

China Development Bank– Hong Kong Branch

2018 Annual Results Disclosure Statement

This is the Annual Results Disclosure Statement issued by the Bank for the year ended 31 December 2018. The information stated is not audited. It contains all the disclosures required by the Banking (Disclosure) Rules and the Supervisory Policy Manual:- Guideline on the Application of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority. This statement is readily accessible at our office located at 32/F, One International Finance Centre, No. 1 Harbour View Street, Central, Hong Kong and our Head Office website (www.cdb.com.cn).

China Development Bank - Hong Kong Branch
Annual Report for the year ended 31 December 2018

Amount expressed in thousand HKD, unless otherwise stated

I. Income Statement

	For period 1 January 2018 - 31 December 2018	For period 1 January 2017 - 31 December 2017
Interest income	12,439,195	10,362,175
Interest expense	(8,415,940)	(6,673,455)
Other operating income		
- Gains less losses from trading in foreign currencies	(566,072)	895,087
- Gains less losses on securities measured at fair value through profit or loss	(19,832)	-
- Net fees and commission income	304,989	368,633
- <i>Fees and commission income</i>	324,923	392,592
- <i>Fees and commission expenses</i>	(19,934)	(23,959)
- Others	(124,653)	49,399
Total operating income	<u>3,617,687</u>	<u>5,001,839</u>
Operating expenses		
- Rental expenses	(74,325)	(54,291)
- Staff expenses	(154,763)	(128,821)
- Net charge for debt provision	(2,391,705)	(3,130,264)
- Other operating expenses	(55,329)	(53,900)
Total operating expenses	<u>(2,676,122)</u>	<u>(3,367,276)</u>
Profit before taxation	941,565	1,634,563
Tax expense	(63,628)	(85,415)
Profit after taxation	<u>877,937</u>	<u>1,549,148</u>
Other comprehensive income/(expense)		
- Debt instruments at fair value through other comprehensive income reserve	12,043	(4,050)
Total comprehensive income for the period	<u>889,980</u>	<u>1,545,098</u>

China Development Bank - Hong Kong Branch

Amount expressed in thousand HKD, unless otherwise stated

II. Balance Sheet

	As at 31 December 2018	As at 30 June 2018
Assets		
Cash and balances with banks	56,379,688	57,827,878
Placements with banks which have a residual contractual maturity of more than one month but not more than 12 months	5,422,865	1,618,457
Amount due from overseas offices	21,882	21,767
Loans and receivables and other accounts	269,061,929	257,077,235
Derivative financial instruments	850,888	656,618
Certificates of deposit held	24,349,064	21,323,066
Investment securities	14,499,170	8,914,942
Property, plant and equipment and investment properties	64,025	46,256
Total assets	<u>370,649,511</u>	<u>347,486,219</u>
Equity and liabilities		
Deposits and balances from banks	72,549,723	58,946,431
Deposits from customers	22,097,256	23,219,854
- <i>Demand deposits and current accounts</i>	-	-
- <i>Savings deposits</i>	17,793,493	19,223,887
- <i>Time, call and notice deposits</i>	4,303,763	3,995,967
Amount due to overseas offices	53,902,179	56,078,147
Certificates of deposit issued	188,568,074	175,834,651
Issued debt securities	30,644,791	30,718,917
Derivative financial instruments	502,937	549,484
Other liabilities	1,607,445	1,444,127
Total liabilities	<u>369,872,405</u>	<u>346,791,611</u>
Reserves	777,106	694,608
Total Equity and Liabilities	<u>370,649,511</u>	<u>347,486,219</u>

Amount expressed in thousand HKD, unless otherwise stated

III. Remuneration of Senior Management and Key Personnel

The remuneration policy and package are approved by Headquarter. They are applicable to China Development Bank Hong Kong Branch.

In determining remuneration policy, the Human Resources Department of the Headquarter will take into account the business objective, people strategy, short-term and long-term performance, business and economic environment conditions, market practices and risk management needs, in order to ensure the remuneration aligns with business and individual performances, promotes effective risk management, facilitates retention of quality personnel and is competitive in the market.

The following factors are considered when determining the remuneration packages of Senior Management and Key Personnel:

- business needs;
- general economic situation;
- market compensation competitiveness;
- individual contribution to the business;
- retention consideration and individual potential.

In this financial year of 2018, the Human Resources Department of the Headquarter has discussed and reviewed the Bank remuneration periodically. The remuneration policy has been reviewed and there is no change made to the policy.

Aggregate quantitative information on the remuneration for the Branch's senior management and key personnel is set out below:

(i) Amount of remuneration for the financial year 2018 and 2017, split into fixed and variable remuneration, and number of beneficiaries:

As at 31 December 2018

	Fixed remuneration (HKD)	Variable remuneration (HKD)	Number of beneficiaries
Senior Management	4,461,075	2,979,601	6
Key Personnel	17,494,637	6,368,205	19

As at 31 December 2017

	Fixed remuneration (HKD)	Variable remuneration (HKD)	Number of beneficiaries
Senior Management	3,732,178	2,469,719	4
Key Personnel	15,326,245	5,528,804	18

Senior management: The senior executives, including the Branch Chief Executive, the Branch Alternate Chief Executives, who are designated by the Bank and responsible for oversight the branch-wide business and strategy.

Key personnel: The employees, including heads of functional departments and risk control, whose individual business activities involve the assumption of material risk which may be significant impact on risk exposure, or whose individual responsibilities are directly and materially linked to the profit.

(ii) According to the existing remuneration policy, both fixed and variable remuneration are paid in cash.

(iii) According to the existing remuneration policy, there is no deferral remuneration.

(iv) In relation to the risk management area, we have effective individual performance management system and all staff are required to complete the annual performance review. The assessment factors are not only based on the contribution to business results but also other management factors of the staff.

(v) No senior management or key personnel has been awarded with new sign-on or severance payment during the financial year 2018.

Amount expressed in thousand HKD, unless otherwise stated

IV. Additional Balance Sheet Information

	As at 31 December 2018	As at 30 June 2018
(i) Loans and receivables and other accounts		
- loans and advances to customers	260,411,384	246,317,332
- loans and advances to banks	25,070,514	25,479,756
- accrued interest and other accounts	1,276,704	1,297,825
Less: Collective impairment allowances	(8,793,672)	(9,797,008)
Individual impairment allowances	(8,903,001)	(6,220,670)
	<u>269,061,929</u>	<u>257,077,235</u>
(ii) Individual impaired loans and advances to customers:		
- Loans and advances	9,575,147	6,811,624
- Individual impairment allowances	(8,769,841)	(5,869,797)
- Collateral value	112,035	266,991
- Percentage to total loans and advances to customers	3.68%	2.77%

(iii) Analysis of gross amount of loans and advances to customers:

	As at 31 December 2018		As at 30 June 2018	
	Outstanding Balance	Covered by Collateral	Outstanding Balance	Covered by Collateral
By industry categories:				
<i>Loans and advances for use in Hong Kong</i>				
Industrial, commercial and financial sectors:				
- Property development	10,166,347	-	10,848,737	-
- Property investment	355,120	22,897	355,679	29,368
- Financial concerns	63,177,256	5,239,262	57,817,834	3,216,696
- Wholesale and retail trade	6,922,828	886,111	10,123,982	3,963,525
- Manufacturing	842,596	842,456	2,777,940	1,594,588
- Transport and transport equipment	16,841,136	14,099,247	15,572,021	13,572,670
- Stockbrokers	1,562,633	-	778,024	-
- Information technology	2,038,468	-	2,041,905	-
- Others	10,668,017	1,558,000	6,597,595	2,065,588
<i>Trade finance</i>	-	-	75,384	-
<i>Loans and advances for use outside Hong Kong</i>	147,836,983	42,809,453	139,328,231	42,587,135
Total	<u>260,411,384</u>	<u>65,457,426</u>	<u>246,317,332</u>	<u>67,029,570</u>

By geographical areas:

The gross amount of loans and advances to customers by countries or geographical segment is in accordance with the location of the counterparties after taking into account the transfer of risk. In general, a transfer of risk arises if the loans or advances of a customer are guaranteed by a party in a country which is different from that of the customer. A country or geographical segment, to which not less than 10% of the Branch's total amount of loans and advances to customers are attributable after taking into account any recognised risk transfer, is disclosed at below:

	As at 31 December 2018	As at 30 June 2018
China	112,260,011	100,490,430
Hong Kong	145,882,408	143,979,419
Other countries	2,268,965	1,847,483
	<u>260,411,384</u>	<u>246,317,332</u>

China Development Bank - Hong Kong Branch
Additional Information

Amount expressed in thousand HKD, unless otherwise stated

IV. Additional Balance Sheet Information (cont'd)

(iv) Individual impaired loans by geographical areas

	As at 31 December 2018		As at 30 June 2018	
	Impaired loan	Individual provision	Impaired loan	Individual provision
China	4,590,088	(4,590,088)	5,640,887	(5,290,343)
Hong Kong	4,985,059	(4,179,753)	1,170,737	(579,454)
	<u>9,575,147</u>	<u>(8,769,841)</u>	<u>6,811,624</u>	<u>(5,869,797)</u>

(v) Overdue or rescheduled assets

	As at 31 December 2018		As at 30 June 2018	
	Gross amount	% to total loans and advances to customers	Gross amount	% to total loans and advances to customers
Loans and advances to customers:				
Overdue more than 1 month but not more than 3 months	1,445,825	0.56%	-	-
Overdue more than 3 months but not more than 6 months	1,806,944	0.69%	-	-
Overdue more than 6 months but not more than 1 year	-	-	941,753	0.38%
Overdue more than 1 year	4,590,088	1.76%	3,657,142	1.48%
Total	<u>7,842,857</u>	<u>3.01%</u>	<u>4,598,895</u>	<u>1.86%</u>
By geographical areas:				
China	5,237,929		4,598,895	
Hong Kong	2,604,928		-	
	<u>7,842,857</u>		<u>4,598,895</u>	
Individual impairment allowances	<u>(6,888,174)</u>		<u>(4,598,895)</u>	
Collateral value	<u>19,036</u>		<u>111,808</u>	
Rescheduled assets	<u>-</u>		<u>-</u>	

V. International Claims

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

	Banks	Official Sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
HK\$ million eqvi.						
As at 31 December 2018						
Developed countries	10,237	-	-	96	-	10,333
Offshore centres	3,477	-	29,783	80,352	113	113,725
- of which: Hong Kong	2,612	-	29,783	78,898	113	111,406
Developing Latin America and Caribbean	16,526	-	-	-	-	16,526
Developing Africa and Middle East	980	316	-	-	-	1,296
Developing Asia-Pacific	78,583	-	9,423	103,242	-	191,248
- of which: China	78,152	-	9,423	102,838	-	190,413
Total	<u>109,803</u>	<u>316</u>	<u>39,206</u>	<u>183,690</u>	<u>113</u>	<u>333,128</u>

	Banks	Official Sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
HK\$ million eqvi.						
As at 30 June 2018						
Developed countries	4,415	-	-	111	-	4,526
Offshore centres	2,197	-	29,884	83,421	295	115,797
- of which: Hong Kong	1,961	-	29,884	82,175	295	114,315
Developing Latin America and Caribbean	18,572	-	-	-	-	18,572
Developing Africa and Middle East	392	-	-	-	-	392
Developing Asia-Pacific	75,537	-	7,711	93,273	-	176,521
- of which: China	75,537	-	7,711	92,781	-	176,029
Total	<u>101,113</u>	<u>-</u>	<u>37,595</u>	<u>176,805</u>	<u>295</u>	<u>315,808</u>

Amount expressed in thousand HKD, unless otherwise stated

VI. Currency Risk

Foreign currency exposures other than reporting currency

	As at 31 December 2018					Total
	USD	GBP	EUR	CNY	Others	
	HK\$ million eqvi.					
Spot assets	272,888	652	15,049	26,675	72	315,336
Spot liabilities	(238,616)	(1,160)	(14,917)	(26,779)	-	(281,472)
Forward purchases	2,378	693	2,758	3,625	-	9,454
Forward sales	(29,035)	-	(1,120)	(913)	-	(31,068)
Net option position	-	-	-	-	-	-
Net long (net short) position	7,615	185	1,770	2,608	72	12,250
Net structural position	-	-	-	-	-	-

	As at 30 June 2018					Total
	USD	GBP	EUR	CNY	Others	
	HK\$ million eqvi.					
Spot assets	249,778	108	14,484	33,088	696	298,154
Spot liabilities	(228,446)	(1,197)	(13,465)	(24,992)	(228)	(268,328)
Forward purchases	396	1,283	635	2,689	-	5,003
Forward sales	(12,690)	-	-	-	(395)	(13,085)
Net option position	-	-	-	-	-	-
Net long (net short) position	9,038	194	1,654	10,785	73	21,744
Net structural position	-	-	-	-	-	-

VII. Non-Bank Mainland Exposures

	On-balance sheet exposure	Off-balance sheet exposure	Total
	HK\$ million eqvi.		
As at 31 December 2018			
(a) Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	148,518	22,345	170,863
(b) Local governments, local government-owned entities and their subsidiaries and JVs	34,079	8,579	42,658
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	39,619	5,868	45,487
(d) Other entities of central government not reported in item (a)	463	19	482
(e) Other entities of local governments not reported in item (b)	200	500	700
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6,267	-	6,267
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	3,808	-	3,808
Total	232,954	37,311	270,265
Total assets after provision	371,263		
On-balance sheet exposures as percentage of total assets	62.75%		

Amount expressed in thousand HKD, unless otherwise stated

VII. Non-Bank Mainland Exposures (cont'd)

	On-balance sheet exposure	Off-balance sheet exposure	Total
	HK\$ million eqvi.		
As at 30 June 2018			
(a) Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	145,162	19,686	164,848
(b) Local governments, local government-owned entities and their subsidiaries and JVs	28,276	7,351	35,627
(c) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	38,882	3,508	42,390
(d) Other entities of central government not reported in item (a)	-	-	-
(e) Other entities of local governments not reported in item (b)	-	-	-
(f) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6,285	-	6,285
(g) Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	5,550	-	5,550
Total	224,155	30,545	254,700
Total assets after provision	347,910		
On-balance sheet exposures as percentage of total assets	64.43%		

VIII. Off-balance Sheet Exposures (other than derivative transactions)

	As at 31 December 2018	As at 30 June 2018
Contractual or notional amounts of other commitments		
Direct credit substitutes	11,906,031	11,928,872
Other commitments	34,732,731	28,213,768
	46,638,762	40,142,640

IX. Derivative Transactions

	As at 31 December 2018	As at 30 June 2018
<i>Total contractual or notional amounts</i>		
Exchange rate-related derivative contracts	30,658,447	13,213,513
Interest rate derivative contracts	42,679,234	38,695,525
	73,337,681	51,909,038
<i>Total fair value asset</i>		
Exchange rate-related derivative contracts	55,494	4,097
Interest rate derivative contracts	795,394	652,521
	850,888	656,618
<i>Total fair value liability</i>		
Exchange rate-related derivative contracts	(283,614)	(270,925)
Interest rate derivative contracts	(219,323)	(278,559)
	(502,937)	(549,484)

The fair values of derivatives do not take into account the effects of bilateral netting arrangements.

Amount expressed in thousand HKD, unless otherwise stated

X. Liquidity Risk Management

The Bank has many policies in place to manage its liquidity risk. The senior management and the functional departments perform their responsibilities to ensure the policies are effectively implemented in daily operation. The bank uses various tools for measurement of liquidity risk including liquidity ratio, stress testing, liquidity gap analysis, dynamic liquidity cashflow model and maturity ladder to monitor the risk.

The Bank maintains diverse sources of liquidity to facilitate flexibility in meeting funding requirements. It is primarily funded by debt capital market issuances, interbank borrowings and borrowing from the head office.

The Bank has implemented a forecast model and assumptions to perform cash flow analysis under normal and stressed scenarios. A contingency plan is established to assign procedures and responsibility of relevant departments to take appropriate actions based on stress test results. The Bank has also obtained consent to get ultimate fundings from the head office under severe liquidity crisis.

(i) Liquidity maintenance ratio and the core funding ratio

	For period 1 October 2018 - 31 December 2018	For period 1 July 2018 - 30 September 2018	For period 1 January 2017 - 31 December 2017
Average liquidity maintenance ratio	188.81%	82.26%	99.63%
Average core funding ratio	76.95%	78.72%	NA

The average liquidity maintenance ratio is the arithmetic mean of each calendar month's average value of its liquidity maintenance ratio as reported in Part I(2) of the "Return of Liquidity Position of an Authorized Institution". The average core funding ratio is the arithmetic mean of each calendar month's average value of its core funding ratio as reported in Part I of the "Stable Funding Position of an Authorized Institution".

(ii) Maturity Analysis

	Next day	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Indefinite	Total
HK\$ million eqvi.								
As at 31 December 2018								
Amount receivable arising from derivative contracts:	5	9,259	1,380	19,390	3,586	5,042	-	38,662
Due from MA for a/c of Exchange Fund	2,144	-	-	-	-	-	-	2,144
Due from banks	20,964	27,596	10,138	7,504	18,586	15	-	84,803
Debt securities held	12,911	34	6,257	11,068	7,009	1,571	-	38,850
Loans and advances to non-bank customers	22	51,815	7,516	43,473	136,285	11,076	10,223	260,410
Other assets	-	-	-	-	-	-	1,723	1,723
Total assets	36,046	88,704	25,291	81,435	165,466	17,704	11,946	426,592
Off-balance sheet claims	-	16,449	-	-	-	-	-	16,449
Deposits from non-bank customers	17,818	784	-	3,520	8	-	-	22,130
Amount payable arising from derivative contracts	6	9,222	1,311	19,702	3,154	4,453	-	37,848
Due to banks	2,822	30,384	45,166	37,463	8,155	3,582	392	127,964
Debt securities issued and outstanding	-	19,039	16,287	91,041	81,778	10,853	-	218,998
Other liabilities	1	-	-	-	-	-	661	662
Capital and reserves	-	-	-	878	-	-	(101)	777
Total liabilities	20,647	59,429	62,764	152,604	93,095	18,888	952	408,379
Off-balance sheet obligations	-	414	283	32,142	13,643	-	11,906	58,388
Net liquidity gap	15,399	45,310	(37,756)	(103,311)	58,728	(1,184)	(912)	(23,726)
As at 31 December 2017								
Amount receivable arising from derivative contracts:	8	1,443	189	1,242	4,186	5,631	-	12,699
Due from MA for a/c of Exchange Fund	15,108	-	-	-	-	-	-	15,108
Due from banks	15,895	9,603	12,175	5,570	15,384	13	-	58,640
Debt securities held	-	6,642	12,850	11,818	4,613	1,594	-	37,517
Loans and advances to non-bank customers	-	54,964	8,488	61,626	119,765	14,254	8,251	267,348
Other assets	-	-	19	-	-	-	748	767
Total assets	31,011	72,652	33,721	80,256	143,948	21,492	8,999	392,079
Off-balance sheet claims	-	11,725	-	-	-	-	-	11,725
Deposits from non-bank customers	20,527	-	8	3,959	-	25	-	24,519
Amount payable arising from derivative contracts	5	1,385	132	1,146	3,705	4,571	-	10,944
Due to banks	3,606	13,195	27,657	37,846	16,790	3,712	391	103,197
Debt securities issued and outstanding	790	18,444	41,589	68,552	92,237	12,469	-	234,081
Other liabilities	172	-	1	226	-	-	1,055	1,454
Capital and reserves	-	-	-	-	-	-	1,579	1,579
Total liabilities	25,100	33,024	69,387	111,729	112,732	20,777	3,025	375,774
Off-balance sheet obligations	14	3,172	796	19,145	15,998	12,688	11,882	63,695
Net liquidity gap	5,897	48,181	(36,462)	(50,618)	15,218	(11,973)	(5,908)	(35,665)

Amount expressed in thousand HKD, unless otherwise stated

XI. Consolidated Bank Information

	As at 31 December 2017 ¹	As at 31 December 2016 ²
(i) Capital and Capital adequacy		
Consolidated Amount of Shareholders' funds	RMB million 1,219,447	RMB million 1,141,546
Consolidated Capital Adequacy Ratio *	11.57%	11.57%
(ii) Other Financial Information		
Total assets	15,959,288	14,340,500
Total liabilities	14,718,813	13,177,780
Total loans and advances, gross	11,036,832	10,318,147
Total customer deposits	2,070,579	2,178,492
Pre-tax Profit	140,624	140,747

¹ The figures for year ended 31 December 2017 are extracted from the audited Consolidated Financial Statements of Head Office.

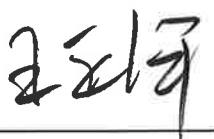
² The figures for year ended 31 December 2016 are extracted from the audited Consolidated Financial Statements of Head Office.

* The consolidated capital adequacy ratio is calculated in accordance with the Capital Rules for Commercial Banks (Provisional) issued by the China Banking Regulatory Commission and other relevant requirements. All figures relating to capital adequacy ratios are presented on a consolidated basis.

XII. Statement of Compliance

This 2018 Annual Financial Disclosure Statement contains all disclosures required by the Banking (Disclosure) Rules and the Supervisory Policy Manual:- Guideline on the Application of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

The information contained in the disclosure statement is not false or misleading in any respect, and that the operations of the Bank are clearly explained.



WANG Wuping
Chief Executive
China Development Bank - Hong Kong Branch