

China Development Bank (SDBZ CH)

FUNDAMENTAL VIEW ¹

As of 11 May 2023

- CDB's credit standing is based on its role as a quasi-sovereign policy bank that provides financial support for implementation of the government's socio-economic policy priorities both domestically and externally.
- It is the largest issuer in the Chinese domestic bond market (accounting for near one-tenth of the whole China bond market) after the government itself.
- CDB is wholly owned by the Chinese government and can lean on the central bank for liquidity and capital needs. In 2015, the government injected \$32 bn in FX reserves into the bank to facilitate financing for Belt and Road Initiative (BRI) projects.

RISKS & CATALYSTS

As of 11 May 2023

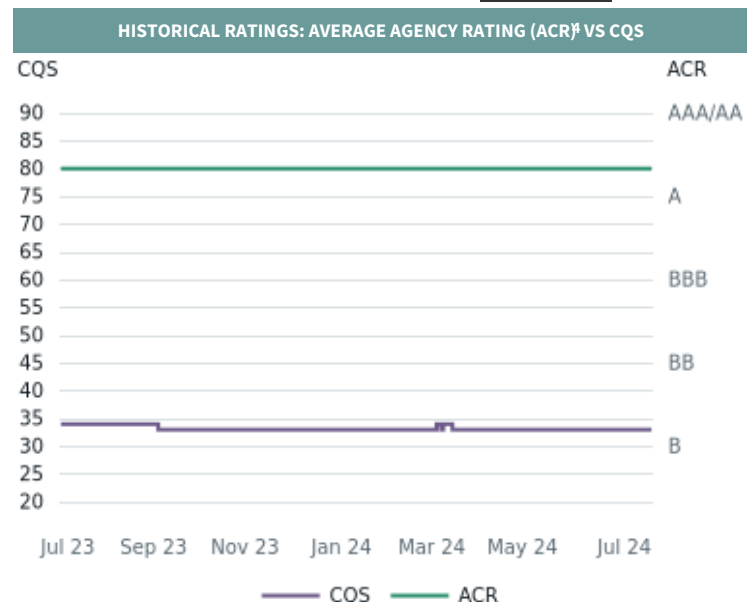
- As its credit standing is strongly linked to the government, CDB is rated in line with the China sovereign (A1/A+/A+). Any downgrade of China's sovereign rating would affect its own ratings.
- Any reduction in the government's willingness to support CDB would weaken its credit standing. Some uncertainty did arise as the bank moved towards commercialisation pre-2013, but CDB's policy bank status has since been reaffirmed.
- CDB's policy role may involve it taking on exposure that lead to financial losses, in which case we would expect proactive state support to ensure that the bank remains financially sound.

CREDIT QUALITY SCORE (CQS)²

As of 04 Jul 2024

CURRENT CQS

33

CQS OUTLOOK ³
NEGATIVE STABLE POSITIVE


KEY METRICS

As of 11 May 2023

KEY METRICS	FY18	FY19	FY20	FY21	FY22
Operating Income/Average Assets	1.53%	1.33%	0.98%	1.09%	1.31%
Pre-Impairment Operating Profit / Average Assets	1.43%	1.22%	0.88%	0.99%	1.22%
ROA	0.7%	0.7%	0.7%	0.5%	0.5%
ROE	8.7%	8.7%	8.2%	5.2%	5.3%
CET1 Ratio	9.7%	9.9%	9.9%	9.9%	9.3%
Credit Costs	0.86%	0.45%	0.05%	0.59%	0.85%
NPL Ratio	0.92%	0.95%	0.79%	0.84%	0.78%
Total Equity/Total Assets	7.90%	8.30%	8.51%	8.82%	8.66%

Credit costs are calculated using provisions divided by average loans

BUSINESS DESCRIPTION

As of 11 May 2023

- CDB was established in 1994 to alleviate the problem of insufficient funds for China's economic growth and to take over the long-term financial agency function and policy loan function of CCB.
- From 1998-2013, under the leadership of Chen Yuan, CDB started its commercialization journey with its management attempting to demonstrate that a policy bank can be run along relatively commercial lines. But the commercialization raised the issue of higher bond financing costs for CDB. Unlike commercial banks, bond financing is the major source of funding for CDB. Since 2013, after a new CEO took over, CDB gradually returned to its original position of a policy bank.
- CDB is owned by the Chinese government via the MOF (37%), Huijin (35%), Buttonwood (27%) - an investment company held by SAFE - and the National Council for Social Security Funds (2%). CDB's main subsidiaries are CDB Capital Co (private equity), CDB Securities Co (underwriting & brokerage) and CDB Leasing, which is listed in Hong Kong.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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