

China Merchants Bank Co., Ltd. - Hong Kong Branch

(Incorporated in China with Limited Liability)

ANNUAL FINANCIAL DISCLOSURE STATEMENT

As at 31 Dec 2018

SECTION A - HONG KONG BRANCH INFORMATION

I. Profit and Loss Information

	31 Dec 2018	31 Dec 2017
	<i>HKD '000</i>	<i>HKD '000</i>
Interest income	5,014,771	3,830,637
Interest expense	-2,483,377	-1,881,624
Other operating Income		
- Gains less losses arising from trading in foreign currencies	26,089	199,560
- Gains less losses arising from non-trading activities in foreign currencies	17,111	43,304
- Gains less losses on securities held for trading purposes	-3,724	4,375
- Gains less losses from other trading activities	330,128	282,565
- Fees and commission income	524,730	453,648
- Commission expenses	-40,265	-34,098
- Other operating income	-72,492	14,346
Staff expenses	-251,513	-226,926
Other operating expenses	-141,467	-122,689
Impairment losses and provisions for impaired loans and receivables	2,085	-409,502
Gains less losses from the disposal of property, plant and equipment and investment properties	0	0
Profit before taxation	2,922,076	2,153,596
Taxation	-472,359	-458,064
Profit after taxation	2,449,717	1,695,532

II. Balance Sheet Information

	31 Dec 2018	30 Jun 2018
	<i>HKD '000</i>	<i>HKD '000</i>
Assets		
(i) Cash and balances with banks	57,172,923	20,814,194
(ii) Placements with banks which have a residual contractual maturity of more than one month but not more than 12 months	17,045,369	24,221,466
(iii) Amount due from overseas offices of CMB	17,669,361	39,805,485
(iv) Trade bills	0	0
(v) Certificates of deposit held	9,660,289	14,129,716
(vi) Held-to-maturity investments	804,876	772,430
(vii) Securities measured at fair value which is designated	1,186,575	1,091,375
(viii) Loans and receivables		
(A) Loans and advances to customers	62,815,431	62,197,980
(B) Loans and advances to banks	0	0
(C) Other accounts	1,266,792	1,793,951
(D) Provisions for impaired loans and receivables	-573,385	-738,392
(ix) Investment securities	14,735,268	10,894,974
(x) Other investments	0	0
(xi) Property, plant and equipment and investment property	50,333	38,227
(xii) Fair value of derivatives	185,766	227,657
(xiii) Other assets	458,780	347,117
(xiv) Total assets	182,478,378	175,596,180
Liabilities		
(i) Deposits and balances from banks	33,353,326	28,291,460
(ii) Demand deposits and current accounts	59,085,687	64,848,413
(iii) Savings accounts	905,050	699,247
(iv) Time, call and notice deposits	45,360,013	34,608,096
(v) Amount due to overseas offices of CMB	12,207,330	22,530,967
(vi) Certificates of deposit issued	14,578,947	15,151,567
(vii) Debt securities issued	11,320,447	5,108,153
(viii) Other liabilities	5,181,578	3,743,277
(ix) Provision for profits tax	486,000	615,000
(x) Total liabilities	182,478,378	175,596,180

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III. Additional Balance Sheet Information

	31 Dec 2018 HKD '000	30 Jun 2018 HKD '000
(i) Loans and receivables		
Loans and advances to customers	62,815,431	62,197,980
Loans and advances to banks	0	0
Other accounts		
- Accrued interest	922,029	898,716
- Other receivables	344,763	895,235
Provisions for impaired loans and receivables to customers		
- Collectively assessed	-128,092	-155,705
- Individually assessed	-234,477	-379,749
Provisions for impaired loans and receivables to banks		
- Collectively assessed	0	0
- Individually assessed	0	0

No impairment allowance made on other accounts.

	31 Dec 2018		30 Jun 2018	
	HKD '000	% to Total Advances to customers	HKD '000	% to Total Advances to customers
(ii) Impaired/Non-performing Loans and Advances to Customers				
Gross impaired/non-performing loans and advances to customers	234,477	0.37%	505,763	0.81%
Impairment allowances - individually assessed/specific provision	234,477		379,749	
Market value of collateral in respect of impaired loans and advances	0		0	

The impaired loans and advances to customers are individually determined to be impaired.
 There is no loans and advances to banks as at 31 December 2018 and 30 June 2018.

No provision for loans and advances or other exposures of China Merchants Bank, Hong Kong Branch is maintained at China Merchants Bank, Head Office.

(iii) Analysis of Loans and Advances to Customers in Industry Categories

Gross amount of loans and advances for use in Hong Kong SAR

	31 Dec 2018 HKD '000		30 Jun 2018 HKD '000	
	Gross loans	Collateral	Gross loans	Collateral
Industrial, commercial and financial				
- Property development	11,195,430	0	12,479,075	0
- Property investment	1,608,366	0	1,813,152	0
- Hotels, boarding houses & catering	5,481,490	0	0	0
- Financial concerns	4,394,858	0	5,365,607	0
- Stock Brokers	1,090,572	0	0	0
- Non-stockbroking companies & individuals for the purchase of shares	0	0	0	0
- Wholesale and retail trade	3,610,095	0	2,845,699	0
- Manufacturing	2,957,246	0	3,507,329	0
- Transport and transport equipment	205,768	0	0	0
- Electricity and gas	0	0	0	0
- Recreational Activities	0	0	0	0
- Information Technology	0	0	169,500	0
- Others	3,302,642	443,702	3,695,340	245,333
Individuals				
- Others	142,825	0	71,200	0
Trade finance	0	0	0	0
Loans for use outside Hong Kong SAR	28,826,139	0	32,251,078	0
Total customer advances	62,815,431	443,702	62,197,980	245,333

Collateral includes deposits, shares, mortgages over properties and charges over fixed and movable assets.
 Where collateral values are greater than the gross loan amount, only the amount of collateral up to the gross loan is included.

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(iv) **International Claims by Countries or Geographical Segments**

Breakdown of the international claims by countries where it constitutes 10% or more of the total international claims after taking into consideration of transfer of risks, according to the location of the counterparties and the type of counterparties.

	31 Dec 2018					
	HKD Million					
	Non-Bank private sector					
	Banks	Non-Bank			Others	Total
Official Sectors		Financial Institutions	Non-financial Private Sector			
<i>Offshore Centres</i>						
Hong Kong	42,383	3,788	3,129	28,648	0	77,948
<i>Developing Asia and Pacific</i>						
China	50,236	1,772	723	8,736	0	61,467

	30 Jun 2018					
	HKD Million					
	Non-Bank private sector					
	Banks	Non-Bank			Others	Total
Official Sectors		Financial Institutions	Non-financial Private Sector			
<i>Offshore Centres</i>						
Hong Kong	28,701	5,771	3,129	32,308	0	69,909
<i>Developing Asia and Pacific</i>						
China	41,204	765	723	4,046	0	46,738

(v) **Gross Loans and Advances to Customers by Countries or Geographical Segments**

The analysis of loans and advances to customers by major countries or geographical segments in accordance with the location of the counterparties, to which not less than 10% of total loans and advances to customers are attributable after taking into account any recognized risk transfer is as follows:

	31 Dec 2018	30 Jun 2018
	HKD Million	HKD Million
Gross amount of loans and advances to customers		
- China	5,270	39,469
- Hong Kong	26,454	10,392
Total	31,724	49,861
Overdue loans and impaired loans and advances which are individually determined to be impaired		
- China	0	0
- Hong Kong	234	96
Total	234	96

(vi) **Foreign Currency Exposures**

The foreign currency exposures, of which the net positions (in absolute terms) constitute not less than 10% of the total net position in all foreign currencies, are shown as follows:

	31 Dec 2018			30 Jun 2018		
	HKD Million			HKD Million		
	USD	CNY	Total	USD	CNY	Total
Spot assets	114,046	10,191	124,237	101,888	13,764	115,652
Spot liabilities	112,794	17,786	130,580	119,417	13,765	133,182
Forward purchases	43,356	37,861	81,217	45,427	26,983	72,410
Forward sales	46,428	28,233	74,661	27,113	27,564	54,677
Net option position	-1,278	1,281	3	-2,718	2,719	1
Net long/(short) position	-3,098	3,314	216	-1,933	2,137	204
Net structural position	0	0	0	0	0	0

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(vii) Analysis of Gross Amount of Overdue or Rescheduled Loans and Advances to Customers

	31 Dec 2018		30 Jun 2018	
	HKD '000	% to Total Advances to customers	HKD '000	% to Total Advances to customers
Overdue loans and advances to customers				
- More than 3 months but not more than 6 months	0	0.00%	0	0.00%
- More than 6 months but not more than one year	0	0.00%	50,000	0.08%
- More than one year	234,477	0.37%	184,866	0.30%
Rescheduled loans and advances to customers (excluding those which have been overdue for more than 3 months)	0		0	
Gross overdue and rescheduled loans and advances to customers	234,477		234,866	
Current market value of collateral held against the covered portion of overdue loans and advances	0		0	
Covered portion of overdue loans and advances	0		0	
Uncovered portion of overdue loans and advances	234,477		234,866	
Impairment allowances made on overdue loans and advances	234,477		234,866	

Except the above-mentioned, no other asset is overdue or rescheduled.

(viii) Repossessed Assets

The Bank did not have any repossessed assets as at 31 December 2018 and 30 June 2018.

(ix) Non-bank Mainland Exposures

Non-bank counterparties are identified in accordance with the method set out in the return of "Quarterly Analysis of Loans & Advances and Provisions" issued by the HKMA.

	31 Dec 2018			30 Jun 2018		
	<i>HKD Million</i>			<i>HKD Million</i>		
	On-balance sheet exposure	Off-balance sheet exposure	Total	On-balance sheet exposure	Off-balance sheet exposure	Total
- Central government, central government-owned entities and their subsidiaries and JVs	17,251	0	17,251	14,870	0	14,870
- Local governments, local government-owned entities and their subsidiaries and JVs	6,026	64	6,090	7,410	97	7,507
- PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	23,096	1,683	24,779	24,076	1,514	25,590
- Other entities of central government not reported in the 1st item above	913	0	913	560	0	560
- Other entities of local government not reported in the 2nd item above	0	0	0	237	139	376
- PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	3,165	375	3,540	3,623	1,382	5,005
- Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	11,860	407	12,267	11,320	409	11,729
Total	62,311	2,529	64,840	62,096	3,541	65,637
Total assets after provisions	182,478			175,596		
On-balance sheet exposures as % of total assets	34.15%			35.36%		

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IV. Off Balance Sheet Exposures

	<u>31 Dec 2018</u>	<u>30 Jun 2018</u>
	<i>HKD '000</i>	<i>HKD '000</i>
(i) Contractual Amount of Contingent Liabilities and Commitments		
- Direct credit substitutes	6,165,648	7,159,855
- Transaction related contingencies	0	0
- Trade related contingencies	382,319	408,426
- Note issuance and revolving underwriting facilities	0	0
- Other commitments	1,505,336	6,199,386
- Others	0	0
(ii) Contractual Amount of Derivatives		
- Exchange rate-related derivative contracts	96,499,007	88,916,419
- Interest rate derivative contracts	10,371,443	3,445,827
- Others	0	0
(iii) Fair Value of Derivatives		
- Exchange rate-related derivative contracts	859,648	1,268,608
- Interest rate derivative contracts	106,221	51,617
- Others	0	0

The amount of exchange rate-related derivative contracts does not include any forward foreign exchange contracts arising from swap deposit arrangements.

Fair value represents the cost of replacing all contracts which have a positive value when marked to market. The fair values of derivatives do not take into account the effects of bilateral netting arrangements.

V. Liquidity Information Disclosure

(i) Liquidity Ratios

The Branch complies with the minimum requirement of Liquidity Maintenance Ratio ("LMR") and Core Funding Ratio ("CFR") in accordance with the Banking (Liquidity) Rules issued by the Hong Kong Monetary Authority ("HKMA").

	For the quarter ended	For the year ended
	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
Average LMR (%)	46.69%	42.88%
	For the quarter ended	For the quarter ended
	<u>31 Dec 2018</u>	<u>30 Sep 2018</u>
Average CFR (%)	247.06%	225.30%

The average LMR and CFR are calculated as the simple average of each month's average corresponding ratio.

(ii) Governance of liquidity risk management

Liquidity risk is the risk that the Branch 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 depositors and fulfill commitments to lend. This may be caused by market disruption or liquidity squeeze whereby the Branch may only unwind specific exposures at significantly discounted values.

The Branch adopts a prudent risk appetite in setting liquidity risk tolerance. Risk appetite is set in the form of liquidity risk limit and metric framework.

The management of the Branch's liquidity risk is governed by the liquidity risk management policies and principles which are set by the Group. Management Committee is one of the committees set up under the Branch. The duties of Management Committee are to approve the risk management framework that is in line with the Group's business objectives and risk profile. The Asset and Liability Management Committee ("ALCO") is a committee formed by the Management Committee on behalf of the Branch. ALCO is responsible for overseeing the Group's overall liquidity management. Its main responsibility is to develop the strategy, policy and limits for managing liquidity risk. Regular meetings are held to review the compliance status of the risk matrix established and the needs for change in strategy and policy. Daily liquidity management is managed by the Treasury Department. Finance Department monitors the risk matrix and submits regular reports of the liquidity profile to ALCO. Internal Audit periodically performs independent reviews on liquidity management framework to ensure the validity and effectiveness of the Branch's liquidity risk management functions.

(iii) Funding Strategy

The Branch sets its liquidity funding strategy according to the size and sophistication of its business, as well as the nature and complexity of its activities.

The objective of the Branch's funding strategy is to strive for a balance between business growth opportunities and funding stability. The Branch seeks to maintain diversified and stable funding sources with an appropriate mix of liabilities including customer deposits, interbank borrowings, issuance of negotiable certificates of deposit and debt instruments.

In setting the Branch's annual budget, the diversity and stability of various funding sources is considered so that the appropriate mix of liabilities is maintained.

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(iv) **Liquidity Stress Testing**

Liquidity stress testing is regularly conducted to project the Branch's cash flows under stress scenarios and to evaluate the sufficiency of liquidity cushion. The stress scenarios cover institution-specific crisis scenario, general market crisis scenario and combined scenario. The stress test results are regularly reported to ALCO. It is the Branch's policy that the liquidity cushion should be able to cover projected cash outflows under various prescribed stress scenarios.

(v) **Contingency Funding Plan**

Contingency Funding Plan (CFP) of the Group (including the Branch) clearly defines a set of triggering events that will activate the Plan. The mechanisms of CFP incorporate:

- 1) A set of early warning indicators that helps to identify any emerging liquidity risks at an early stage.
- 2) A list of potential funding sources, with due consideration of their reliability, priority and the expected available time during liquidity crisis.
- 3) Detailed action steps and properly assigned responsibilities for implementing the CFP in case of need.

(vi) **Cash Flow Maturity Mismatch Analysis ***

	31 Dec 2018				31 Dec 2017			
	HKD Million				HKD Million			
	1 to 7 Days	8 Days to 1 month	1 to 3 months	Over 3 months	1 to 7 Days	8 Days to 1 month	1 to 3 months	Over 3 months
Net liquidity mismatch	5,023	34,527	10,199	-47,431	8,447	17,191	16,824	-42,933
Cumulative mismatch	5,023	39,550	49,749	2,318	8,447	25,638	42,462	-471

- (i) Positive indicates a position of liquidity surplus. Negative indicates a liquidity shortfall that has to be funded.
 (ii) As the behavioural assumptions used to determine the maturity mismatch between assets and liabilities are updated from time to time, the information presented above may not be directly comparable across past balance sheet dates.

*The cash flow maturity mismatch analysis has already taken into account limitations on the transferability of liquidity.

(vii) **Sources of Funding**

The Branch's source of funding is from customer deposits and wholesale funding comprising intragroup borrowings, interbank borrowings, issuance of negotiable certificates of deposit and debt instruments:

	31 Dec 2018		31 Dec 2017	
	HKD Million	% to Total	HKD Million	% to Total
Wholesale Funding	71,460	40%	71,082	42%
Customer Deposits	105,351	60%	100,156	58%
	<u>176,811</u>		<u>171,238</u>	

(viii) **Liquidity Gap**

The table below analyses the on- and off-balance sheet items, broken down into maturity buckets* of the Branch:

	31 Dec 2018											Over 5 years	Balancing amount
	Total amount	Next day	2 to 7 days	8 days to 1 month	> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 years	> 1 year up to 2 years	> 2 years up to 3 years	> 3 years up to 5 years	Over 5 years		
Cash and balances with central bank	1,523	1,320	1	30	102	29	41	-	-	-	-	-	-
Due from banks	90,940	12,566	26,575	26,533	16,011	7,951	1,304	-	-	-	-	-	-
Debt securities	26,547	19,783	114	346	13	1,023	795	2,123	2,114	235	-	-	-
Loans and advances to customers	62,984	169	789	4,711	4,183	7,509	11,510	22,657	8,375	2,651	195	234	-
Other assets	1,058	88	72	62	9	4	9	14	-	-	-	800	-
Total on-balance sheet assets	183,052	33,925	27,552	31,682	20,318	16,516	13,659	24,794	10,490	2,886	195	1,035	-
Total off-balance sheet claims	1,018	6	21	266	280	388	57	-	-	-	-	-	-
	Total amount	Next day	2 to 7 days	8 days to 1 month	> 1 month up to 3 months	> 3 months up to 6 months	> 6 months up to 1 years	> 1 year up to 2 years	> 2 years up to 3 years	> 3 years up to 5 years	Over 5 years	Balancing amount	
Deposits from customers	105,700	63,891	7,073	13,715	9,154	4,701	7,021	91	17	37	-	-	-
Due to banks	45,604	12,534	10,789	13,593	7,549	939	-	-	-	-	200	-	-
Debt securities issued	26,078	-	-	26	1,839	1,643	5,570	4,961	8,237	3,567	235	-	-
Other liabilities	5,096	352	61	3,198	70	-3	537	19	-32	-6	-	901	-
Total on balance sheet liabilities	182,478	76,778	17,923	30,532	18,611	7,279	13,128	5,071	8,222	3,598	435	901	-
Total off-balance sheet obligations	8,809	1,518	60	266	626	2,042	4,254	32	-	10	-	-	-

* The maturity buckets mainly follow information provided to the HKMA MA(BS)23 – Liquidity Monitoring Tools return.

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SECTION B - CHINA MERCHANTS BANK CO., LTD. INFORMATION

I. Consolidated Capital Adequacy Ratio and Shareholders Funds

	31 Dec 2018	30 Jun 2018
	<i>RMB Million</i>	<i>RMB Million</i>
Capital adequacy ratio	13.06%	12.44%
Aggregate amount of shareholders funds	540,118	500,715

The capital adequacy ratio is prepared in accordance with the guideline "Measures for the Management of Capital of Commercial Banks (Trial Version)" issued by the China Banking Regulatory Commission in 2012 and other relevant requirements.

II. Other Consolidated Financial Information

	31 Dec 2018	30 Jun 2018
	<i>RMB Million</i>	<i>RMB Million</i>
- Total assets	6,745,729	6,537,340
- Total liabilities	6,202,124	6,033,289
- Total advances	3,933,034	3,877,868
- Total customer deposits	4,400,674	4,257,803
	31 Dec 2018	31 Dec 2017
	<i>RMB Million</i>	<i>RMB Million</i>
- Pre-tax profit	80,560	70,150

1 RMB = 1.140537 HKD at 31/12/2018
 1 RMB = 1.184553 HKD at 30/06/2018
 1 RMB = 1.200192 HKD at 31/12/2017

Statement of Compliance

This 2018 Annual Financial Disclosure Statement contains all disclosures required by the Banking (Disclosure) Rules and Supervisory Policy Manual:
 - Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.
 The information contained in the disclosure statement is not false or misleading in any respect, and that the operations of the Branch are clearly explained.
 The information is also available at China Merchants Bank Company Limited Hong Kong Branch and the Public Registry of the Hong Kong Monetary Authority.

Chen Jianghe, River
 Chief Executive

