

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

(Incorporated in China with Limited Liability)
 ANNUAL FINANCIAL DISCLOSURE STATEMENT
 As at 31 Dec 2019

SECTION A - HONG KONG BRANCH INFORMATION

I. Profit and Loss Information

	<u>31 Dec 2019</u>	<u>31 Dec 2018</u>
	<i>HKD '000</i>	<i>HKD '000</i>
Interest income	5,403,348	5,014,771
Interest expense	(3,086,841)	(2,483,377)
Other operating Income		
- Gains less losses arising from trading in foreign currencies	44,431	26,089
- Gains less losses arising from non-trading activities in foreign currencies	23,115	17,111
- Gains less losses on securities held for trading purposes	9,264	(3,724)
- Gains less losses from other trading activities	168,825	330,128
- Fees and commission income	582,789	524,730
- Commission expenses	(44,721)	(40,265)
- Other operating income	(79,467)	(72,492)
Staff expenses	(308,986)	(251,513)
Other operating expenses	(208,600)	(141,467)
Impairment losses and provisions for impaired loans and receivables	46,781	2,085
Gains less losses from the disposal of property, plant and equipment and investment properties	0	0
Profit before taxation	2,549,938	2,922,076
Taxation	(415,000)	(472,359)
Profit after taxation	<u>2,134,938</u>	<u>2,449,717</u>

II. Balance Sheet Information

	<u>31 Dec 2019</u>	<u>30 Jun 2019</u>
	<i>HKD '000</i>	<i>HKD '000</i>
Assets		
(i) Cash and balances with banks	30,816,654	27,677,841
(ii) Placements with banks which have a residual contractual maturity of more than one month but not more than 12 months	8,872,588	13,964,493
(iii) Amount due from overseas offices of CMB	37,788,292	23,213,988
(iv) Trade bills	0	0
(v) Certificates of deposit held	7,379,871	7,601,392
(vi) Held-to-maturity investments	461,167	461,828
(vii) Securities measured at fair value which is designated	1,048,339	1,099,698
(viii) Loans and receivables		
(A) Loans and advances to customers	83,077,387	72,457,825
(B) Loans and advances to banks	0	0
(C) Other accounts	2,176,514	2,323,030
(D) Provisions for impaired loans and receivables	(525,635)	(698,103)
(ix) Investment securities	16,458,337	17,470,697
(x) Other investments	0	0
(xi) Property, plant and equipment and investment property	108,858	78,078
(xii) Fair value of derivatives	273,606	326,914
(xiii) Other assets	427,703	418,657
(xiv) Total assets	<u>188,363,681</u>	<u>166,396,338</u>
Liabilities		
(i) Deposits and balances from banks	27,925,242	26,211,377
(ii) Demand deposits and current accounts	53,505,989	53,962,846
(iii) Savings accounts	640,562	860,312
(iv) Time, call and notice deposits	43,702,451	36,844,552
(v) Amount due to overseas offices of CMB	30,579,836	14,396,633
(vi) Certificates of deposit issued	16,242,890	16,320,034
(vii) Debt securities issued	10,125,889	11,285,917
(viii) Other liabilities	4,739,822	5,826,667
(ix) Provision for profits tax	901,000	688,000
(x) Total liabilities	<u>188,363,681</u>	<u>166,396,338</u>

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III. Additional Balance Sheet Information

	31 Dec 2019 HKD '000	30 Jun 2019 HKD '000
(i) Loans and receivables		
Loans and advances to customers	83,077,387	72,457,825
Loans and advances to banks	0	0
Other accounts		
- Accrued interest	795,009	946,153
- Other receivables	1,381,506	1,376,876
Provisions for impaired loans and receivables to customers		
- Collectively assessed	(85,110)	(150,597)
- Individually assessed	(231,715)	(233,066)
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 2019		30 Jun 2019	
	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	231,715	0.28%	233,066	0.32%
Impairment allowances - individually assessed/specific provision	231,715		233,066	
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 2019 and 30 June 2019.

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 2019 HKD '000		30 Jun 2019 HKD '000	
	Gross loans	Collateral	Gross loans	Collateral
Industrial, commercial and financial				
- Property development	10,131,561	0	9,683,255	500,000
- Property investment	0	0	1,585,388	0
- Hotels, boarding houses & catering	22,456,814	0	17,175,620	0
- Financial concerns	4,382,719	0	3,127,588	0
- Stock Brokers	1,259,143	0	1,090,571	0
- Non-stockbroking companies & individuals for the purchase of shares	0	0	0	0
- Wholesale and retail trade	1,792,691	0	2,087,187	0
- Manufacturing	2,678,040	0	3,002,276	0
- Transport and transport equipment	699,173	166,667	495,178	0
- Electricity and gas	4,524,234	100,000	0	0
- Recreational Activities	0	0	0	0
- Information Technology	584,186	0	195,178	0
- Others	4,311,713	0	4,466,944	0
Individuals				
- Others	1,345,433	0	656,958	0
Trade finance	3,542	0	0	0
Loans for use outside Hong Kong SAR	28,908,139	376,550	28,891,682	411,167
Total customer advances	<u>83,077,388</u>	<u>643,217</u>	<u>72,457,825</u>	<u>911,167</u>

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 2019					
	<i>HKD Million</i>					
	<i>Non-Bank private sector</i>					
	<u>Banks</u>	<u>Non-Bank</u>		<u>Others</u>	<u>Total</u>	
<u>Official Sectors</u>		<u>Financial Institutions</u>	<u>Non-financial Private Sector</u>			
<i>Offshore Centres</i>						
Hong Kong	32,519	4,652	3,129	9,137	0	49,437
<i>Developing Asia and Pacific</i>						
China	36,835	491	723	70,248	0	108,297

	30 Jun 2019					
	<i>HKD Million</i>					
	<i>Non-Bank private sector</i>					
	<u>Banks</u>	<u>Non-Bank</u>		<u>Others</u>	<u>Total</u>	
<u>Official Sectors</u>		<u>Financial Institutions</u>	<u>Non-financial Private Sector</u>			
<i>Offshore Centres</i>						
Hong Kong	33,936	3,451	3,129	28,609	0	69,125
<i>Developing Asia and Pacific</i>						
China	35,998	1,395	723	37,149	0	75,265

(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 2019	30 Jun 2019
	<i>HKD Million</i>	<i>HKD Million</i>
Gross amount of loans and advances to customers		
- China	69,607	36,976
- Hong Kong	11,546	31,133
Total	81,153	68,109
Overdue loans and impaired loans and advances which are individually determined to be impaired		
- China	0	0
- Hong Kong	232	233
Total	232	233

(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 2019			30 Jun 2019		
	<i>HKD Million</i>			<i>HKD Million</i>		
	<u>USD</u>	<u>CNY</u>	<u>Total</u>	<u>USD</u>	<u>CNY</u>	<u>Total</u>
Spot assets	127,883	10,250	138,133	110,282	8,134	118,416
Spot liabilities	132,257	12,164	144,421	115,012	10,753	125,765
Forward purchases	34,139	20,322	54,461	36,330	28,149	64,479
Forward sales	26,867	21,009	47,876	32,614	24,235	56,849
Net option position	(335)	333	(2)	(307)	307	0
Net long/(short) position	2,563	(2,268)	295	(1,321)	1,602	281
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 2019		30 Jun 2019	
	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%	0	0.00%
- More than one year	231,715	0.28%	233,066	0.32%
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	231,715		233,066	
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	231,715		233,066	
Impairment allowances made on overdue loans and advances	231,715		233,066	

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 2019 and 30 June 2019.

(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 2019			30 Jun 2019		
	<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	37,669	0	37,669	32,512	0	32,512
- Local governments, local government-owned entities and their subsidiaries and JVs	8,267	1	8,268	6,759	32	6,791
- PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	23,009	234	23,243	21,378	240	21,618
- Other entities of central government not reported in the 1st item above	589	0	589	867	0	867
- Other entities of local government not reported in the 2nd item above	0	0	0	0	0	0
- PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	1,718	464	2,182	1,885	369	2,254
- Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	11,491	225	11,716	9,292	370	9,662
Total	82,743	924	83,667	72,693	1,011	73,704
Total assets after provisions	188,364			166,396		
On-balance sheet exposures as % of total assets	43.93%			43.69%		

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IV. Off Balance Sheet Exposures

	31 Dec 2019	30 Jun 2019
	HKD '000	HKD '000
(i) Contractual Amount of Contingent Liabilities and Commitments		
- Direct credit substitutes	697,990	4,812,446
- Transaction related contingencies	0	0
- Trade related contingencies	236,610	370,003
- Note issuance and revolving underwriting facilities	0	0
- Other commitments	1,492,903	1,855,341
- Others	0	0
(ii) Contractual Amount of Derivatives		
- Exchange rate-related derivative contracts	66,681,857	70,180,497
- Interest rate derivative contracts	9,104,928	10,042,988
- Others	0	0
(iii) Fair Value of Derivatives		
- Exchange rate-related derivative contracts	217,850	241,441
- Interest rate derivative contracts	723,869	603,487
- 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 quarter ended
	31 Dec 2019	31 Dec 2018
Average LMR (%)	47.46%	46.69%
	For the quarter ended	For the quarter ended
	31 Dec 2019	31 Dec 2018
Average CFR (%)	197.09%	247.06%

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 2019				31 Dec 2018			
	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	10,289	13,209	-5,289	-16,871	5,023	34,527	10,199	-47,431
Cumulative mismatch	10,289	23,498	18,209	1,338	5,023	39,550	49,749	2,318

- (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 2019		31 Dec 2018	
	HKD Million	% to Total	HKD Million	% to Total
Wholesale Funding	84,874	46%	71,460	40%
Customer Deposits	97,849	54%	105,351	60%
	<u>182,723</u>		<u>176,811</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 2019											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			
Cash and balances with central bank	1,980	1,665	0	35	47	0	6	48	0	177	2	-	
Due from banks	76,017	30,750	11,163	15,578	13,535	3,290	1,702	-	-	-	-	-	
Debt securities	25,478	19,321	-	7	7	2,232	1,162	1,655	1,014	78	-	-	
Loans and advances to customers	83,383	20	696	3,198	4,309	16,876	33,205	10,222	9,992	3,784	842	238	
Other assets	2,041	12	371	12	54	42	44	653	-	-	-	853	
Total on-balance sheet assets	188,899	51,768	12,230	18,830	17,952	22,440	36,119	12,579	11,006	4,039	845	1,091	
Total off-balance sheet claims	609	2	135	131	112	125	104	-	-	-	-	-	
	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	98,156	59,135	8,497	9,315	8,596	6,812	5,083	386	309	23	-	-	
Due to banks	58,568	34,728	105	2,902	20,633	-	-	-	-	-	200	-	
Debt securities issued	26,506	-	-	1,491	1,977	4,416	6,646	8,193	234	3,549	-	-	
Other liabilities	5,143	137	363	2,671	37	25	594	666	0	14	-	636	
Total on balance sheet liabilities	188,373	94,000	8,965	16,379	31,243	11,253	12,323	9,245	543	3,586	200	636	
Total off-balance sheet obligations	2,930	1,502	62	37	298	536	442	44	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 2019	30 Jun 2019
	<i>RMB Million</i>	<i>RMB Million</i>
Capital adequacy ratio	13.02%	12.60%
Aggregate amount of shareholders funds	611,301	567,886

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 2019	30 Jun 2019
	<i>RMB Million</i>	<i>RMB Million</i>
- Total assets	7,417,240	7,193,181
- Total liabilities	6,799,533	6,619,186
- Total advances	4,490,650	4,323,530
- Total customer deposits	4,844,422	4,699,738
	31 Dec 2019	31 Dec 2018
	<i>RMB Million</i>	<i>RMB Million</i>
- Pre-tax profit	92,867	80,560

1 RMB = 1.117856 HKD at 31/12/2019
 1 RMB = 1.136686 HKD at 30/06/2019
 1 RMB = 1.140537 HKD at 31/12/2018

Statement of Compliance

This 2019 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



