized 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

As credit risk is potentially the most significant risk 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 and our loan portfolio management, including, in each case, our guarantees or letters of credit. Although the ultimate credit decision-making power rests with our loan approval committee, several separate departments within our head office, in cooperation with our branches and representative offices, perform credit evaluation prior to our loan approval, credit performance review after loan disbursement and overall credit administration. The loan approval committee is composed of a vice president and heads of our relevant departments such as the risk management department, the project appraisal administrative department, treasury department and the legal department as well as 17 committee members. The loan approval committee reports to our president.

At present, our three project appraisal departments organized along industry lines and our branches across the country have the overall responsibility for initial project evaluation and project feasibility study. Their evaluation and feasibility study incorporate credit ratings generated by our risk management system. Once the initial evaluation and feasibility study are completed, the project appraisal administration department takes the lead in organizing further credit appraisal by consulting with 11 to 15 members of a panel of approximately 180 independent appraisal experts and with three additional departments at our head office, which are our treasury department, legal department and risk management department. We also invite outside professionals, including accountants and lawyers, to conduct analyses for selected projects. After the consultation, the project appraisal administration department submits these consolidated appraisals and recommendations to the loan approval committee, which will make the final decision on the project.

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 35 local branches and three representative offices organized 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 12-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 (which include loans provided by our subsidiaries and associate companies) 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,	
	2008	**2009**
	(in billions of RMB, except for percentages)	
NPLs Amount	27.5	34.7
NPLs Ratio	0.96%	0.94%

The following table sets forth a breakdown of our risk-based loan classification in five categories as of December 31, 2009.

Risk-Based Loan Classifications(1)

	Outstanding Amount	**% of All Risk-Based Loans**
	(in billions of RMB)	
Normal	2,967.65	80.84
Watch/special mention	668.65	18.22
Substandard	29.30	0.80
Doubtful	4.69	0.13
Bad/loss	0.59	0.01
Total	3,670.88	100
NPLs	34.58	0.94

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

(2) NPLs consist of "substandard", "doubtful" and "bad/loss" loans

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.

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 recognized 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-1 in this prospectus.

As of December 31, 2008 and 2009, we had a total provision for impaired loans of RMB 57.9 billion and RMB 74.6 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 and sovereign bonds. 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 countries such as Iceland, Portugal, Italy, Greece and Spain nor any debt securities of Fannie and Freddie issued in their own names. Due to the requirements of investment portfolio management, we currently hold a small amount of liquid mortgage-backed securities (MBS) guaranteed by Fannie and Freddie, the balance of which is US$0.83 billion.

Sources of Funds

According to CBRC, the risk weighting of our Renminbi-denominated bonds issued prior to December 31, 2011 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 the Renminbi-denominated bonds to be issued after 2011 shall be determined separately.

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,	
	2008	**2009**
	(in millions of RMB)	
Renminbi-denominated bonds issued	731,000	673,000
Capital contributions by shareholders	—	—
Net increase in borrowings from other institutions and customer deposits	277,758	125,156
Total	1,008,758	798,156

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, 2009, an aggregate principal amount of RMB 3,200 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,	
	2008	**2009**
	(in millions of US$)	
Issuance of foreign currency bonds and international and domestic borrowings	16,200	12,205
Capital contribution by our shareholders	20,000	—
Net increase in customer deposits	88	178
Total	36,288	12,383

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

At present, we have 35 branch offices in Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Dalian, Jilin, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi, Shandong, Qingdao, Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Xinjiang, Qinghai, Ningxia and Hong Kong SAR. We also have representative offices in Tibet, Xiamen and Cairo. 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.

We have received approval from the relevant regulatory authorities to establish a representative office in Moscow. We anticipate to launch our representative office operations in Moscow once we complete our preparatory work.

Employees

As of December 31, 2009, we had 6,711 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 300 billion, consisting of 300 billion ordinary shares, par value RMB 1 each. MOF and Huijin hold 153,908 million shares, or 51.3% of our issued share capital, and 146,092 million shares, or 48.7% 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. Our articles of association constitute a legally binding public document regulating our organization 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 highest 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 public offering and listing of our shares;
- to decide on buybacks of our shares;
- to decide on the engagement and dismissal of our auditors;

- to consider and approve, or authorize our board of directors to approve, our proposed establishment of any subsidiary, material merger or acquisition, material investment, disposal of material assets and material guarantee;
- to amend our articles of association;
- to consider and approve proposals made by shareholders individually or jointly holding more than 3% of our voting shares;
- to consider and approve 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 and approved by CBRC. Under our articles of association, our directors will serve a term of three years from the date of approval by CBRC, subject to successive re-election for an additional term.

According to our articles of association, our board of directors and our shareholders individually or jointly holding more than 5% of our voting shares may nominate candidates for our directors. Our board of directors, board of supervisors and shareholders individually or jointly holding more than 1% of our voting shares may nominate candidates for our independent directors. All candidates for our directors will become directors only after consideration and approval by our shareholders' general meeting and approval by CBRC.

Our articles of association currently require our board of directors to be composed of 14 directors, with eight non-executive directors, four executive directors and two independent directors. The following table sets forth information regarding our directors as of the date of this prospectus.

Directors	Position
Mr. Chen Yuan	Chairman, executive director
Mr. Jiang Chaoliang	Vice Chairman, executive director
Mr. Zheng Zhijie	Executive director
Mr. Gao Jian	Executive director
Ms. Chen Xiaoyun	Non-executive director
Mr. Li Xiaoming	Non-executive director
Mr. Zhang Shude	Non-executive director
Ms. Song Aiwu	Non-executive director
Mr. Li Ruihua	Non-executive director
Ms. Luo Mi	Non-executive director
Mr. Liang Ziqian	Non-executive director
Ms. Sun Yan	Non-executive director
Mr. Du Jian	Independent non-executive director
Mr. Zheng Xinli	Independent non-executive director

You may find additional biographical information on each of our directors under the section entitled "— Management Biographical Information — Directors" on page 57 of this prospectus.

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

There is also a quorum requirement for our board of directors meetings, i.e. one half of all our directors who are not materially interested in matters to be considered at such meetings. Our articles of association further require our directors to participate in person at least two thirds of our board of directors meetings for each year. Failure to do so, or absence (in person or by proxy) from two consecutive board of directors meetings, constitutes cause for dismissal 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 in fulfilling his/her duties as our independent director and that at least one of our independent directors must be a financial or accounting expert. If an independent director fails to attend three consecutive board of directors meetings in person, 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:

- 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 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 authorized 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 external audit policies and their implementation; evaluate the process and the effectiveness of work carried out by our external auditors;

- 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 authorized 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, organizational 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 authorized 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 authorized 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 authorization 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 authorized 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 organize 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 authorized 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 prospectus.

Supervisors	Age	Representation
Mr. Yao Zhongmin	57	Chairman of the board of supervisors
Mr. Geng Jianyun	55	Supervisor (shareholder representative)
Mr. Leng Xiangyang	51	Supervisor (shareholder representative)
Ms. Hu Hongzhuan	48	Supervisor (employee representative)
Mr. Bai Yingfu	48	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 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 authorized 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 prospectus.

Senior management members	Age	Position
Mr. Jiang Chaoliang	53	President
Mr. Zheng Zhijie	52	Vice president
Mr. Gao Jian	61	Vice president
Mr. Li Jiping	54	Vice president

You may find additional biographical information on each of our senior management members under the sections entitled "— Management Biographical Information — Senior management" on page 59 of this prospectus.

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

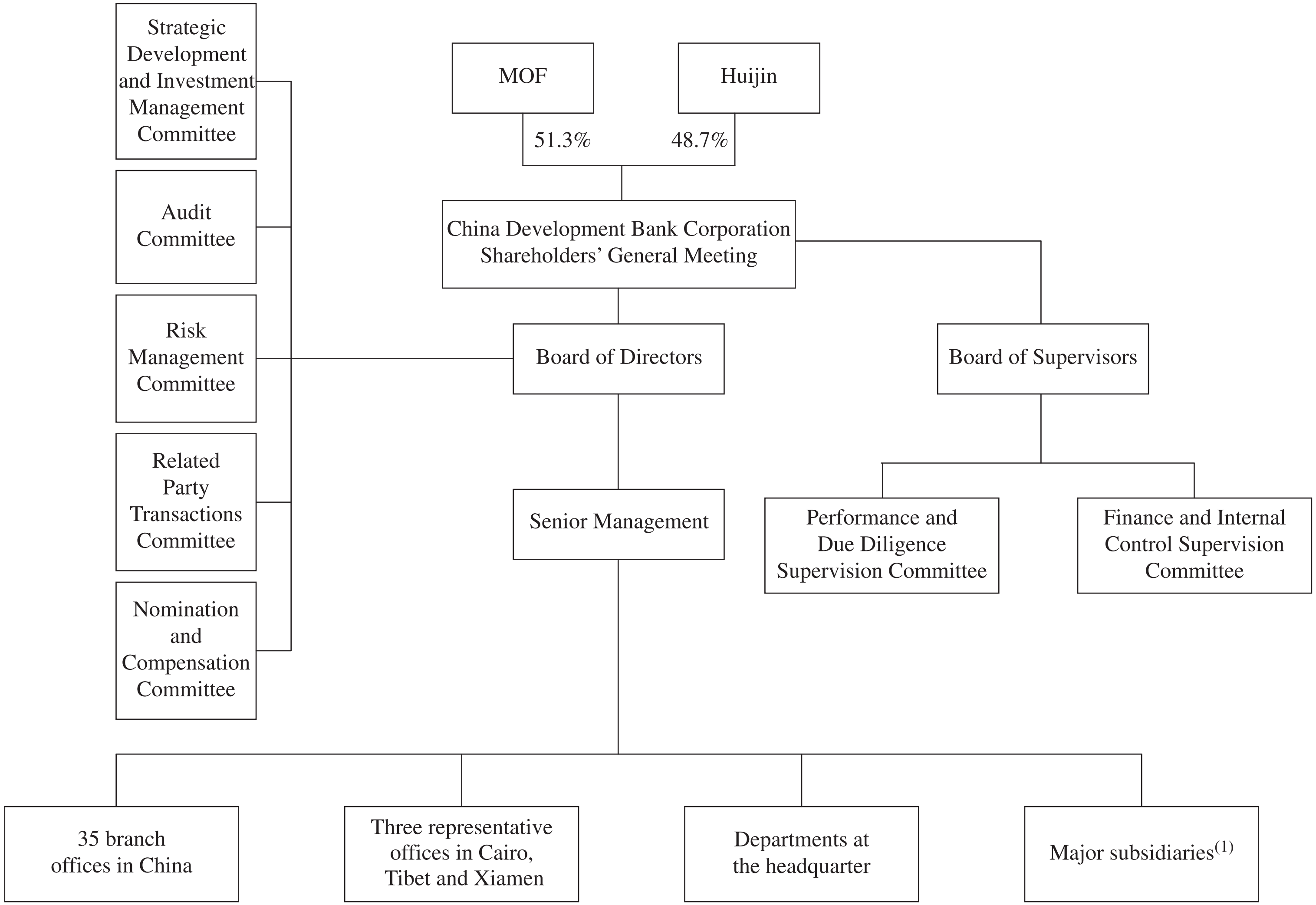
- other powers and functions conferred by law, by our articles of association or by our board of directors.

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 Organization

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 business development department, the market and 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 credit administration department, the international finance department, the international business operation department, the large corporate lending department, the information technology department, the operational center, the supervision 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, an international transactions committee, a risk management committee and a personnel and remuneration committee.

The following is our organizational chart as of December 31, 2009.



(1) include China-Africa Development Fund, CDB Leasing Co., Ltd., China Development Bank Capital Co., Ltd., China Development Bank Securities Co., Ltd. and six 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 prospectus.

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 degree in business administration from Chinese Academy of Social Sciences.

Mr. Jiang Chaoliang — vice chairman, president and executive director. Mr. Jiang has served as our vice chairman, president and executive director since December 2008. From 2004 to 2008, Mr. Jiang was the chairman of Bank of Communications. From 2002 to 2004, Mr. Jiang was a deputy governor of Hubei province. From 1996 to 2002, Mr. Jiang held a series of positions in PBOC including president's assistant and the manager of the general office. Mr. Jiang received a master degree in finance (monetary banking) from Southwestern University of Finance and Economics in 1996.

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 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 chief economist, director of our funds bureau 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.

Ms. Chen Xiaoyun — non-executive director. Ms. Chen has served as our non-executive director since December 2008. From 1987 to 2008, Ms. Chen served as the division chief, deputy chief and department head of treaty and law division of PBOC. Ms. Chen graduated from China University of Political Science and Law in which she majored in law.

Mr. Li Xiaoming — non-executive director. Mr. Li has served as our non-executive director since December 2008. From 2004 to 2008, Mr. Li served as a deputy general manager of Central Huijin Investment Company Limited. From 1996 to 2004, Mr. Li served as the director for the central foreign exchange business center of SAFE. From 1994 to 1996, Mr. Li served as the director and the deputy director for national foreign exchange trade center of SAFE. Mr. Li graduated from Party School of the Central Committee of Communist Party of China in which he majored in economic and management.

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 degree in law from Fudan University.

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 degree in taxation from George Washington University.

Mr. Li Ruihua — non-executive director. Mr. Li has served as our non-executive director since December 2008. From 2001 to 2008, Mr. Li was the director of MOF for accounting qualifications. From 1998 to 2001, Mr. Li worked on assignment in Tibet Treasury and Finance Office. Mr. Li received a doctorate degree in accounting from Xiamen 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 from Shanxi University of Finance and Economics in which she majored in finance.

Mr. Liang Ziqian — non-executive director. Mr. Liang served as our non-executive director since December 2008. Mr. Liang served as the deputy inspector of MOF international department from 2003 to 2008 and head of technical assistance to the MOF international department from 1998 to 2003, during which Mr. Liang was appointed as assistant and consultant of the executive director's office of the MOF resident in the World Bank. From 1986 to1998, Mr. Liang served as director and deputy director of the World Bank department of MOF. In 1986, Mr. Liang received a master degree in investment management from Zhongnan University of Economics and Law.

Ms. Sun Yan — non-executive director. Ms. Sun served as our non-executive director since December 2008. From 2002 to 2008, Ms. Sun served as the deputy director of comprehensive department of the MOF. From 1982 to 2003, Ms. Sun served as deputy inspector and director of the General Office of MOF. In 1982, Ms. Sun graduated from Renmin University of China with a major in 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.

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 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 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. Mr. Geng graduated from Tianjin Institute of Finance and Economics, in which he majored in finance, in 1978.

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 degree in accounting.

Mr. Bai Yingfu — supervisor (employee representative). Mr. Bai has served as our employee representative since December 2008. 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. Jiang Chaoliang — president. You may find his biographical information under the section entitled "— Directors" on page 57 of this prospectus.

Mr. Zheng Zhijie — vice president. You may find his biographical information under the section entitled "— Directors" on page 57 of this prospectus.

Mr. Gao Jian — vice president. You may find his biographical information under the section entitled "— Directors" on page 57 of this prospectus.

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 degree in infrastructure finance from Liaoning Institute of Finance and Economics in 1983.

International Advisory Council

We have an international advisory council with 15 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

Name	Position held
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 Capital

SUMMARY OF PROVISIONS RELATING TO OUR BONDS IN GLOBAL FORM

Our bonds will be represented by a global bond which will be delivered to and held by a sub-custodian nominated by HKMA as CMU operator. The global bond will be held for the account of the CMU members who have accounts with the CMU operator, or the CMU participants. Interests in our global bond will only be shown on, and transfers of interests will be effected through, records maintained by the CMU operator.

Our global bond will become exchangeable in whole, but not in part, for definitive bonds in the denomination of RMB 10,000 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 our bonds to accelerate the maturity of the bonds has occurred and is continuing; or
- we have been notified that the CMU operator 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 operator can act only on behalf of the CMU participants, 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 participants, 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 operator, 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 operator at the relevant time, as notified to the fiscal agent by the CMU operator in a relevant CMU instrument position report (as defined in the rules of CMU) or in any other relevant notification by the CMU operator. Such payment will discharge our obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants 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 participants.

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 operator from time to time. None of us, the joint lead managers and bookrunners, the fiscal agent, the paying agent, the placing banks, or any of their agents will have any responsibility or liability for any aspect of the CMU operator'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 operator, notices to investors of our bonds may be given by delivery of the relevant notice to the persons shown in a CMU instrument position report issued by the CMU operator on the business day preceding the date of despatch of such notice as holding interests in the global bond for communication to the CMU participants. 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 participants (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 participants.

The CMU operator is under no obligation to maintain or continue to operate CMU and the CMU operator 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 joint lead managers and bookrunners, the fiscal agent, the paying agent, the placing banks nor any of their agents will have any responsibility for the performance by the CMU operator or the CMU participants 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 bonds.

PRC Taxation

In the opinion of our legal department, acting as our PRC legal counsel, 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 advisors 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 bonds 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 may be made without withholding for or on account of any Hong Kong SAR taxes. In addition, no tax is 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 has been abolished in Hong Kong SAR with respect to estates forming on or after February 11, 2006.

OTHER INFORMATION ABOUT OUR ISSUANCE OF BONDS

We Will Update This Prospectus If Necessary

This prospectus is accurate as at the date stated on the cover. You must not assume that information in this prospectus is accurate at any time after the date of this prospectus.

We will give notice to our bondholders of any changes in our financial condition or other circumstances which could reasonably be expected to have a material adverse effect on our ability to fulfil our commitments under the bonds.

Documents Available For Inspection

Our board of directors and our shareholders have authorized the issue and terms of the bonds pursuant to (i) the approval of PBOC dated September 25, 2010 and (ii) the approval of NDRC dated August 27, 2010, 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 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 September 25, 2010, approving the issuance of the bonds (in Chinese with English translation),
- copies of the approval of NDRC, dated August 27, 2010, approving the issuance of the bonds (in Chinese with English translation),
- copies of the fiscal agency agreement (in English) or an agreed form thereof before such agreement has been executed,
- copies of the deed of covenant (in English) or an agreed form thereof before such agreement has been executed,
- conformed copies of the global bond with full terms and conditions (in English),
- copies of our market making agreement (in English) or an agreed form thereof before the issue date,
- copies of this prospectus (in Chinese and English), 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).

SAFE Registration

We will apply for registration of the proceeds of the bonds with the local SAFE branch office within 10 working days after completion of the offering of our bonds pursuant to the Interim Measures. However, the validity and enforceability of the bonds will not be affected by non-registration of the proceeds of the 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 bonds will be adversely affected. Since the issuance of the 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.

Statutory Information

We have not issued or agreed to issue any shares or debentures as fully or partly paid up otherwise than in cash in the two years preceding the date of this prospectus.

We have not issued any options to acquire or subscribe for any of our shares or debentures as of the date of this prospectus.

As of the date of this prospectus, we have not entered into any material contract (within the meaning of the Third Schedule of the Companies Ordinance), not being a contract entered into in the ordinary course of the business carried on or intended to be carried on by us or a contract entered into more than two years before the date of this prospectus.

We are a joint stock banking corporation in China and our income is predominantly derived from banking services provided to our customers. Therefore, we do not record our income as trading income or sales turnover.

We publish our audited annual report and 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, 2009, has given and not withdrawn its written consent to the inclusion in this prospectus of its report dated May 21, 2010 in the form and context in which it is included. Its report was not prepared exclusively for incorporation in this prospectus. For the purpose of this prospectus, its report includes our consolidated financial statements as at, and for the years ended, December 31, 2008 and 2009, and no consolidated management accounts have been prepared in respect of the period from January 1, 2010 to the date of this prospectus.

As our independent auditors, PwC Zhong Tian does not have any shareholding interests in us or any of our subsidiaries, nor does it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any of our securities or any securities of our subsidiaries.

Except as disclosed in the "Risk Factors", "Business" and "Appendix II" sections of this prospectus, 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, 2009, the date of our latest financial statements, that is material in the context of the issue of the bonds.

Except as disclosed in the "Appendix II" section of this prospectus, 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 bonds nor aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened.

The bonds have been accepted for clearance through CMU with the CMU Instrument Number BCMKFB10019.

Companies Ordinance Prospectus

SFC has authorized this prospectus for registration by the Registrar of Companies. The SFC's authorization does not imply the SFC's endorsement or recommendation of the offer contained or referred to in this prospectus. We asked for, and were granted by SFC, exemptions from full compliance with some of the provisions of the Companies Ordinance. A summary of the exemptions and of the conditions to which the certificate of exemption issued by SFC is subject will be on display and may be found on the website of SFC: www.sfc.hk.

Responsibility and Limitation on Reliability

Our directors collectively and individually accept full responsibility for the accuracy of information contained in this prospectus. We confirm, having made all reasonable enquiries, that to the best of our knowledge and belief,

- this prospectus 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); and
- there are no other facts in relation to our bank or the bonds, the omission of which would, in the context of the issue and offering of the bonds, make any statement in this prospectus misleading in any material respect.

We have made all reasonable enquiries to ascertain such facts and to verify the accuracy of such statements.

You should rely only on the information contained in this prospectus in making your investment decision. Neither we nor any joint lead manager and bookrunner, placing bank, market maker, fiscal agent and paying agent participating in this offering has authorized anyone to provide you with any other information. Neither the delivery of this prospectus, 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 prospectus is correct as at any time subsequent to the date of this prospectus or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in our affairs since such date. No representation or warranty, express or implied, is made by any joint lead manager and bookrunner, placing bank, market maker, fiscal agent and paying agent participating in this offering or any of their affiliates or advisers as to the accuracy or completeness of the information contained in this prospectus, and nothing contained in this prospectus is, or should be, relied upon as a promise or representation by any joint lead manager and bookrunner, placing bank, market maker, fiscal agent and paying agent participating in this offering or their affiliates or advisers. The joint lead managers and bookrunners have not separately verified the information contained in this prospectus.

No offer or solicitation with respect to the 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 prospectus and the offering of the bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by us and the joint lead managers and bookrunners and placing banks to inform themselves about, and to observe, any such restrictions.

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 terms and conditions and the global bond will be issued in the English language, which shall prevail over any Chinese language translation in the event of conflict or discrepancy.

SFC takes no responsibility as to the contents of the Terms and Conditions of the Bonds. The authorization of this prospectus by SFC does not imply its endorsement or recommendation of the Terms and Conditions of the Bonds.

APPENDIX I
TERMS AND CONDITIONS OF THE BONDS

RMB 2.70 per cent. bonds due 2013 (the "**Bonds**") of China Development Bank Corporation (the "**Bank**") are subject to, and have the benefit of, a deed of covenant to be dated on or about November 11, 2010 (the "**Deed of Covenant**") and are the subject of an agency agreement to be dated on or about November 5, 2010 (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 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 10,000, 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 Operator as the holder of a particular principal amount of the Bonds;

"**CMU Operator**" means the Hong Kong Monetary Authority as operator of the Central Moneymarkets Unit Service;

"**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 the 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 November 11, 2010 (the "**Issue Date**"), payable semi-annually in arrear on May 11 and November 11 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 authorized 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 2.70 per cent. per annum and references to "**Rate of Interest**" in these Conditions shall be to the rate of interest applicable to the Bonds in question.

(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 redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, November 11, 2013.

(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 their 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**

(a) *Principal*: Payments of principal shall (subject as provided below) be made in Renminbi only by RMB denominated cheque drawn on, or by transfer to a RMB account maintained by 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.

(b) *Interest*: Payments of interest shall (subject as provided below) be made in Renminbi only by RMB denominated cheque drawn on, or by transfer to a RMB account maintained by 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.

(c) *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.

(d) *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.

(e) *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 US$50,000,000 (or its equivalent in any other currency or currencies) (whether upon maturity, acceleration or otherwise) on or in connection with Public External Indebtedness (other than that represented by the 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 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, any Bond; (B) reduce the principal amount of any Bond; (C) reduce the portion of the principal amount that is payable in the event of an acceleration of the maturity of any Bond; (D) reduce the interest rate on any Bond; (E) change the currency or places in which payment of interest or principal in respect of the Bonds is payable; (F) 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; (G) 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; (H) change the obligation of the Bank to pay additional amounts as provided in Condition 7 (*Taxation*); or (I) 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 this Schedule, 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 this Schedule, 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 and the Global Bond is held on behalf of the CMU Operator, notices to Bondholders may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Operator on the business day preceding the date of despatch of such notice as holding interests in the Global Bond for communication to the relative Accountholders 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 Operator, any Bondholder must deliver his or her notice to the Bank or the Fiscal Agent through the CMU by a direct or indirect Accountholder, with whom the Bondholder maintains his or her ownership in the Bonds in accordance with CMU's standard procedures.

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) *Jurisdiction*: The courts of Hong Kong are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and the Coupons and accordingly any suit, legal action or proceedings arising out of or in connection with the Bonds and the Coupons ("**Proceedings**") may be brought in such courts. The Bank irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the exclusive benefit of each of the Bondholders and Couponholders and nothing contained in this Clause shall limit the right of any of them to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) *Service of Process*: The Bank agrees that the process by which any legal proceedings in Hong Kong are begun may be served on it by being delivered to it at Suite 3307-3315, 33/F., One International Finance Center, No. 1 Harbour View Street, Central, Hong Kong. The Bank shall notify the Fiscal Agent, within a reasonable time, of any change to its place of business in Hong Kong. If the Bank ceases to have a place of business in Hong Kong, the Bank shall forthwith, on request of the Fiscal Agent, appoint an agent for service of process in Hong Kong and deliver to the Fiscal Agent a copy of the new agent's acceptance of that appointment within 30 days. Nothing herein shall affect the right to serve process in any other manner permitted by law.

APPENDIX II
AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS AT, AND FOR THE YEARS ENDED, 31 DECEMBER 2008 AND 2009

PRICEWATERHOUSECOOPERS
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2010/SH-029/LYSK/NQIN

Independent auditor's report

To the Shareholders of China Development Bank Corporation

We have audited the accompanying consolidated financial statements of China Development Bank Corporation (the "Bank") and its subsidiaries (together, the "Group") which comprise the consolidated statement of financial positions as of 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the 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 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 accompanying consolidated financial statements present fairly, in all material respects of the financial position of the Group as of 31 December 2009, and of its financial performance and its 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 you as a body in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Shanghai, China
21 May 2010

CHINA DEVELOPMENT BANK CORPORATION
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts expressed in millions of Rmb unless otherwise specified)

	Note	2009	2008
Interest income	7	194,996	201,356
Interest expense	7	(120,773)	(118,470)
Net interest income		74,223	82,886
Fee and commission income	8	4,312	4,305
Fee and commission expense		(304)	(141)
Net fee and commission income		4,008	4,164
Dividend income	9	97	1,434
Net trading and foreign exchange losses	10	(2,511)	(1,953)
Net gains/(losses) on investment securities	11	319	(4,222)
Impairment losses on assets	12	(20,329)	(39,162)
Operating expenses	13	(16,956)	(14,279)
Other income, net	14	3,054	4,248
Operating profit		41,905	33,116
Share of profit of associates and joint ventures accounted for using the equity method, net of tax		126	66
Profit before income tax		42,031	33,182
Income tax expense	15	(8,720)	(7,871)
Net profit		33,311	25,311
Attributable to:			
Shareholders of the Bank		33,226	25,298
Non-controlling interest		85	13

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 2009
(All amounts expressed in millions of Rmb unless otherwise specified)

	Note	2009	2008
Profit for the year		33,311	25,311
Exchange differences on translation of foreign operations		(92)	—
Net gains on available-for-sale financial assets			
- Unrealised net gains/(losses) arising during the year, before tax		10,918	(34,184)
- Net reclassification for realised net (gains)/losses, before tax		(127)	16,280
Income tax relating to components of other comprehensive income	16	(4,411)	4,476
Reduction in temporary differences due to joint stock reform		—	2,706
Other comprehensive income for the year, net of tax		6,288	(10,722)
Total comprehensive income for the year		39,599	14,589
Total comprehensive income attributable to:			
Shareholders of the Bank		39,514	14,576
Non-controlling interest		85	13

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 FINANCIAL POSITION
AS AT 31 DECEMBER 2009
(All amounts expressed in millions of Rmb unless otherwise specified)

	Note	2009	2008
ASSETS			
Cash and balances with the PBOC	17	287,781	457,602
Due from banks	18	49,874	88,187
Securities purchased under resale agreements	19	66,105	10,875
Financial assets at fair value through profit and loss			
- Trading securities	20	22,345	28,534
- Derivative financial assets	21	7,154	28,608
Loans and advances to banks, net		1,183	—
Loans and advances to customers, net	22	3,642,219	2,849,522
Investment securities			
- Available for sale	23	300,770	231,891
- Held to maturity	23	3,524	858
- Loans and receivables	23	101,558	91,022
Investment in associates and joint ventures	24	3,518	2,502
Fixed assets, net	25	17,978	12,065
Deferred income tax assets	26	17,522	15,484
Other assets	27	18,329	2,952
TOTAL ASSETS		4,539,860	3,820,102
LIABILITIES AND EQUITY			
Liabilities			
Deposits from financial institutions	28	160,420	115,566
Due to customers	29	388,103	245,411
Financial assets sold under repurchase agreements		9,328	1,490
Derivative financial liabilities	21	9,575	17,487
Borrowings from governments and financial institutions	30	266,840	240,074
Debt securities in issue	31	3,228,275	2,787,206
Subordinated debts in issue	32	80,425	40,322
Current income tax liabilities		8,214	16,060
Deferred income tax liabilities	26	1,111	—
Other liabilities	33	8,854	9,074
Total liabilities		4,161,145	3,472,690
Equity			
Capital and reserves attributable to shareholders of the Bank			
Share capital		300,000	300,000
Capital surplus and reserves	34	40,438	23,579
Retained earnings	35	37,361	23,002
		377,799	346,581
Non-controlling interest		916	831
Total equity		378,715	347,412
TOTAL LIABILITIES AND EQUITY		4,539,860	3,820,102

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 CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(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 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
At 31 December 2007/ 1 January 2008		196,092	88,168	65,052	53	349,365
Net profit		—	—	25,298	13	25,311
Other comprehensive income		—	(10,722)	—	—	(10,722)
Total comprehensive income for 2008		—	(10,722)	25,298	13	14,589
Financial restructuring upon incorporation		103,908	(55,969)	(65,274)	—	(17,335)
Appropriation to statutory surplus reserve	34	—	2,074	(2,074)	—	—
Non-controlling interest in new subsidiaries		—	—	—	765	765
Other		—	28	—	—	28
At 31 December 2008		300,000	23,579	23,002	831	347,412

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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts expressed in millions of Rmb unless otherwise specified)

	2009	**2008**
Cash flows from (used in) operating activities		
Profit before income tax	42,031	33,182
Adjustments:		
Impairment losses on assets	20,329	39,162
Depreciation and amortisation	295	210
Interest expense for debt securities and subordinated debts in issue	107,799	106,569
Interest expense for borrowings from governments and financial institutions	6,697	8,743
Interest income for investment securities	(6,697)	(11,686)
Net (gains)/losses on investment securities	(319)	4,222
Net losses/(gains) on disposal of fixed assets and other assets	2	(7)
Dividend income	(97)	(1,434)
Net changes in:		
Statutory reserve with the PBOC and due from banks	665	(688)
Securities purchased under resale agreements	(55,230)	54,415
Financial assets at fair value through profit and loss	5,488	15,948
Loans and advances to customers	(814,069)	(623,063)
Other assets	(145)	(3,092)
Deposits from financial institutions	44,854	114,892
Due to customers	142,692	87,304
Financial assets sold under repurchase agreements	7,838	1,490
Other liabilities	270	6,768
Income tax paid	(21,906)	(16,443)
Net cash outflows from operating activities	(519,503)	(183,508)

CHINA DEVELOPMENT BANK CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009
(All amounts expressed in millions of Rmb unless otherwise specified)

	Note	2009	2008
Cash flows from (used in) investing activities			
Purchases of investment securities		(741,600)	(563,124)
Proceeds from disposal of investment securities		626,988	549,004
Acquisition of subsidiaries, net of cash acquired		—	1,249
Payments for investment in associates and joint ventures		(1,683)	(2,078)
Cash dividends received		97	1,434
Purchases of fixed assets and other assets		(8,321)	(7,928)
Proceeds from disposal of fixed assets and other assets		254	60
Net cash outflows from investing activities		(124,265)	(21,383)
Cash flows from (used in) financing activities			
Proceeds from debt securities and borrowed funds		764,947	929,983
Dividends paid to shareholders		(8,296)	—
Repayments of debt securities and borrowed funds		(253,443)	(245,032)
Interest payment on debt securities and borrowed funds		(118,062)	(98,195)
Net cash inflows from financing activities		385,146	586,756
Net increase in cash and cash equivalents		(258,622)	381,865
Effect of exchange rate changes on cash and cash equivalents		(55)	(3,204)
Cash and cash equivalents, at beginning of year		606,625	227,964
Cash and cash equivalents, at end of year	36	347,948	606,625
Supplemental disclosures of cash flow information			
Interest received		197,757	198,071
Interest paid		(123,668)	(101,171)

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

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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 (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 focuses on promoting the development of the market through advanced planning, and supports the development of key State projects in infrastructure sectors, basic industries, pillar industries and high-tech industries. The Group also directs funding to sectors facing financing constraints, including urbanisation, SMEs, agriculture, rural communities and farmers, as well as special programs for health care, education, low-income housing and environment protection, and 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 to deepen and widen international cooperation, so as to bring further benefits to the country and the society.

These consolidated financial statements have been approved for issue by the Board of Directors on 21 May 2010.

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 2009***

The following standards and amendments, which became effective in 2009 are relevant to the Group:

IFRS 7 Amendment - Financial Instruments: Disclosures. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy and provides more guidance on how the entity discloses the liquidity risk arising from derivatives and non-derivative financial liabilities.

IFRS 8 - Operating Segment. The Group's external segment reporting will be based on the internal reporting to the group executive, which makes decisions on the allocation of resources and assess the performance of the reportable segments.

IAS 1 Amendment - Presentation of Financial Statements. It requires "non-owner changes in equity" to be presented separately from owner changes in equity in the statement of comprehensive income. As a result, the Group presents all owner changes in equity separately from other comprehensive income in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

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 changed 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 2009 but not relevant to the Group's operations***

IFRS 2	Share-based Payments
IAS 23 Amendment	Borrowing Costs
IAS 32 Amendment and IAS 1 Amendment	Puttable Financial Instruments and Obligations Arising on Liquidation
IFIRC 13	Customer Loyalty Programmes
IFIRC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

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 July 2009 or later periods and are expected to be relevant to the Group:

IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate	1 July 2009
IFRS 3	Business Combinations	1 July 2009
IAS 27	Consolidated and Separate Financial Statements	1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement - Eligible Hedged Items	1 July 2009
IFRIC 17	Distribution of Non-cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009
Amendment to IAS 32	Classification of rights issues	1 February 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendment to IFRS 1	First time adoption of IFRS 7 (Amendment in 2009)	1 July 2010
IFRS 9	Financial Instruments Part 1: 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 was issued in November 2009 and replaces 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 two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition or, upon transition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An 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. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the impact of the standard on the consolidated financial statements.

(e) ***Annual improvements to IFRS***

"Improvements to IFRS" were issued in May 2008 and April 2009, comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted.

No material changes to accounting policies are expected as a result of these amendments.

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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets (including intangible assets) acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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) ***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 reserves is recognised in reserves. 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 loss 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. In case when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

(d) ***Derecognition 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 remeasured 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 a 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 counterparty 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 values
Buildings	30 - 35 years	5%
Office equipment	5 - 11 years	5%
Leasehold improvements	Lesser of 5 years or the lease period	5%
Motor vehicles	6 years	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" 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 is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment loss on goodwill cannot be reversed.

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 or are not yet available for use are not subject to amortisation, but 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, except goodwill, that suffer 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 or 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 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".

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, 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-apportionate 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 by the issuance of debts at both fixed and floating rates and for various periods and seeks to earn interest margins by investing these funds in long-term infrastructure project lending. While operating in China under the interest rate scheme regulated by the PBOC, the Group seeks to increase its 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 other price risk.

3.2 **Credit risk**

The Group takes on exposure to credit risk which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities 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.

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.

(b) *Debt securities and derivatives*

For debt securities, external ratings such as Standard & Poor's rating or their equivalents are used by the Group for managing the credit risk exposures. 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. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

(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 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 processes in place to assess the levels of credit risk it undertakes in relation to single borrowers, industries and geographical regions. Such risks are monitored periodically and are subject to review at the Governors' Meeting of Risk Management.

The exposure to any one borrower including banks and brokers 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.

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, 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***

	2009	**2008**
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Cash and balances with the PBOC	287,781	457,602
Due from banks	49,874	88,187
Securities purchased under resale agreements	66,105	10,875
Trading securities	21,345	28,534
Derivative financial assets	7,154	28,608
Loans and advances to banks, net	1,183	—
Loans and advances to customers, net	3,642,219	2,849,522
Investment debt securities*	365,092	311,788
Other	16,463	1,928
Subtotal	4,457,216	3,777,044
Credit risk exposures relating to off-balance sheet items are as follows:		
Letters of guarantee issued	135,658	286,344
Letters of credit issued	14,105	6,940
Bank bill acceptance	2,037	—
Undrawn credit commitments	1,664,381	1,519,866
Subtotal	1,816,181	1,813,150
At 31 December	6,273,397	5,590,194

* 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 2009 and 31 December 2008, 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***

	2009	2008
Neither past due nor impaired	3,681,881	2,879,452
Past due but not impaired	267	401
Individually impaired	34,696	27,543
Gross	3,716,844	2,907,396
Less: allowance for impairment		
- Individually assessed	(14,651)	(14,404)
- Collectively assessed	(59,974)	(43,470)
	(74,625)	(57,874)
Net	3,642,219	2,849,522

(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.

	2009	2008
Pass grade	3,011,318	2,310,537
Special-mention grade	670,563	568,915
	3,681,881	2,879,452

(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 267 million (2008: Rmb 401 million) were individually assessed and no impairment was identified.

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

	2009	2008
Past due up to 30 days	109	401
Past due 30-60 days	158	—
	267	401

(c) *Loans and advances individually impaired*

Impaired loans and advances are listed below:

	2009	2008
Individually impaired loans and advances	34,696	27,543
Less: impairment allowance for individually assessed	(14,651)	(14,404)
	20,045	13,139

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 2009, the total renegotiated loans amounted to Rmb 15,381 million (2008: Rmb 10,471 million).

3.2.6 ***Debt securities***

The table below presents an analysis of debt securities by issuer type:

	Government and quasi-government bodies	Financial institutions	Corporate	Total
2009				
Trading securities	8,818	1,671	10,856	21,345
Investment debt securities	319,278	26,530	19,284	365,092
	328,096	28,201	30,140	386,437
2008				
Trading securities	21,423	303	6,808	28,534
Investment debt securities	281,481	22,619	7,688	311,788
	302,904	22,922	14,496	340,322

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

					Unrated *		
	AAA	AA	A	Lower than A	PRC government and government bodies	Other	Total
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
2008							
Government and quasi-government	34,019	—	1,079	—	267,806	—	302,904
Financial institutions	3,822	3,228	9,308	2,300	—	4,264	22,922
Corporate	1,726	—	290	—	—	12,480	14,496
Total	39,567	3,228	10,677	2,300	267,806	16,744	340,322

* The Group's unrated debt securities include those issued by PRC Government and PRC government bodies, such as the MOF, PBOC, PRC policy banks and asset management companies invested by MOF directly (together "PRC government and government bodies").

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

Credit risk is increased when counterparties are concentrated in the same industries or geographical regions. The Group's lending activities are undertaken substantially within China and concentrated in certain targeted industries. Different areas in China and different industries have their own unique characteristics in economic development and, therefore, could present different credit risks.

(a) *Financial assets by geographical distribution:*

	Eastern China	Central China	Western China	Overseas	Total
Cash and balances with the PBOC	259,380	18,104	10,297	—	287,781
Due from banks	17,557	2,187	1,426	28,704	49,874
Securities purchased under resale agreements	58,015	7,870	220	—	66,105
Trading securities	20,815	—	530	—	21,345
Derivative financial assets	2,735	579	687	3,153	7,154
Loans and advances to banks, net	500	—	—	683	1,183
Loans and advances to customers, net	1,678,738	768,451	876,389	318,641	3,642,219
Investment debt securities	325,279	523	1,621	37,669	365,092
Other	16,025	109	329	—	16,463
At 31 December 2009	2,379,044	797,823	891,499	388,850	4,457,216
At 31 December 2008	2,160,012	657,759	693,469	265,804	3,777,044

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*

	2009		2008	
	Amount	%	Amount	%
Loans and advances to customers				
Water conservation, environmental protection and public utilities	977,125	26	750,497	26
Road transportation	711,326	19	590,849	20
Electric power, heating and water production and supply	543,401	16	463,874	17
Petroleum, petrochemical and chemical industry	285,780	8	215,655	7
Manufacturing industry	237,152	6	184,315	6
Mining industry	213,902	6	134,291	5
Other transportation	166,698	4	63,279	2
Railway transportation	123,755	3	91,040	3
Urban public transportation	83,871	2	61,808	2
Education	74,084	2	55,364	2
Telecommunication and other information transmission service	60,440	2	64,762	2
Other	230,876	6	222,821	8
Accrued interest receivable	8,434	—	8,841	—
	3,716,844	100	2,907,396	100
Less: allowance for impairment	(74,625)		(57,874)	
Loans and advances, net	3,642,219		2,849,522	

	Government and quasi-government	Financial institutions	Corporate	Total
Other financial assets				
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
Loans and advances to banks, net	—	1,183	—	1,183
Trading and investment debt securities	328,097	28,201	30,139	386,437
Other	—	14,154	2,309	16,463
At 31 December 2009	615,878	163,121	35,998	814,997
At 31 December 2008	769,270	134,342	23,910	927,522

3.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. 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.

Classification of trading portfolio and non-trading portfolio

The Group separates exposures to market risk into either trading or non-trading portfolios.

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

Non-trading portfolios primarily arise from the interest rate and exchange rate management of the Group's assets and liabilities. Non-trading portfolios also consist of the 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 within the scope of their respective roles and responsibilities. The Risk Management Department assures 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 where the Asset Liability Management Committee ("ALCO") sits is in charge of market risk management.

Market risk management principles

The management of market risk is principally undertaken in the Group using risk limits approved by the Board of Directors and its affiliated committee. Limits are set for each risk type, including interest rate and exchange rate risks, as well as for each portfolio, trading desk and trader with risk management ability and capital capacity being principal factors in determining the level of limits set. The Risk Management Department is responsible for identifying and measuring market risk exposures and monitoring and reporting these exposures against the prescribed limits on regular basis.

The Governors' Meeting on Risk Management and 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.

Market risk measurement techniques

Sensitivity analysis is the main technique used to measure and control market risks in the trading and non-trading portfolios respectively. The Risk Management Department monitors and controls market risks of those trading portfolios on a daily basis mainly through sensitivity analysis of the impact on present value arising from the interest rate fluctuation. Regular reports of the trading portfolio sensitivity analysis results are submitted at the pace from daily to annual to the Governors' Meeting on Risk Management. The Treasury Department matches the Bank's assets with liabilities and monitors their movements mainly through sensitivity analysis of the impact on present value arising from the interest rates and currency rates changes. A quarterly analysis report is submitted to ALCO.

The Group drives the implementation of RISK MANAGER system, progressively realising the measurement by VaR (Value at Risk) and the correspondent capital calculation methods. Also, the Group is building a working mechanism including stress testing, back testing and model validation based on the international best practises to improve the level of measurement on market risk in a full scale.

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. It is normal practice for the interest rates of both interest bearing assets and liabilities to 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. In 2009, the PBOC did not adjust the benchmark interest rates for deposits and loans.

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 enhances the repricing date matching of the Group's assets and liabilities among all currencies where necessary. 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
2009							
Financial assets:							
Cash and balances with the PBOC	287,397	—	—	—	—	384	287,781
Due from banks	47,272	517	3	—	—	2,082	49,874
Securities purchased under resale agreements	66,105	—	—	—	—	—	66,105
Trading securities	13,597	3,039	5,053	570	86	—	22,345
Derivative financial assets	—	—	—	—	—	7,154	7,154
Loans and advances to banks, net	1,183	—	—	—	—	—	1,183
Loans and advances to customers, net	1,463,301	2,016,716	88,911	52,165	21,126	—	3,642,219
Investment securities	244,753	6,242	8,494	106,883	7,709	31,771	405,852
Other	—	—	—	—	—	16,463	16,463
Total financial assets	2,123,608	2,026,514	102,461	159,618	28,921	57,854	4,498,976
Financial liabilities:							
Due to financial institutions and customers	500,706	21,927	13,890	2,000	—	10,000	548,523
Securities sold under repurchase agreements	1,936	7,392	—	—	—	—	9,328
Derivative financial liabilities	—	—	—	—	—	9,575	9,575
Borrowings from governments and financial institutions	107,190	145,273	8,407	4,627	1,343	—	266,840
Debt securities and subordinated debts in issue	451,926	1,025,357	1,022,203	420,336	388,878	—	3,308,700
Other	—	—	—	—	—	1,538	1,538
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
2008							
Total financial assets	1,673,608	1,751,719	173,998	73,546	98,418	17,738	3,789,027
Total financial liabilities	819,219	948,916	860,948	439,352	375,226	4,946	3,448,607
Total interest repricing gap	854,389	802,803	(686,950)	(365,806)	(276,808)	12,792	340,420

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 curves by 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:

	2009	2008
+100 basis points parallel shift in all yield curves	13,999	3,302
- 100 basis points parallel shift in all yield curves	(13,999)	(3,302)

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 the possible risk management measures undertaken by the Bank's Treasury Department or related business departments to mitigate interest rate risk. In practice, the Treasury Department seeks proactively to change the interest rate risk profile to minimise losses and optimise net revenues. 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 ("EURO"), 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. The PBOC adopted a managed floating exchange rate system to allow the value of the Rmb to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The value of the Rmb appreciated by 0.09% against the USD during the year ended 31 December 2009 (2008: 6.43%). The Group's exposure to currency risk could be increased if the PBOC further changes its policy related to the exchange rate system.

The Risk Management Department monitors overnight trading positions based on the authorised limits on a daily basis. The Group's principle regarding control 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 derivatives 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
2009				
Financial assets:				
Cash and balances with the PBOC	287,403	373	5	287,781
Due from banks	15,809	29,547	4,518	49,874
Securities purchased under resale agreements	66,105	—	—	66,105
Trading securities	22,345	—	—	22,345
Derivative financial assets	2,662	4,334	158	7,154
Loans and advances to banks, net	500	683	—	1,183
Loans and advances to customers, net	2,986,352	626,951	28,916	3,642,219
Investment securities	354,479	43,832	7,541	405,852
Other	16,010	453	—	16,463
Total financial assets	3,751,665	706,173	41,138	4,498,976
Financial liabilities:				
Due to banks and customers	520,556	25,339	2,628	548,523
Financial assets sold under repurchase agreements	8,699	629	—	9,328
Derivative financial liabilities	4,578	4,834	163	9,575
Borrowings from governments and financial institutions	31,880	224,610	10,350	266,840
Debt securities in issue and subordinated debts	3,240,903	64,522	3,275	3,308,700
Other	1,383	155	—	1,538
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
2008				
Total financial assets	3,202,461	542,419	44,147	3,789,027
Total financial liabilities	3,188,674	244,308	15,625	3,448,607
Net on-balance sheet position	13,787	298,111	28,522	340,420
Currency forwards and swaps	198,633	(148,628)	(36,679)	13,326
Commitments to extend credit	1,654,950	141,303	16,897	1,813,150

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

	2009	2008
	Gain(loss)/Rmb	Gain(loss)/Rmb
Possible movement in exchange rate of USD against Rmb:		
Rise 1%	3,799	3,229
Fall 1%	(3,799)	(3,229)

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 certain derivatives 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 that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and 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.

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 drawdowns, guarantees and other calls on cash settled derivatives.

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to the management 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 management, for both on-balance sheet items and off-balance sheet items, is performed by the Treasury Department and supervised by ALCO. 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 sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

3.4.2 *Funding approach*

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

The Group's policy 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 additional 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 2009) 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
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)
2008								
Non-derivative cash flows								
Due to financial institutions and customers	230,838	1,289	7,095	12,882	74,394	58,409	—	384,907
Financial assets sold under repurchase agreements	—	1,491	—	—	—	—	—	1,491
Borrowings from governments and financial institutions	—	84,460	20,633	88,128	49,098	11,864	2,526	256,709
Debt securities in issue and subordinated debts	—	9,494	25,136	266,447	1,745,433	1,008,334	478,229	3,533,073
Other	—	257	—	464	190	99	41	1,051
Total financial liabilities	230,838	96,991	52,864	367,921	1,869,115	1,078,706	480,796	4,177,231
Total financial assets	541,709	91,169	200,088	495,273	1,616,540	1,273,555	637,747	4,856,081
Derivative cash flows								
Derivatives settled on a net basis:								
Derivatives liabilities	—	(82)	(318)	(1,892)	(6,972)	(3,543)	(1,234)	(14,041)
Derivatives settled on a gross basis:								
Total inflow	—	16,513	19,498	262,442	23,309	13,552	12	335,326
Total outflow	—	(15,670)	(18,373)	(253,297)	(18,148)	(13,835)	(16)	(319,339)

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

Letters of guarantee issued, letters of credit issued, bank bill acceptable 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
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
2008							
Letters of guarantee issued	8,393	26,631	111,082	108,370	21,327	10,541	286,344
Letters of credit issued	334	832	3,506	2,260	8	—	6,940
Undrawn credit commitments . .	113,725	301,714	613,842	472,631	17,954	—	1,519,866
	122,452	329,177	728,430	583,261	39,289	10,541	1,813,150

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 expect the third party to draw all of the 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 Rmb 14,691 million (2008: Rmb 4,924 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 2009 and 31 December 2008 are summarised as follows:

	Amortised Cost		**Fair Value**	
	2009	**2008**	**2009**	**2008**
Financial assets				
Investment securities				
- Held to maturity	3,524	858	3,450	862
- Loans and receivables	101,558	91,022	101,581	91,022
Loans and advances to customers, net	3,642,219	2,849,522	3,638,172	2,862,361
Financial liabilities				
Due to financial institutions and customers	548,523	360,977	548,599	361,560
Borrowings from governments and financial institutions	266,840	240,074	267,990	242,073
Debt securities in issue and subordinated debts	3,308,700	2,827,528	3,335,177	2,954,169

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
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
- Other	—	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				
Financial liabilities at fair value through profit and loss				
- 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
	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 or (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 **Structured financing and consolidating special purpose entities ("SPEs")**

The Group forms SPEs mainly for the purposes of structured finance and other structured transactions. The Group consolidates an SPE and its assets and liabilities in the Group's consolidated statement of financial position when the substance of the relationship between the SPE and the Group indicates that the SPE is under the control of the Group. The Group determines whether control exists based on the extent to which it is exposed to the risks and rewards associated with the SPE and the Group's ability to make operating decisions for the SPE. In making such judgments, all elements related to the SPE terms and structures are reviewed to identify indication of control.

4.5 **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

In the financial year 2009, segment reporting by the Group was prepared for the first time in accordance with IFRS 8, "Operating segments". Segment information for 2008 that is reported as comparative information for 2009 has been restated to conform to the requirements of IFRS 8.

The Group has three 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.

	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
intersegment 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
intersegment 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
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:					
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

	Banking	Equity investment	Leasing	Consolidation and adjustments	Total
2008					
Interest income	200,984	134	635	(397)	201,356
Interest expense	(118,306)	(24)	(579)	439	(118,470)
Net interest income	82,678	110	56	42	82,886
Include: net interest income from external customers	82,374	110	402	—	82,886
intersegment net interest income/(expenses)	304	—	(346)	42	—
Fee and commission income	4,305	—	—	—	4,305
Fee and commission expense	(141)	—	—	—	(141)
Net fee and commission income	4,164	—	—	—	4,164
Include: net fee and commission from external customers	4,164	—	—	—	4,164
Other income/(expense), net	(1,019)	911	391	(710)	(427)
Operating expenses	(40,325)	(12,853)	(322)	59	(53,441)
Profit before income tax	45,498	(11,832)	125	(609)	33,182
Total assets	3,781,842	24,988	23,663	(10,391)	3,820,102
Total liabilities	(3,464,608)	(1,513)	(16,780)	10,211	(3,472,690)
Other information:					
Depreciation and amortisation	195	11	4	—	210
Capital expenditure	832	31	7,065	—	7,928
Impairment losses on assets	26,335	12,771	115	(59)	39,162

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
China-Africa Development Fund	Mainland China	Rmb 7,648	100% Indirectly held	Investment and fund management
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

7 NET INTEREST INCOME

	2009	2008
Interest income		
Balances with the PBOC and financial institutions	2,102	1,770
Loans and advances to customers, net	185,808	183,938
Investment securities	6,697	11,686
Securities purchased under resale agreements and other	389	3,962
	194,996	201,356
Interest expense		
Deposits from financial institutions	3,499	517
Due to customers	2,639	2,610
Borrowings from governments and financial institutions	6,697	8,743
Debt securities and subordinated debts in issue	107,799	106,569
Other	139	31
	120,773	118,470
Net interest income	74,223	82,886

Interest income accrued on identified impaired financial assets was Rmb 189 million (2008: Rmb 96 million).

8 FEE AND COMMISSION INCOME

	2009	2008
Loan administration and service fee	1,753	2,092
Arrangement fee	1,200	1,189
Guarantee and credit commitment fees	722	666
Other	637	358
	4,312	4,305

9 DIVIDEND INCOME

	2009	2008
Available for sale equity investment	97	1,434

10 NET TRADING AND FOREIGN EXCHANGE LOSSES

	2009	2008
Net losses from foreign exchange and foreign exchange products		
- Foreign exchange translation (gains)/losses	(862)	24,621
- Net realised and unrealised losses/(gains) on foreign exchange derivatives	3,884	(20,291)
Net gains from interest rate products	(161)	(3,630)
Other	(350)	1,253
	2,511	1,953

11 NET GAINS/(LOSSES) ON INVESTMENT SECURITIES

Net gains/(losses) on investment securities relate to disposal of following investments:

	2009	2008
Available for sale	318	(3,679)
Other	1	(543)
	319	(4,222)

12 IMPAIRMENT LOSSES ON ASSETS

	2009	2008
Loans and advances to customers	20,189	23,376
Investment securities		
- Available for sale	91	15,746
- Held to maturity	—	34
- Loans and receivables	9	(66)
Other	40	72
	20,329	39,162

13 OPERATING EXPENSES

	2009	2008
Business tax and surcharges	10,923	10,066
Staff costs	2,326	1,842
Administration expenses	933	695
Supervision fee	585	—
Occupancy	461	408
Travel expenses	325	275
Depreciation and amortisation	295	210
Service fees	272	186
Stamp duty and other taxes	344	169
Other	492	428
	16,956	14,279

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

	2009	2008
Government grants	—	5,214
Aircraft and other leasing income, net	941	326
Reversal/(Provision) for possible losses on financial guarantees (Note 37)	2,256	(1,232)
Other	(143)	(60)
	3,054	4,248

Government grants mainly comprise the subsidy of Rmb 5,193 million from the MOF to reimburse the Bank for part of the foreign exchange losses arising from the injected USD capital in 2008.

15 INCOME TAX EXPENSE

	2009	2008
Current tax	14,058	16,877
Deferred tax (Note 26)	(5,338)	(9,006)
	8,720	7,871

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

	2009	2008
Profit before tax	42,031	33,182
Tax calculated at the statutory rate of 25%	10,508	8,296
Effect of different tax rates on subsidiaries	(80)	(11)
Non-taxable income:		
- Interest income	(526)	(52)
- Dividend income	(12)	(44)
Other	(1,170)	(318)
	8,720	7,871

16 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2009			2008		
	Before tax amount	Tax expense	Net-of tax amount	Before tax amount	Tax benefit	Net-of tax amount
Fair value gains on available-for-sale financial assets	10,791	(4,411)	6,380	(17,904)	7,182	(10,722)
Share of other comprehensive income of associates	(92)	—	(92)	—	—	—
Other comprehensive income for the year (net presentation)	10,699	(4,411)	6,288	(17,904)	7,182	(10,722)

17 CASH AND BALANCES WITH THE PBOC

	2009	2008
Cash in hand	6	4
Balances with the PBOC, other than statutory reserve	287,700	457,545
Amount included in cash and cash equivalents (Note 36)	287,706	457,549
Statutory reserve with the PBOC	75	53
	287,781	457,602

18 DUE FROM BANKS

	2009	2008
Deposits with banks, included in cash equivalents (Note 36)	49,130	86,756
Long-term deposits with banks	599	1,256
Restricted balances with banks	145	175
	49,874	88,187
Current	49,814	87,743
Non-Current	60	444

19 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

As at 31 December 2009 and 31 December 2008, all of the Group's securities purchased under resale agreements were transacted with domestic commercial banks.

20 TRADING SECURITIES

	2009	2008
Government bonds, included in cash equivalents (Note 36)	—	769
Other government and quasi-government bonds	8,818	20,654
Other	13,527	7,111
	22,345	28,534

As at 31 December 2009, all of the Group's trading securities were listed securities, of which Rmb 633 million was pledged as collateral under repurchase agreements (2008: Rmb 1,490 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 derivative instruments become favorable assets or unfavorable liabilities as a result of market fluctuations relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly 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 2009 and 31 December 2008.

	2009			2008		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency swaps	345,851	1,867	(3,150)	308,335	15,943	(3,851)
Currency options	—	—	—	7,226	1,992	(1,992)
Currency forwards	16,685	352	(346)	2,978	70	(27)
Subtotal	362,536	2,219	(3,496)	318,539	18,005	(5,870)
Interest rate derivatives						
Interest rate swaps	249,656	4,511	(5,244)	256,396	10,411	(10,335)
Interest rate floor options	14,380	406	(406)	—	—	—
Subtotal	264,036	4,917	(5,650)	256,396	10,411	(10,335)
Credit derivatives						
Credit default swaps	1,420	—	(411)	2,105	19	(1,110)
Other derivatives	905	18	(18)	2,154	173	(172)
Total	628,897	7,154	(9,575)	579,194	28,608	(17,487)
Current		1,508	(1,797)		13,440	(3,305)
Non-Current		5,646	(7,778)		15,168	(14,182)

22 LOANS AND ADVANCES TO CUSTOMERS, NET

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

	2009	2008
Loans to customers	3,708,410	2,898,555
Accrued interest receivable	8,434	8,841
	3,716,844	2,907,396
Less: Allowance for impaired loans		
- Individually assessed	(14,651)	(14,404)
- Collectively assessed	(59,974)	(43,470)
	(74,625)	(57,874)
Loans and advances to customers, net	3,642,219	2,849,522
Current	618,949	430,846
Non-Current	3,023,270	2,418,676

Substantially all of the Group's lending are provided to projects in infrastructure, basic and pillar industries, people's livelihood areas and international co-operation areas. As at 31 December 2009, loans to customers included finance lease receivables of Rmb 18,251 million (2008: Rmb 8,934 million).

As at 31 December 2009, Rmb 9,442 million of the Group's loans and advances to customers was pledged as collateral under repurchase agreements (2008: nil).

Movements of allowance for impaired loans are set out below:

	Individually assessed	Collectively assessed	Total
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
At 1 January 2008	5,184	28,265	33,449
Acquisition of subsidiaries	165	164	329
Net charge for the year	9,290	14,086	23,376
Transfer-in	—	1,092	1,092
Write-off	(162)	—	(162)
Unwinding of discount on allowance	(73)	—	(73)
Exchange differences	—	(137)	(137)
At 31 December 2008	14,404	43,470	57,874

23 INVESTMENT SECURITIES

	2009	2008
Available for sale		
Debt securities		
- listed	238,256	168,077
- unlisted	30,743	51,831
Equity securities		
- listed	15,570	7,184
- unlisted	5,038	4,782
Other	11,163	17
	300,770	231,891
Held to maturity		
Debt securities		
- listed	3,456	—
- unlisted	68	892
Less: Allowance for impairment	—	(34)
	3,524	858
Loans and receivables		
Receivable from the MOF*	89,447	90,427
Debt securities, unlisted	2,877	719
Other	9,367	—
Less: Allowance for impairment	(133)	(124)
	101,558	91,022
	405,852	323,771
Current	234,474	153,699
Non-Current	171,378	170,072

* According to the relevant decrees and decisions of the State Council on restructuring and the "Notice of the Ministry of Finance regarding the Distribution of the 'Administrative Measures governing Jointly Managed Funds under Joint Management of the Ministry of Finance and China Development Bank'", the remaining obligations of the Cinda bonds amounting to Rmb 82,600 million, together with an additional amount of Rmb 5,193 million being part of the foreign currency translation loss arising from the USD denominated capital, which bearing interest at 3% per annum from 1 January 2008, was assumed as by the MOF.

As at 31 December 2009, Group's investment securities of Rmb 657 million were pledged as collateral to third parties under agreements to repurchase (2008: nil).

As at 31 December 2009, available for sale debt securities included in cash equivalents were Rmb 11,112 million (2008: Rmb 61,551 million).

Held to maturity debt securities of Rmb 34 million were sold in 2009 before their respective maturity dates due to a significant deterioration in the creditworthiness of such debt securities (2008: Rmb 2,221 million). Such disposal did not affect the Group's intention to hold the remaining portfolio to maturity.

24 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2009	2008
At 1 January	2,502	358
Addition and transfer-in	982	2,078
Share of results after tax	126	66
Share of other comprehensive income	(92)	—
At 31 December	3,518	2,502

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 held	% of right to vote	Principal business
Associates					
CITIC Prospect Basic Infrastructure Investment Concentrate Trust Program*	Mainland China	Rmb 1,232	59% (Indirectly held)	59%	Infrastructure investment
New Exploitation Joint Venture Investment Corporation	Mainland China	Rmb 1,500	54% (Indirectly held)	50%	Capital investment and consultation
Tianjin Eco-City Investment & Development Co., Ltd.	Mainland China	Rmb 3,000	20% (Indirectly held)	20%	Public facilities construction
Joint venture					
Pak-China Investment Company Ltd.	Pakistan	USD 200	50% (Indirectly held)	50%	Cooperative investment projects between China and Pakistan

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

25 FIXED ASSETS, NET

	2009	2008
Cost	17,043	12,799
Accumulated depreciation	(1,798)	(1,250)
Net book value	15,245	11,549
Construction in progress	2,733	516
	17,978	12,065

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

	Buildings and leasehold improvements	Office equipment	Motor vehicles	Aircraft	Construction in process	Total
Cost						
At 1 January 2009	3,330	403	218	8,848	516	13,315
Add: Additions and transfer-in	219	157	2	3,933	2,738	7,049
Less: Disposals and transfer-out	(4)	(29)	(34)	—	(521)	(588)
At 31 December 2009	3,545	531	186	12,781	2,733	19,776
Accumulated depreciation						
At 1 January 2009	585	225	163	277	—	1,250
Add: Additions	141	52	14	398	—	605
Less: Disposals	(4)	(27)	(26)	—	—	(57)
At 31 December 2009	722	250	151	675	—	1,798
Net book value						
At 31 December 2009	2,823	281	35	12,106	2,733	17,978
At 31 December 2008	2,745	178	55	8,571	516	12,065

26 DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 25% (2008: 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:

	2009	2008
Deferred income tax assets	17,522	15,484
Deferred income tax liabilities	(1,111)	—
Total	16,411	15,484

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

	2009	2008
Deferred income tax assets		
Allowance for impaired loans	9,841	6,066
Allowance for other impaired financial assets	4,934	5,193
Unrealised losses on trading securities and derivatives	2,494	4,543
Allowance for available for sale investments	716	795
Fair value changes of available for sale investments	265	638
Temporary differences in exchange losses	2,019	2,669
Provision for possible losses on financial guarantees	455	1,248
Salaries and welfare payable-retirement benefit obligation and other	364	2,284
	21,088	23,436
Deferred income tax liabilities		
Unrealised gains on trading securities and derivatives	(1,895)	(7,477)
Fair value changes of available for sale investments	(2,604)	(285)
Transaction cost on issuance of debt and other	(178)	(190)
	(4,677)	(7,952)
Deferred income tax assets and liabilities, net	16,411	15,484

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

	2009	2008
Offsetting items of deferred tax assets		
Unrealised losses on trading securities and derivatives	(1,895)	(7,477)
Fair value changes of available for sale investments	(1,450)	(285)
Salaries and welfare payable-retirement benefit obligation and other	(211)	(190)
Total	(3,566)	(7,952)
Offsetting items of deferred tax liabilities		
Unrealised gains on trading securities and derivatives	1,895	7,477
Fair value changes of available for sale investments	1,450	285
Transaction cost on issuance of debt and other	221	190
Total	3,566	7,952

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

	2009	2008
At 1 January	15,484	(915)
Income statement charge	5,338	9,006
Unrealised (gains)/losses on charges in fair value of available for sale investments	(4,411)	7,182
Acquisition of subsidiaries	—	211
At 31 December	16,411	15,484

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

	2009	2008
Allowance for impaired loans	3,775	4,790
Allowance for other impaired financial assets	(259)	3,092
Unrealised losses on trading securities and derivatives	3,533	(1,070)
Allowance for available for sale investments	(79)	662
Temporary differences in exchange losses	(650)	650
Provision for possible losses on financial guarantees	(793)	308
Other	(189)	574
Total	5,338	9,006

27 OTHER ASSETS

	2009	2008
Receivable from sales of debt securities	13,473	—
Prepayment to venders	1,164	171
Prepayment for leasing equity and other	761	1,193
Prepayment for equity investment*	445	—
Goodwill **	560	560
Other intangible assets	170	199
Other	1,756	829
	18,329	2,952

* Prepayment for equity investment is the Bank's investment consideration to Aviation Securities Co., Ltd.. Refer to Note 40.

** The goodwill is attributable to CDB Leasing Co., Ltd.. There was no impairment identified in 2009 or 2008.

28 DEPOSITS FROM FINANCIAL INSTITUTIONS

	2009	2008
Demand deposits	25,040	10,837
Term deposits	135,380	104,729
	160,420	115,566
Current	64,520	15,052
Non-Current	95,900	100,514

29 DUE TO CUSTOMERS

	2009	2008
Demand deposits	312,788	222,663
Term deposits	71,069	20,722
Guarantee deposits	1,857	2,026
Certificates of deposit issued in Hong Kong	2,389	—
	388,103	245,411
Current	376,052	235,472
Non-Current	12,051	9,939

30 BORROWINGS FROM GOVERNMENTS AND FINANCIAL INSTITUTIONS

	2009	2008
Borrowings from domestic banks and financial institutions	247,184	213,171
Borrowings from foreign banks - import credit	14,034	21,283
Borrowings from foreign governments	4,566	4,163
Other	1,056	1,457
	266,840	240,074
Current	141,351	186,097
Non-Current	125,489	53,977

31 DEBT SECURITIES IN ISSUE

	Weighted average interest rate per annum (%)	2009	2008
Rmb bonds issued in domestic market	3.44 (2008: 4.05)	3,157,729	2,707,182
Rmb bonds issued in Hong Kong	2.34 (2008: 3.00)	3,011	5,066
Foreign currency bonds issued in domestic market	0.92 (2008: 3.08)	53,583	58,740
Foreign currency bonds issued in overseas market	4.73 (2008: 5.37)	14,213	17,627
Debt securities in issue, gross		3,228,536	2,788,615
Less: Purchased by the Group		(261)	(1,409)
Debt securities in issue		3,228,275	2,787,206
Current		335,607	231,840
Non-Current		2,892,668	2,555,366

At 31 December 2009, Rmb bonds issued in the domestic markets with provisions allowing the bond holders to redeem them prior to the bonds' maturity amounted to Rmb 300,390 million (2008: Rmb 297,125 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.

The Bank did not have any delinquencies relating to payment of principal or interest (2008: nil).

32 SUBORDINATED DEBT IN ISSUE

	Weighted average interest rate per annum (%)	2009	2008
Rmb debts issued in domestic market	4.61 (2008: 4.62)	80,425	40,322
Current		787	387
Non-Current		79,638	39,935

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

	2009	2008
Business tax and surcharges payable	3,234	2,709
Provision for possible losses on financial guarantees	1,644	3,899
Government subsidies for education loans	1,259	536
Salary and welfare payable-retirement benefit obligation	924	764
Lease security deposit	594	244
Other	1,199	922
	8,854	9,074
Current	6,252	7,500
Non-Current	2,602	1,574

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 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
At 1 January 2008	2,070	9,804	653	61,317	15,326	(1,002)	88,168
Financial restructuring upon incorporation	(15,100)	(9,804)	(653)	(33,380)	1,966	1,002	(55,969)
Net change in available for sale investments, net of deferred tax of Rmb 7,182 million	—	—	—	—	(10,722)	—	(10,722)
Appropriation to statutory surplus reserve	—	2,074	—	—	—	—	2,074
Other	28	—	—	—	—	—	28
At 31 December 2008	(13,002)	2,074	—	27,937	6,570	—	23,579

(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:

	2009	2008
At 1 January	6,570	15,326
Financial restructuring upon incorporation	—	1,966
Net gains/(losses) from changes in fair value	10,918	(34,184)
Less: Deferred income taxes	(4,443)	8,546
Net gains transferred to net profit on disposal and impairment	(127)	16,280
Less: Deferred income taxes	32	(4,070)
Reduction in temporary differences due to joint stock reform	—	2,706
At 31 December	12,950	6,570

(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 21 May 2010, the Bank appropriated 10% of its undistributed profits as reported in its 2009 statutory financial statements amounting to Rmb 3,051 million to the statutory surplus reserve (2008: Rmb 2,074 million).

In addition, on 21 May 2010, Board of Directors of the Bank proposed a profit appropriation to the general surplus reserve amounting to Rmb 3,051 million, which is still subject to the approval from the Shareholders' General Meeting (2008: Rmb 2,074 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.

On 21 May 2010, the Board of Directors of the Bank proposed a profit appropriation to general banking reserves amounting to RMB 9,279 million, which is still subject to the approval from the Shareholders' General Meeting (2008: Rmb 5,443 million).

35 RETAINED EARNINGS

(1) **Dividends**

On 21 May 2010, the Board of Directors of the Bank proposed a cash dividend amounting to Rmb 10,678 million (2008: Rmb 8,296 million), which is still subject to the approval from the Shareholders' General Meeting.

(2) As at 31 December 2009, the Group's retained earnings included Rmb 84 million of subsidiaries' retained earnings (2008: Rmb 48 million), of which Rmb 36 million were related to current year's retained earnings attributable to the Bank (2008: Rmb 38 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:

	2009	2008
Cash and balances with the PBOC (Note 17)	287,706	457,549
Due from banks (Note 18)	49,130	86,756
Government bonds (Note 20 and 23)	11,112	62,320
	347,948	606,625

37 CONTINGENT LIABILITIES AND COMMITMENTS

(1) Legal proceedings

As at 31 December 2009, 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.

	2009	2008
(2) Capital commitments		
Capital commitment in respect of equity investments		
- authorised but not contracted for	11,569	745
- contracted but not provided for	4,736	4,840
Capital commitment in respect of fixed assets		
- authorised but not contracted for	1,321	—
- contracted but not provided for	5,737	3,764
	23,363	9,349
(3) Commitments to extend credit		
Letters of guarantee issued	135,658	286,344
Letters of credit issued	14,105	6,940
Bank bill acceptance	2,037	—
Undrawn credit commitments	1,664,381	1,519,866
	1,816,181	1,813,150

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

(4) Operating lease commitments

Future minimum lease payments under non-cancellable operating leases as leasor are as follows:		
Within one year	1,329	901
Between one and five years	6,640	4,504
Five years above	5,964	4,727
	13,933	10,132
Future minimum lease payments under non-cancellable operating leases as leasee are as follows:		
Within one year	343	201
Between one and five years	646	329
Five years above	1	—
	990	530

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 2009 and 31 December 2008, the balance of managed loans amounted to approximately Rmb 852,475 million and Rmb 807,307 million, respectively, and entrusted loans amounted to approximately Rmb 4,371 million and Rmb 4,657 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 2009, 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:

	2009	2008
PRC Government bonds	6,072	4,463
Receivable from the MOF, including accrued interest	89,447	90,472
Rates range		
PRC Government bonds	0.89-4.07%	1.77-4.07%
Receivable from the MOF	3%	3%

(2) Central Huijin Investment Ltd.

As at 31 December 2009, 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.

There is no significant transaction with Huijin in 2009.

(3) Balances with subsidiaries

(a) *Significant transaction with subsidiaries*

For general information regarding the Group's principal subsidiaries, refer to Note 6.

In 2009, in accordance with the Overall Reform Plan of China Development Bank and Detailed Reform Implementation Plan of China Development Bank approved by the State Council, the Bank made a capital investment of Rmb 35,000 million to set up China Development Bank Capital Corporation ("CDB Capital"), a wholly owned subsidiary of the Bank that mainly engages in investments, investment management and investment consulting activities.

In accordance with the MOF's Reply regarding the Transfer of Equity Investments from China Development Bank to CDB Capital and CBRC's Reply regarding Issues relating to the Setup of an Equity Investment Company by China Development Bank Corporation, the Bank signed a transfer agreement with CDB Capital for 28 equity investments. On 25 December 2009, CDB Capital completed the payment of the transfer consideration of Rmb19,125 million as agreed in the transfer agreement, and began to exercise its rights and assume its obligations as the shareholder of the 28 equity investments. As at the date of authorisation for issue of this report, the work to complete the transfer procedures for the equity investments was still in progress.

The 28 equity investment items transferred are as follows:

Transfer investment items	Investment type	Transfer price
China-Africa Development Fund	Investment in subsidiaries	7,797
Other	Investment in subsidiaries	10
Subtotal		7,807
CITIC Prospect Basic Infrastructure Investment Concentrate Trust Program	Investment in associates and joint ventures	766
Tianjin Eco-City Investment & Development Co., Ltd.	Investment in associates and joint ventures	610
Pak-China Investment Company Ltd.	Investment in associates and joint ventures	492
New Exploitation Joint Venture Investment Corporation	Investment in associates and joint ventures	401
Other	Investment in associates and joint ventures	463
Subtotal		2,732
Fund investment and other	Available for sale	8,586
Total		19,125

(b) ***Other related party transactions***

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

	2009	2008
Derivative financial instruments (Notional amount: 2009: 7,985; 2008: 6,457)	366	734
Loans and advances, net	7,500	6,588
Due to customers	(1,450)	—
Deposits from financial institutions	(758)	(760)
Debt securities in issue	(262)	(1,409)

All transactions or balances with subsidiaries were eliminated in the consolidated financial statements.

(4) **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 2009 and as at 31 December 2009 were insignificant.

(5) **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(Note 2.1(b)), 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 9 November 2009, the Bank entered into an equity transfer agreement with Aviation Securities Co., Ltd. ("Aviation Securities") and its shareholders to purchase 100% of the equity interest of Aviation Securities for a consideration of Rmb 1,150 million. As at 31 December 2009, the Bank had paid the first installment payment of Rmb 445 million of the consideration.

On 10 February 2010, China Securities Regulatory Commission approved the Bank's acquisition of equity interest in Aviation Securities. Subsequently, the Bank settled the purchase consideration in full, and completed the shareholding registration change procedures prior to the issuance of these financial statements.

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