Annex 1

Eligibility Criteria for Capital Instruments

1. Criteria for Common Equity Tier 1

1.1 Directly issued and paid-in.

1.2 The paid-in amount is classified as equity under the relevant accounting standards and is separately listed and disclosed on the bank’s balance sheet.

1.3 Is neither secured nor covered by a guarantee of the issuer or related entity or subject to any other arrangement that legally or economically enhances the seniority of the claim.

1.4 Is perpetual, and the bank does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation.

1.5 Represents the most subordinated claim in liquidation of the bank. Entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation.

1.6 It is the issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and pari passu with all the others.

1.7 Distributions are paid out of distributable items. The distribution is entirely determined at the bank’s discretion. The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap.
1.8 There are no circumstances under which the distributions are obligatory. Non payment cannot be regarded as an event of default.

1.9 There are no preferential distributions, including in respect of other elements classified as the highest quality issued capital.

1.10 The bank can not directly or indirectly have funded the purchase of the instrument.

1.11 It is only issued with the approval of the stockholders’ meeting of the issuing bank, or with the approval of the Board of Directors or other persons duly authorized by the stockholders’ meeting.

2. Criteria for Additional Tier 1 capital

2.1 Issued and paid-in.

2.2 Instruments classified as liabilities for accounting purposes must have the ability of principal loss absorption.

2.3 Subordinated to depositors, general creditors and subordinated debt of the bank.

2.4 Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors.

2.5 Is perpetual, i.e. there is no maturity date and there are no step-ups or other incentives to redeem.

2.6 It may be callable at the initiative of the issuer only after a minimum of five years. But the bank must not do anything which creates an expectation that the call will be exercised; and to exercise a call option a bank must receive prior supervisory approval.

2.7 The bank must not exercise a call unless:
2.7.1 The bank replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or

2.7.2 Its capital position is demonstrated well above the minimum capital requirements prescribed by the CBRC after the call option is exercised

2.8 Repayment of principal must be with prior supervisory approval and the bank should not assume or create market expectations that supervisory approval will be given.

2.9 The bank must have full discretion at all times to cancel distributions/payments on instruments’ dividend/coupon distribution, and cancellation of discretionary payments must not be an event of default. The bank must have full access to cancelled payments to meet obligations as they fall due. Cancellation of distributions/payments must not impose restrictions on the issuing bank except in relation to distributions to common stockholders.

2.10 Must contain a write-down mechanism or conversion to common shares clause. The bank can immediately exercise the write-down mechanism or convert to common shares at an objective pre-specified trigger point.

2.11 Dividends/coupons must be paid out of distributable items. The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the bank’s credit standing.

2.12 The instrument can not have any provision that hinders recapitalization.

2.13 Neither the issuing bank nor a related party over which the bank exercises control or significant influence can have purchased the
instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.

2.14 If the instrument is not issued out of an operating entity or the holding company in the consolidated group, proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Additional Tier 1 capital.

3. Criteria for Tier 2 Capital

3.1 Issued and paid-in.

3.2 Subordinated to depositors and general creditors of the bank.

3.3 Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general creditors of the bank.

3.4 Minimum original maturity is at least five years, and there are no step-ups or other incentives to redeem.

3.5 May be callable at the initiative of the issuer only after a minimum of five years. The bank must not do anything that creates an expectation that the call will be exercised and to exercise a call option a bank must receive prior supervisory approval.

3.6 The bank must not exercise a call unless:

3.6.1 The bank replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
3.6.2 Its capital position is demonstrated well above the minimum capital requirements prescribed by the CBRC after the call option is exercised.

3.7 Must contain a write-down mechanism or conversion to common shares clause. The instruments can immediately exercise the write-down mechanism or convert to common shares at an objective pre-specified trigger point. The objective pre-specified trigger point is the earlier one of the following two conditions:

3.7.1 A decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the CBRC; and

3.7.2 The decision to make a public sector injection of capital, or equivalent support, without which the firm would become non-viable, as determined by the CBRC

3.8 The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.

3.9 The instrument can not have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the bank’s credit standing.

3.10 Neither the issuing bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.

3.11 If the instrument is not issued out of an operating entity or the holding company in the consolidated group, proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 Capital.