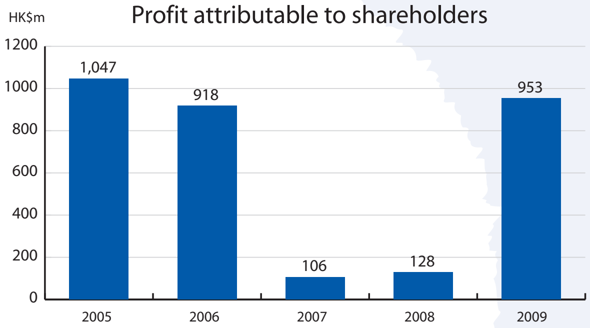
Focus on Execution

中信嘉華銀行
CITIC
KA WAH
BANK

2009 Annual Results Highlights

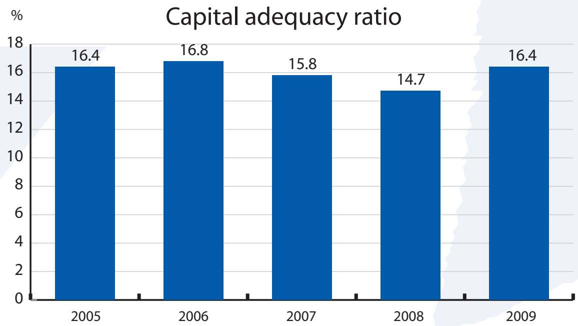
Results Highlights

- Net interest income up 25.3% to HK$1,937 million.
- Non-interest income increased 3.2 times to HK$1,257 million.
- Operating profit before impairment allowances up 206.1% to HK$1,599 million.
- Net profit before tax and profit attributable to shareholders increased 5.8 times and 6.4 times to HK$1,120 million and HK$953 million respectively, both near historic high.



Healthy Financial Position

- Total assets and total loans were maintained at about the same level as 2008 at HK$120.1 billion and HK$73.3 billion respectively.
- Marked improvement in current and savings deposits which accounted for 43.3% of total customer deposits.
- Capital adequacy ratio improved by 1.7 percentage points to 16.4%.



Core Performance

- **Retail Banking Group:** Continued expansion of CITIC*first* wealth management franchise to over 14,800 customers with HK$43.0 billion client assets under management.
- **Wholesale Banking Group:** Enhanced product capabilities resulting in 29% growth in non-lending fee and commission income.
- **China Banking:** Extended cooperation to more CNCB branches, spanning across most of CNCB's major geographical coverage in Mainland China and successfully introduced a series of new business cooperation initiatives.
- **Treasury & Markets Group:** Strengthened product development and sales capabilities; and deepened cross-selling efforts with Retail and Wholesale Banking Groups, resulting in 74.0% increase in related income.

Key Corporate Developments

- CNCB completed its acquisition of a 70.32% interest in CKWB's holding company, CIFH, in October 2009, which signifies CKWB as the international commercial banking platform for CNCB.
- CKWB will be renamed CITIC Bank International in May 2010 to fully reflect its role within the CNCB Group to extend the CITIC commercial banking franchise's presence to the ASEAN region and beyond.

CKWB – CITIC Ka Wah Bank Limited; CIFH – CITIC International Financial Holdings Limited; CNCB – China CITIC Bank Corporation Limited.

中信嘉華銀行有限公司
CITIC KA WAH BANK LIMITED
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

ANNOUNCEMENT OF 2009 FINAL RESULTS

The Board of Directors of CITIC Ka Wah Bank Limited ("the Bank") is pleased to announce the consolidated results of the Bank and its subsidiaries ("the Group") for the year ended 31 December 2009.

Consolidated Income Statement
For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	2009	2008
	HK$'000	HK$'000
Interest income	**2,963,256**	4,019,835
Interest expense	**(1,026,056)**	(2,474,170)
Net interest income	**1,937,200**	1,545,665
Fee and commission income	**884,853**	760,310
Fee and commission expense	**(26,603)**	(16,779)
Net fee and commission income	**858,250**	743,531
Net loss and write-down on structured investment vehicles	**-**	(717,885)
Other net trading income	**286,850**	231,554
Net trading income / (loss)	**286,850**	(486,331)
Net loss from financial instruments designated at fair value through profit or loss	**(4,719)**	(74,422)
Net hedging (loss) / gain	**(3,734)**	2,933
Net gain on disposal of available-for-sale securities	**57,751**	46,195
Other operating income	**62,463**	70,220
Operating income	**3,194,061**	1,847,791
Operating expenses	**(1,594,713)**	(1,325,218)
Operating profit before impairment	**1,599,348**	522,573
Impairment losses on loans and advances	**(558,895)**	(383,185)
Impairment losses written back on available-for-sale securities	**4**	292
Impairment losses	**(558,891)**	(382,893)
Operating profit	**1,040,457**	139,680
Net gain on disposal of property and equipment	**42,948**	24,185
Revaluation gain on investment properties	**36,116**	446
Profit before taxation	**1,119,521**	164,311
Income tax	**(166,622)**	(36,003)
Profit for the year	**952,899**	128,308

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2009

(Expressed in Hong Kong dollars)

	2009	2008
	HK$'000	HK$'000
Profit for the year	**952,899**	128,308
Other comprehensive income for the year (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of overseas subsidiaries	**(40,863)**	15,148
Other property revaluation reserve		
- surplus on revaluation of other premises upon reclassification to investment properties	**7,719**	-
- release of deferred tax liabilities upon disposal of investment properties transferred from other premises	**-**	277
- effect on deferred tax balances as at 1 January resulting from a change in tax rate	**-**	267
Available-for-sale securities		
- change in fair value	**155,371**	(269,459)
- transfer to income statement on disposal	**(59,546)**	(45,612)
- transfer to deferred tax	**(15,811)**	51,987
- effect on deferred tax balance as at 1 January resulting from change in tax rate	**-**	(1,051)
	46,870	(248,443)
Total comprehensive income for the year	**999,769**	(120,135)
Attributable to equity shareholders of the Bank	**999,769**	(120,135)

Consolidated Statement of Financial Position

As at 31 December 2009

(Expressed in Hong Kong dollars)

	2009	2008
	HK$'000	HK$'000
ASSETS		
Cash and balances with banks, central banks and other financial institutions	**6,898,339**	10,754,122
Placements with and advances to banks, central banks and other financial institutions	**15,562,509**	10,473,951
Trade bills	**1,028,616**	816,069
Trading assets	**1,783,875**	2,065,746
Securities designated at fair value through profit or loss	**580,636**	521,834
Loans and advances to customers and other accounts	**73,041,353**	75,183,429
Available-for-sale securities	**20,073,727**	20,683,453
Property and equipment		
- Investment property	**183,192**	148,076
- Other property and equipment	**845,147**	887,788
Tax recoverable	**24,036**	167,267
Deferred tax assets	**101,355**	108,095
TOTAL ASSETS	**120,122,785**	121,809,830
EQUITY AND LIABILITIES		
Deposits and balances of banks and other financial institutions	**2,794,355**	927,337
Deposits from customers	**94,240,980**	95,332,338
Trading liabilities	**1,108,009**	1,385,886
Certificates of deposit issued	**3,693,598**	4,121,408
Debt securities issued	**71,800**	2,333,727
Current taxation	**11,564**	10,128
Deferred tax liabilities	**1,718**	1,350
Other liabilities	**2,054,037**	4,239,497
Loan capital	**3,916,017**	3,927,221
TOTAL LIABILITIES	**107,892,078**	112,278,892
EQUITY		
Share capital	**7,283,341**	5,583,341
Reserves	**4,947,366**	3,947,597
Total equity attributable to equity shareholders of the Bank	**12,230,707**	9,530,938
TOTAL EQUITY AND LIABILITIES	**120,122,785**	121,809,830

Consolidated Statement of Changes in Equity
For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	Share capital	Share premium	Capital reserve	General reserve	Exchange differences reserve	Property revaluation reserve	Investment revaluation reserve	Share option reserve	Statutory reserve	Regulatory general reserve	Retained profits	Total reserves	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2009	**5,583,341**	**282,930**	**6,589**	**100,000**	**40,848**	**20,932**	**(350,829)**	**-**	**3,475**	**47,236**	**3,796,416**	**3,947,597**	**9,530,938**
Changes in equity for 2009:													
Issuance and allotment of shares	**1,700,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,700,000**
Release of reserve on disposal of property	-	-	-	-	-	**(7,719)**	-	-	-	-	**7,719**	-	-
Total comprehensive income / (expenses) for the year	**-**	**-**	**-**	**-**	**(40,863)**	**7,719**	**80,014**	**-**	**-**	**-**	**952,899**	**999,769**	**999,769**
Transfer from retained profits	-	-	-	-	-	-	-	-	**3,092**	**9,863**	**(12,955)**	-	-
At 31 December 2009	**7,283,341**	**282,930**	**6,589**	**100,000**	**(15)**	**20,932**	**(270,815)**	**-**	**6,567**	**57,099**	**4,744,079**	**4,947,366**	**12,230,707**
At 1 January 2008	5,583,341	282,930	6,589	100,000	25,700	22,066	(86,694)	25,785	-	-	3,678,707	4,055,083	9,638,424
Changes in equity for 2008:													
Equity-settled share-based transactions	-	-	-	-	-	-	-	12,649	-	-	-	12,649	12,649
Forfeited options transferred to retained profits	-	-	-	-	-	-	-	(38,434)	-	-	38,434	-	-
Release of reserve on disposal of property	-	-	-	-	-	(1,678)	-	-	-	-	1,678	-	-
Total comprehensive income / (expenses) for the year	-	-	-	-	15,148	544	(264,135)	-	-	-	128,308	(120,135)	(120,135)
Transfer from retained profits	-	-	-	-	-	-	-	-	3,475	47,236	(50,711)	-	-
At 31 December 2008	5,583,341	282,930	6,589	100,000	40,848	20,932	(350,829)	-	3,475	47,236	3,796,416	3,947,597	9,530,938

Consolidated Cash Flow Statement
For the year ended 31 December 2009
(Expressed in Hong Kong dollars)

	2009	2008
	HK$'000	HK$'000
Operating activities		
Profit before taxation	**1,119,521**	164,311
Adjustments for non-cash items:		
Impairment losses on loans and advances	**558,895**	383,185
Revaluation gain on investment properties	**(36,116)**	(446)
Net loss and write-down on structured investment vehicles	**-**	717,885
Net gain on disposal of property and equipment	**(42,948)**	(24,185)
Net gain on disposal of available-for-sale securities	**(57,751)**	(46,195)
Impairment losses written back on available-for-sale securities	**(4)**	(292)
Equity-settled share-based payment expenses	**-**	16,129
Amortisation of deferred expenses	**55,269**	69,483
Depreciation on property and equipment	**75,428**	77,713
Dividend income from equity securities	**(4,445)**	(4,100)
Interest expense on loan capital	**229,600**	275,396
Foreign exchange differences	**(38,357)**	(25,281)
	1,859,092	1,603,603
Increase in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond three months	**(6,354,262)**	(953,409)
Treasury bills with original maturity beyond three months	**(20,385)**	499,609
Certificates of deposit held with original maturity beyond three months	**(1,344,057)**	150,033
Trading assets	**281,871**	695,378
Securities designated at fair value through profit or loss	**(58,802)**	9,191
Loans and advances to customers, other accounts and trade bills	**1,320,238**	(7,164,186)
Available-for-sale securities	**1,621,941**	1,675,890
	(4,553,456)	(5,087,494)
(Decrease) / increase in operating liabilities		
Deposits and balances of banks and other financial institutions	**1,867,018**	(611,693)
Deposits from customers	**(1,091,358)**	11,314,025
Trading liabilities	**(277,877)**	506,196
Certificates of deposit issued	**(430,927)**	(2,751,653)
Debt securities issued	**61,178**	31,808
Other liabilities	**(2,195,805)**	2,669,597
	(2,067,771)	11,158,280
Cash (used in) / generated from operations	**(4,762,135)**	7,674,389

	2009	2008
	HK$'000	HK$'000
Cash (used in) / generated from operations	**(4,762,135)**	7,674,389
Income tax paid		
Hong Kong Profits Tax paid	**(2,622)**	(101,237)
Overseas tax paid	**(28,025)**	(15,620)
Net cash (used in) / generated from operating activities	**(4,792,782)**	7,557,532
Investing activities		
Dividends received from equity securities	**4,445**	4,100
Purchase of property and equipment	**(38,391)**	(40,601)
Proceeds from disposal of property and equipment	**57,277**	35,861
Net cash generated from / (used in) investing activities	**23,331**	(640)
Financing activities		
Proceeds from shares issued	**1,700,000**	-
Interest paid on loan capital	**(232,837)**	(280,526)
Redemption of debt securities issued	**(2,325,005)**	-
Net cash used in financing activities	**(857,842)**	(280,526)
Net (decrease) / increase in cash and cash equivalents	**(5,627,293)**	7,276,366
Cash and cash equivalents as at 1 January	**17,615,649**	10,339,283
Cash and cash equivalents as at 31 December	**11,988,356**	17,615,649
Cash flows from operating activities included:		
Interest received	**3,076,165**	4,046,642
Interest paid	**(918,864)**	(2,181,594)

Notes:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

The financial information relating to the financial year ended 31 December 2009 included in this final results announcement does not constitute the Group's statutory financial statements for that financial year but is extracted from those financial statements. Statutory financial statements for the year ended 31 December 2009 comply fully with the Banking (Disclosure) Rules and will be available from the Bank's website and registered office.

2 Changes in accounting policies

The HKICPA has issued a new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8, Operating Segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKFRS 7, Financial instruments: Disclosures - improving disclosures about financial instruments
- Improvements to HKFRSs (2008)
- HK(IFRIC) 13, Customer loyalty programmes

HKFRS 8 requires segment disclosure to be based on the way that the Group’s chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group’s chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group’s most senior executive management, and the four operating segments including wholesale banking, retail banking, treasury and markets, and others are being identified and presented. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. The revised title "Statement of financial position" has been adopted for the "Balance sheet". This change in presentation has no effect on reported profit or loss, total income and expenses or net assets for any period presented.

As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendment. The impact of these amendments are not considered to be material to the Group.

HK(IFRIC) 13 addresses how reporting entities that grant their customers loyalty award credits when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem these credits. HK(IFRIC) 13 requires reporting entities to allocate some of the proceeds of the initial sales to the award credits and recognise these proceeds as revenue when they have fulfilled their obligations to provide goods or services. The effect of the adoption of HK(IFRIC) 13 was not considered to be material for the Group, and therefore, the prior year figures have not been restated.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Interest income

	2009	2008
	HK$'000	HK$'000
Listed securities	**204,430**	348,506
Unlisted securities	**416,787**	394,010
Others	**2,342,039**	3,277,319
	2,963,256	4,019,835

All interest income and interest expenses included in the income statement refer to those interest income on financial assets or interest expenses on financial liabilities that are not at fair value through profit or loss for the years ended 31 December 2009 and 2008.

Included in the above is interest income accrued on impaired financial assets of HK$2,364,000 (2008: HK$2,985,000), which includes interest income on unwinding of discount on loan impairment losses of HK$1,874,000 (2008: HK$2,136,000) for the year ended 31 December 2009.

4 Net fee and commission income

	2009	2008
	HK$'000	HK$'000
Fee and commission income:		
Bills commission	**67,646**	78,241
Cards related income	**24,020**	30,410
General banking services	**74,201**	60,306
Insurance	**116,391**	107,317
Investment and structured investment products	**86,089**	159,410
Loans, overdrafts and facilities fees	**515,678**	323,658
Others	**828**	968
	884,853	760,310
Fee and commission expense	**(26,603)**	(16,779)
	858,250	743,531
Of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss:		
- Fee and commission income	**539,698**	354,068
- Fee and commission expense	**(12,511)**	(6,593)
	527,187	347,475

5 Net trading income / (loss)

	2009	2008
	HK$'000	HK$'000
Net loss and write-down on structured investment vehicles	**-**	(717,885)
Other net trading income:		
Gains less losses from dealing in foreign currencies	**209,751**	171,638
Gains less losses from trading securities	**(909)**	(43,560)
Gains less losses from other dealing activities	**65,791**	99,579
Interest income on trading assets		
- Listed	**-**	36
- Unlisted	**12,217**	3,861
	286,850	231,554
	286,850	(486,331)

The Group recorded a net loss and write-down on structured investment vehicles of approximately HK$717,885,000 for the year ended 31 December 2008, which represented the changes in fair value of the investments.

6 Net loss from financial instruments designated at fair value through profit or loss

	2009	2008
	HK$'000	HK$'000
Net losses	**(19,354)**	(40,561)
Interest income		
- Listed	**5,749**	4,964
- Unlisted	**12,170**	17,680
Interest expense	**(3,284)**	(56,505)
	(4,719)	(74,422)

7 Net hedging (loss) / gain

	2009	2008
	HK$'000	HK$'000
Net (loss) / gain on fair value hedge	**(3,734)**	2,933

8 Net gain on disposal of available-for-sale securities

	2009	2008
	HK$'000	HK$'000
Net revaluation gain transferred from reserves	**59,546**	45,612
Net (loss) / gain arising in current year	**(1,795)**	583
	57,751	46,195

9 Other operating income

	2009	2008
	HK$'000	HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**85**	40
- Unlisted	**4,360**	4,060
Rental income from investment properties		
less direct outgoings of HK$322,000 (2008: HK$240,000)	**4,202**	4,132
Others	**53,816**	61,988
	62,463	70,220

10 Operating expenses

	2009	2008
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs	**721,253**	686,798
Retirement costs	**48,514**	46,115
Share-based payment expenses		
- Equity-settled share-based payment expenses	**-**	16,129
- Cash-settled share-based payment expenses	**-**	4,997
	769,767	754,039
(b) Depreciation		
Depreciation of property and equipment		
- Assets held for use under operating leases	**13,054**	10,678
- Other assets	**62,374**	67,035
	75,428	77,713
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
- Rental of properties	**88,843**	88,167
- Others	**79,462**	88,322
Auditor's remuneration	**4,924**	6,238
Advertising	**29,937**	41,326
Communication, printing and stationery	**61,429**	64,188
Legal and professional fees	**31,247**	33,389
Others (Note)	**453,676**	171,836
	749,518	493,466
Total operating expenses	**1,594,713**	1,325,218

Note:

On 22 July 2009, the Bank entered into an agreement with the Hong Kong Monetory Authority ("HKMA"), the Securities and Futures Commission and 15 other distributing banks under which the Bank would offer to eligible customers to repurchase structured investment products, known as Lehman Brothers ("LB") Minibonds subscribed or purchased through the Bank (“the Repurchase Scheme”). The Group has provided for a total amount of approximately HK$298,000,000 for the years of 2009 and 2008 regarding LB Minibonds compensations which were under the Repurchase Scheme together with related expenses for funding the recovery of the collaterals by the trustee.

11 Impairment losses on loans and advances

	2009	2008
	HK$'000	HK$'000
Impairment losses on loans and advances		
- Individual assessment	(467,485)	(360,604)
- Collective assessment	(91,410)	(22,581)
	(558,895)	(383,185)
of which:		
- Additions	(666,670)	(485,141)
- Releases	21,703	43,226
- Recoveries	86,072	58,730
	(558,895)	(383,185)

12 Income tax in the consolidated income statement

	2009	2008
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the year	159,660	5,856
Over-provision in respect of prior years	-	(657)
	159,660	5,199
Current tax - Overseas		
Provision for the year	12,849	18,473
Under-provision in respect of prior years	2,812	441
	15,661	18,914
Deferred tax		
Origination and reversal of temporary differences	(8,699)	8,821
Effect on deferred tax balances as at 1 January resulting from a change in tax rate	-	3,069
	(8,699)	11,890
	166,622	36,003

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

13 Trading assets

	2009	2008
	HK$'000	HK$'000
Debt securities	**624,148**	619,782
Equity securities	**2,567**	2,340
Investment funds	**3,606**	5,534
Trading securities	**630,321**	627,656
Positive fair values of derivatives	**1,153,554**	1,438,090
	1,783,875	2,065,746
Issued by:		
Banks and other financial institutions	**624,148**	619,782
Corporate entities	**6,173**	7,874
	630,321	627,656
Analysed by place of listing:		
Listed outside Hong Kong	**2,567**	2,340
Unlisted	**627,754**	625,316
	630,321	627,656

14 Securities designated at fair value through profit or loss

	2009	2008
	HK$'000	HK$'000
Debt securities	**580,636**	521,834
Issued by:		
Sovereigns	**34,160**	-
Banks and other financial institutions	**415,162**	257,471
Corporate entities	**131,314**	264,363
	580,636	521,834
Analysed by place of listing:		
Listed outside Hong Kong	**84,080**	82,029
Unlisted	**496,556**	439,805
	580,636	521,834

15 Loans and advances to customers and other accounts

(a) Loans and advances to customers and other accounts less impairment allowances

	2009	2008
	HK$'000	HK$'000
Gross loans and advances to customers	**72,214,811**	73,414,516
Impairment allowances		
- Individually assessed	**(311,137)**	(247,227)
- Collectively assessed	**(305,933)**	(237,579)
	71,597,741	72,929,710
Accrued interest and other accounts less impairment allowances	**1,443,612**	2,253,719
	73,041,353	75,183,429

(b) Loans and advances to customers analysed by industry sectors

The following economic sector analysis is based on categories and definitions used by the HKMA.

	2009		2008	
	Gross loans and advances to customers	**Impaired loans and advances to customers**	Gross loans and advances to customers	Impaired loans and advances to customers
	HK$'000	**HK$'000**	HK$'000	HK$'000
Industrial, commercial and financial				
- Property development	**303,000**	**-**	110,000	-
- Property investment	**9,226,709**	**49,610**	9,124,397	11,465
- Financial concerns	**4,407,441**	**-**	4,494,391	142
- Stockbrokers	**21,428**	**-**	11,360	-
- Wholesale and retail trade	**3,775,792**	**90,648**	3,440,433	44,491
- Manufacturing	**5,212,804**	**67,058**	6,420,287	53,016
- Transport and transport equipment	**2,878,221**	**284**	2,902,689	362
- Recreational activities	**190,354**	**-**	125,358	-
- Information technology	**24,061**	**-**	20,845	-
- Others	**2,472,175**	**14,976**	3,065,534	35,671
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**28,981**	**-**	32,148	-
- Loans for the purchase of other residential properties	**10,673,018**	**936**	10,398,618	4,448
- Credit card advances	**310,487**	**2,530**	381,074	1,969
- Others	**3,626,044**	**8,211**	3,174,606	8,419
Gross loans and advances for use in Hong Kong	**43,150,515**	**234,253**	43,701,740	159,983
Trade finance	**3,381,683**	**103,566**	4,495,859	223,740
Gross loans and advances for use outside Hong Kong	**25,682,613**	**966,318**	25,216,917	1,000,456
Gross loans and advances to customers	**72,214,811**	**1,304,137**	73,414,516	1,384,179

(c) Impaired loans and advances to customers

	2009	2008
	HK$’000	HK$’000
Gross impaired loans and advances to customers	**1,304,137**	1,384,179
Impairment allowances - Individually assessed	**(311,137)**	(247,227)
	993,000	1,136,952
Gross impaired loans and advances as a % of total loans and advances to customers	**1.81%**	1.89%

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

Individually assessed impairment allowances were made after taking into account the realisable value of collateral in respect of such loans and advances of HK$330,365,000 (2008: HK$878,996,000) for the Group. This collateral mainly comprises mortgage interest over residential or commercial properties and cash with the Group.

16 Available-for-sale securities

	2009	2008
	HK$'000	HK$'000
Certificates of deposit held	**1,344,057**	200,014
Debt securities	**17,741,780**	19,219,141
Treasury bills (including Exchange Fund Bills)	**888,313**	1,173,721
Equity securities	**43,244**	34,306
Investment funds	**56,333**	56,271
	20,073,727	20,683,453
Issued by:		
Sovereigns	**972,558**	1,173,721
Public sector entities	**384,285**	727,720
Banks and other financial institutions	**14,123,245**	14,434,242
Corporate entities	**4,593,639**	4,347,770
	20,073,727	20,683,453
Analysed by place of listing:		
Listed in Hong Kong	**173,397**	500,428
Listed outside Hong Kong	**3,198,066**	4,897,115
	3,371,463	5,397,543
Unlisted	**16,702,264**	15,285,910
	20,073,727	20,683,453

17 Reserves

	2009	2008
	HK$'000	HK$'000
Share premium	**282,930**	282,930
Capital reserve	**6,589**	6,589
General reserve	**100,000**	100,000
Exchange differences reserve	**(15)**	40,848
Property revaluation reserve	**20,932**	20,932
Investment revaluation reserve	**(270,815)**	(350,829)
Statutory reserve	**6,567**	3,475
Regulatory general reserve	**57,099**	47,236
Retained profits*	**4,744,079**	3,796,416
Total	**4,947,366**	3,947,597

* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. As at 31 December 2009, HK$587,892,000 (2008: HK$675,465,000) was included in the retained profits in this respect which was distributable to equity holders of the Bank subject to consultation with the HKMA.

18 Contingent liabilities and commitments to extend credit

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2009	2008
	HK$'000	HK$'000
Direct credit substitutes	**4,580,235**	4,818,512
Transaction-related contingencies	**614,836**	357,938
Trade-related contingencies	**1,299,902**	989,214
Other commitments:		
- which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**19,531,304**	18,894,280
- with an original maturity of not more than 1 year	**4,066,281**	4,258,945
- with an original maturity of more than 1 year	**3,140,984**	3,468,674
	33,233,542	32,787,563
Credit risk-weighted amounts	**6,558,920**	5,269,794

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2008: 0% to 150%).

19 Currency risks

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities and operations of the Group and its overseas branches and subsidiaries. Foreign exchange positions of the Group are subject to exposure limits approved by Asset and Liability Committee. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options).

Significant foreign currency exposures at the end of the reporting period were as follows:

	2009			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**45,028,620**	**4,005,549**	**5,021,632**	**54,055,801**
Spot liabilities	**(30,864,229)**	**(3,005,965)**	**(8,275,088)**	**(42,145,282)**
Forward purchases	**45,809,607**	**23,535,611**	**10,403,994**	**79,749,212**
Forward sales	**(59,942,753)**	**(23,487,681)**	**(7,159,542)**	**(90,589,976)**
Net options position	**-**	**-**	**-**	**-**
Net long / (short) position	**31,245**	**1,047,514**	**(9,004)**	**1,069,755**
Net structural position	**-**	**227,211**	**48,542**	**275,753**

	2008			
Equivalent in HK$'000	USD	RMB	Others	Total
Spot assets	42,574,348	1,914,543	3,304,502	47,793,393
Spot liabilities	(43,668,983)	(1,512,671)	(6,202,653)	(51,384,307)
Forward purchases	21,011,235	2,987,077	7,554,558	31,552,870
Forward sales	(18,906,234)	(3,069,207)	(4,697,912)	(26,673,353)
Net options position	-	-	-	-
Net long / (short) position	1,010,366	319,742	(41,505)	1,288,603
Net structural position	-	227,390	48,515	275,905

The net options position is calculated using Model User Approach which has been approved by the HKMA.

20 Segment reporting

Segment information is presented in a consistent way with that reportable segments are regularly reviewed or evaluated internally by chief operating decision maker to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments.

Wholesale banking business mainly comprises trade financing, syndicated loans and other corporate lendings.

Retail banking business mainly comprises deposit account services, residential mortgage, other consumer lendings, credit card services and finance leases.

Treasury and Markets covers provision of foreign exchange services, money market activities, management of investment securities and central cash management. In addition, it comprises all fund investments made by the Bank that are managed by external fund managers.

Others mainly comprise unallocated revenue and expenses, head office and corporate expenses.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and apportionment of overheads on a reasonable basis to the business segments. Rental charges at market rate for usage of bank premises are reflected as inter-segment income for the "Others" segment and inter-segment expenses for the respective business segments.

(a) Reportable segments

	2009				
	Wholesale banking	**Retail banking**	**Treasury and markets**	**Others**	**Consolidated**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Net interest income	**863,578**	**759,479**	**159,653**	**154,490**	**1,937,200**
Other operating income	**554,578**	**331,844**	**201,746**	**110,942**	**1,199,110**
Net gain on disposal of available-for-sale securities	**2,643**	**-**	**55,108**	**-**	**57,751**
Operating income	**1,420,799**	**1,091,323**	**416,507**	**265,432**	**3,194,061**
Operating expenses	**(163,622)**	**(726,086)**	**(38,375)**	**(666,630)**	**(1,594,713)**
Inter-segment income / (expenses)	**(158,740)**	**(233,743)**	**(60,170)**	**452,653**	**-**
Operating profit before impairment	**1,098,437**	**131,494**	**317,962**	**51,455**	**1,599,348**
Impairment losses (charged for) / written back on loans and advances	**(502,747)**	**(64,664)**	**-**	**8,516**	**(558,895)**
Impairment losses written back on available-for-sale securities	**-**	**4**	**-**	**-**	**4**
Impairment losses (charged for) / written back	**(502,747)**	**(64,660)**	**-**	**8,516**	**(558,891)**
Operating profit	**595,690**	**66,834**	**317,962**	**59,971**	**1,040,457**
Net gain / (loss) on disposal of property and equipment	**(1)**	**(496)**	**(1)**	**43,446**	**42,948**
Revaluation gain on investment properties	**-**	**-**	**-**	**36,116**	**36,116**
Profit before taxation	**595,689**	**66,338**	**317,961**	**139,533**	**1,119,521**
Income tax	**-**	**-**	**-**	**(166,622)**	**(166,622)**
Profit / (loss) for the year	**595,689**	**66,338**	**317,961**	**(27,089)**	**952,899**
Other segment items:					
Depreciation	**3,091**	**11,124**	**498**	**60,715**	**75,428**
Segment assets	**47,704,404**	**27,424,420**	**43,389,211**	**1,604,750**	**120,122,785**
Segment liabilities	**44,158,875**	**52,844,792**	**13,525,054**	**(2,636,643)**	**107,892,078**
Capital expenditure incurred during the year	**3,040**	**17,128**	**679**	**17,544**	**38,391**

	2008 (Restated)				
	Wholesale banking	Retail banking	Treasury and markets	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net interest income	641,457	633,077	56,964	214,167	1,545,665
Other operating income / (expenses)	365,900	435,657	(603,139)	57,513	255,931
Net gain on disposal of available-for-sale securities	9,645	756	35,794	-	46,195
Operating income / (loss)	1,017,002	1,069,490	(510,381)	271,680	1,847,791
Operating expenses	(166,909)	(459,221)	(32,469)	(666,619)	(1,325,218)
Inter-segment income / (expenses)	(154,402)	(252,772)	(46,940)	454,114	-
Operating profit / (loss) before impairment	695,691	357,497	(589,790)	59,175	522,573
Impairment losses on loans and advances	(309,616)	(50,084)	-	(23,485)	(383,185)
Impairment losses written back on available-for-sale securities	-	128	-	164	292
Impairment losses	(309,616)	(49,956)	-	(23,321)	(382,893)
Operating profit / (loss)	386,075	307,541	(589,790)	35,854	139,680
Net gain / (loss) on disposal of property and equipment	(203)	(2,764)	(7)	27,159	24,185
Revaluation gain on investment properties	-	-	-	446	446
Profit / (loss) before taxation	385,872	304,777	(589,797)	63,459	164,311
Income tax	-	-	-	(36,003)	(36,003)
Profit / (loss) for the year	385,872	304,777	(589,797)	27,456	128,308
Other segment items:					
Depreciation	3,401	13,634	200	60,478	77,713
Segment assets	46,769,198	25,632,612	49,135,423	272,597	121,809,830
Segment liabilities	50,678,137	48,826,264	16,146,354	(3,371,863)	112,278,892
Capital expenditure incurred during the year	1,071	27,197	461	11,872	40,601

(b) Geographical information

The geographical information analysis is based on the location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the location of the branches responsible for reporting the results or booking the assets and liabilities.

	2009				
	Profit before taxation	**Total assets**	**Total liabilities**	**Operating income**	**Contingent liabilities and commitments**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Hong Kong	**988,178**	**116,548,618**	**104,706,152**	**2,914,913**	**31,166,997**
Mainland China	**64,245**	**7,659,459**	**6,384,856**	**168,215**	**312,906**
USA	**6,220**	**2,280,205**	**2,236,519**	**37,391**	**219,724**
Others	**19,982**	**989,333**	**946,258**	**32,913**	**1,533,915**
Inter-segment items	**40,896**	**(7,354,830)**	**(6,381,707)**	**40,629**	**-**
	1,119,521	**120,122,785**	**107,892,078**	**3,194,061**	**33,233,542**

	2008				
	Profit before taxation	Total assets	Total liabilities	Operating income	Contingent liabilities and commitments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	48,109	119,499,885	110,270,863	1,574,368	29,587,668
Mainland China	90,505	6,905,392	5,654,967	195,581	844,168
USA	13,506	1,690,064	1,539,559	51,424	865,611
Others	12,239	1,630,056	1,604,849	26,514	1,490,116
Inter-segment items	(48)	(7,915,567)	(6,791,346)	(96)	-
	164,311	121,809,830	112,278,892	1,847,791	32,787,563

Unaudited supplementary financial information

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Capital adequacy ratio

(i) Capital adequacy ratio

	2009	2008
Capital adequacy ratio as at 31 December	**16.44%**	14.71%
Core capital ratio as at 31 December	**11.91%**	9.61%

The capital adequacy ratio ("CAR") and core capital ratio, as at 31 December 2009 and 31 December 2008, are computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules. The Bank has adopted the "standardised approach" for the calculation of the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for the calculation of operational risk.

(ii) Capital base after deductions

	2009	2008
	HK$'000	HK$'000
Core capital		
Paid up ordinary share capital	**7,283,341**	5,583,341
Share premium	**282,930**	282,930
Reserves	**3,082,578**	2,782,734
Profit and loss account	**950,994**	170,834
Total core capital before deductions	**11,599,843**	8,819,839
Less: Net deferred tax assets	**(99,637)**	(106,745)
Less: Deductions from core capital	**(720,880)**	(473,652)
Total core capital after deductions	**10,779,326**	8,239,442
Eligible supplementary capital		
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss (in supplementary capital)	**9,918**	6,616
Regulatory reserve for general banking risks	**587,892**	675,465
Collectively assessed impairment allowances	**313,096**	237,758
Perpetual subordinated debt	**1,977,356**	1,989,718
Term subordinated debt	**1,938,661**	1,937,504
Total supplementary capital before deductions	**4,826,923**	4,847,061
Less: Deductions from supplementary capital items	**(720,880)**	(473,652)
Total supplementary capital after deductions	**4,106,043**	4,373,409
Total capital base after deductions	**14,885,369**	12,612,851
Total deductions from the core capital and supplementary capital	**1,441,760**	947,304
Risk-weighted amount		
- credit risk	**84,297,234**	81,447,518
- market risk	**2,315,613**	959,975
- operational risk	**3,935,475**	3,323,050
	90,548,322	85,730,543

(iii) Liquidity ratio

	2009	2008
Average liquidity ratio for the year ended 31 December *	**48.78%**	37.00%

* The average liquidity ratio for the year is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(B) Further analysis on loans and advances to customers

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2009		2008	
	Gross loans and advances to customers	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers	% of gross loans and advances to customers covered by collateral
	HK$'000		HK$'000	
Industrial, commercial and financial				
- Property development	**303,000**	**100**	110,000	-
- Property investment	**9,226,709**	**98**	9,124,397	96
- Financial concerns	**4,407,441**	**33**	4,494,391	53
- Stockbrokers	**21,428**	**100**	11,360	92
- Wholesale and retail trade	**3,775,792**	**48**	3,440,433	48
- Manufacturing	**5,212,804**	**29**	6,420,287	29
- Transport and transport equipment	**2,878,221**	**76**	2,902,689	75
- Recreational activities	**190,354**	**92**	125,358	100
- Information technology	**24,061**	**75**	20,845	88
- Others	**2,472,175**	**57**	3,065,534	66
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**28,981**	**100**	32,148	100
- Loans for the purchase of other residential properties	**10,673,018**	**100**	10,398,618	100
- Credit card advances	**310,487**	**-**	381,074	-
- Others	**3,626,044**	**93**	3,174,606	89
Gross loans and advances for use in Hong Kong	**43,150,515**	**74**	43,701,740	74
Trade finance	**3,381,683**	**34**	4,495,859	33
Gross loans and advances for use outside Hong Kong	**25,682,613**	**36**	25,216,917	44
Gross loans and advances to customers	**72,214,811**	**59**	73,414,516	61

The analysis of impaired loans and advances to customers of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	2009				
	Overdue loans and advances to customers	**Individual impairment allowances**	**Collective impairment allowances**	**Impaired loans and advances to customers**	**Impairment charged to / (written back) income statement during the year**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Property investment	**12,995**	**3,932**	**5,278**	**49,610**	**2,189**
Loans for the purchase of other residential properties	**30**	**-**	**209**	**936**	**(514)**
Gross loans and advances for use outside Hong Kong	**361,281**	**174,579**	**65,432**	**966,318**	**186,436**
	374,306	**178,511**	**70,919**	**1,016,864**	**188,111**

	2008				
	Overdue loans and advances to customers	Individual impairment allowances	Collective impairment allowances	Impaired loans and advances to customers	Impairment charged to income statement during the year
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property investment	8,517	3,377	4,993	11,465	630
Loans for the purchase of other residential properties	2,979	-	943	4,448	3,705
Gross loans and advances for use outside Hong Kong	826,354	70,182	69,216	1,000,456	141,477
	837,850	73,559	75,152	1,016,369	145,812

By geopraphical areas

	2009				
	Loans and advances to customers	**Overdue loans and advances to customers**	**Impaired loans and advances to customers**	**Individual impairment allowances**	**Collective impairment allowances**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Hong Kong	**50,732,390**	**261,836**	**383,367**	**130,818**	**212,859**
Mainland China	**12,433,530**	**52,244**	**54,070**	**1,492**	**52,628**
USA	**1,739,888**	**-**	**38,195**	**24,053**	**8,421**
Others	**7,309,003**	**256,587**	**828,505**	**154,774**	**32,025**
	72,214,811	**570,667**	**1,304,137**	**311,137**	**305,933**

	2008				
	Loans and advances to customers	Overdue loans and advances to customers	Impaired loans and advances to customers	Individual impairment allowances	Collective impairment allowances
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	52,926,670	268,039	489,615	215,435	171,430
Mainland China	12,102,527	520,855	517,303	107	41,731
USA	1,661,738	-	38,711	-	1,489
Others	6,723,581	233,686	338,550	31,685	22,929
	73,414,516	1,022,580	1,384,179	247,227	237,579

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Overdue loans and advances are loans that have been overdue more than three months.

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

(C) Overdue assets

(i) Overdue loans and advances to customers

	2009		2008	
	Amount	**% of total loans and advances to customers**	Amount	% of total loans and advances to customers
	HK$'000		HK$'000	
The gross amount of loans and advances has been overdue for periods of:				
- 6 months or less but over 3 months	**23,682**	**0.03**	229,009	0.31
- 1 year or less but over 6 months	**121,699**	**0.17**	127,815	0.17
- over 1 year	**425,286**	**0.59**	665,756	0.91
	570,667	**0.79**	1,022,580	1.39
Secured overdue loans and advances	**186,700**		722,164	
Unsecured overdue loans and advances	**383,967**		300,416	
	570,667		1,022,580	
Market value of collateral held against the secured overdue loans and advances	**969,663**		867,174	
Individual impairment allowances made	**121,110**		99,952	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year end, loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Majority of collateral held in respect of the overdue loans and advances is real estate properties. The eligible collateral should generally satisfy the following:

(a) The market value of the asset is readily determinable or can be reasonably established and verified;
(b) The asset is marketable and there exists a readily available secondary market for disposal of the asset;
(c) The Bank's right to repossess the asset is legally enforceable and without impediment; and
(d) The Bank is able to secure control over the asset if necessary.

The main type of "Eligible Collateral" is "Eligible Physical Collateral" which mainly comprises real estate.

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2009 and 2008.

(ii) Other overdue assets

	2009	2008
	HK$'000	HK$'000
The gross amount of trade bills which has been overdue for:		
- 6 months or less but over 3 months	**-**	11,650
Available-for-sale securities which have been overdue for:		
- over 1 year	**14,519**	15,500

(D) Rescheduled loans

	2009		2008	
	Amount	**% of total loans and advances to customers**	Amount	% of total loans and advances to customers
	HK$'000		HK$'000	
Rescheduled loans	**136,982**	**0.19**	15,297	0.02

Rescheduled loans are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note (C).

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2009 and 31 December 2008.

(E) Repossessed assets

	2009	2008
	HK$'000	HK$'000
Included in loans and advances to customers and other accounts	**48,498**	69,008

The amount represents the estimated market value of the repossessed assets as at 31 December 2009 and 31 December 2008.

(F) Cross-border claims

Cross-border claims are on statement of financial position exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	2009			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Asia and Pacific excluding Hong Kong	**12,258,959**	**161,789**	**14,642,430**	**27,063,178**
of which Australia	**3,641,571**	**2,392**	**429,004**	**4,072,967**
of which Mainland China	**3,445,286**	**70,670**	**11,560,682**	**15,076,638**
Western Europe	**16,876,515**	**217,357**	**3,589,064**	**20,682,936**
of which France	**2,008,770**	**-**	**737,922**	**2,746,692**
of which Germany	**1,178,037**	**-**	**24,060**	**1,202,097**
of which Netherlands	**2,341,431**	**-**	**683,923**	**3,025,354**
of which United Kingdom	**5,912,778**	**738**	**1,484,513**	**7,398,029**

	2008			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Asia and Pacific excluding Hong Kong	9,519,509	33,333	14,697,159	24,250,001
of which Australia	3,264,931	829	351,026	3,616,786
of which Mainland China	2,798,451	30,636	11,764,953	14,594,040
Western Europe	16,189,713	1,924	2,861,252	19,052,889
of which France	3,691,215	-	706,087	4,397,302
of which Germany	2,612,756	-	19,498	2,632,254
of which Netherlands	1,421,752	-	924,932	2,346,684
of which United Kingdom	5,285,005	518	653,923	5,939,446

(G) Non-bank Mainland China exposures

Non-bank Mainland China exposures are the Mainland China exposures to non-bank counterparties. The categories follow the non-bank Mainland China exposures submitted by the Bank to the HKMA pursuant to section 63 of the Hong Kong Banking Ordinance.

	2009			
	On-statement of financial position exposure	**Off-statement of financial position exposure**	**Total**	**Individual impairment allowances**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Mainland China entities	**15,236,777**	**5,392,627**	**20,629,404**	**11,406**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**14,702,545**	**9,587,187**	**24,289,732**	**37,949**
	29,939,322	**14,979,814**	**44,919,136**	**49,355**

	2008			
	On-statement of financial position exposure	Off-statement of financial position exposure	Total	Individual impairment allowances
	HK$'000	HK$'000	HK$'000	HK$'000
Mainland China entities	16,883,465	5,898,957	22,782,422	15,516
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	14,160,597	5,798,051	19,958,648	125,336
	31,044,062	11,697,008	42,741,070	140,852

(H) Additional information on Structured Investments

Collateralised Debt Obligations ("CDO")

As at 31 December 2009, the US$120.0 million (HK$ equivalent 930.0 million) capital notes issued by Farmington Finance Limited ("Farmington") which was restructured from the Victoria Finance Limited's structure investment vehicles in November 2007, was the only cash-flow CDO held by the Group. In May 2009, the long-term funding obtained by Farmington was downgraded to "BBB+" from "A+" while the US$114.0 million (HK$ equivalent 883.5 million) Farmington senior capital note was downgraded to "CCC-" from "CCC". The remaining US$6.0 million (HK$ equivalent 46.5 million) junior capital note was not rated.

The capital notes are accounted for as available-for-sale securities by the Group and their book carrying value as at 31 December 2009 was US$77.6 million (31 December 2008: US$83.1 million) equivalent to HK$601.8 million (31 December 2008: HK$644.0 million) based on their net present value of 66.9% (31 December 2008: 69.2%) as determined by discounting the projected cash flows of the underlying investment portfolio assuming the investment vehicle will be held until all underlying assets mature.

As at 31 December 2009 the underlying investment portfolio of Farmington continued to meet the cash flows projection yet, the credit quality of the portfolio showed some deterioration which is considered to be in line with the general credit markets. However, the portfolio is well diversified amongst some 400 assets in diverse classes, with approximately 59% rated A- or above, 26% rated between B- to A-, and 15% rated CCC+ or below. The portfolio of Farmington consists of approximately 5% in debt securities of financial institutions, approximately 9% in monoline guaranteed financial institution securities, approximately 38% in residential prime mortgage-backed securities, and the remaining 48% in other structured credit securities. As at 31 December 2009, the weighted average life of the whole portfolio was 4.43 years. Reinvestment was resumed in January 2009 and ended in November 2009. The Group considered the portfolio's direct exposure to sub-prime related mortgage backed securities is not to be significant.

In addition to the credit default swap ("CDS") as reported in the annual report 2008, the Group has entered into a second CDS in January 2009 with the senior loan provider of Farmington as a partial credit protection against non-performance of a term loan to Farmington provided by this senior loan provider. Under the terms of the two CDSs entered, the Group is now responsible for the first loss of the portfolio up to a notional value of US$456.0 million (31 December 2008: US$347.3 million) equivalent to HK$3,536.1 million (31 December 2008: HK$2,708.3 million). Up to the date of this report, there was neither any settlement request claimed on the CDSs nor any indication that the deterioration in the credit quality of the underlying assets of Farmington threatening its ability to meet payments under the long-term senior debt as they become due, as such, no provision is considered necessary in respect of the CDSs for the year.

As last reported, Farmington is subject to certain trigger events that take into account the credit quality of the underlying assets and the cash flows of the portfolio. In the event that any such event is triggered, the senior debt provider will have the right to realise the collateral in the portfolio in first priority.

Other than the above Farmington CDO investments, the Group has not made nor does it hold any other CDO investments as at 31 December 2009.

Report of the Chief Executive Officer

Operating Environment

The economy of Hong Kong continued to feel the effects of the global financial crisis and slowdown in 2009. Thanks to unprecedented and concerted efforts of governments around the world to revive markets followed by a series of favourable policies by the central government including the promotion of the economic integration in the Greater Pearl River Delta Region and Hong Kong's offshore RMB business development, signs of economic recovery began to emerge since the third quarter of the year. The local credit market saw a revival in growth with stabilised asset quality on strong rallies in the property and stock markets. The contraction in both imports and exports eased, and local corporates resumed staff recruitment on improved economic outlook, resulting in improved investment sentiment and increased local consumption.

The pace of recovery in the US and Europe, however, remained relatively weak and investors became wary of possible slowing down or withdrawal of stimulus programmes by governments worldwide to avert hyperinflation. These uncertainties led to continued volatility in the investment market. The strong influx of hot money into the stock and property markets of Hong Kong and other areas in the region also increased the risk of a possible asset bubble. With such circumstances prevailing, a full recovery has yet to be seen for the global economy.

CITIC Ka Wah Bank Limited ("CKWB" or the "Bank") coped well with the fast-changing economic environment. The Bank strengthened its capital adequacy levels and raised its risk management capabilities to maintain its overall financial and business stability and capitalised on the economy's recovery in the second half of the year to drive business development and enhance profitability. At the same time, collaboration with China CITIC Bank Corporation Limited ("CNCB") continued to deepen in the areas of both business and operations. Through frequent, in-depth exchanges, the two banks will seek to jointly build a solid and customer-centric one-stop cross-border financial services platform – one that will enable CKWB and CNCB to unite their strengths to capture the increased opportunities from the economic integration in the Greater Pearl River Delta Region, as well as to pave the way for their regional expansion plan.

Corporate Developments and Important Events

On 8 May 2009, CNCB entered into a Share Purchase Agreement with CITIC Group of Beijing ("CITIC Group") and its wholly-owned subsidiary, Gloryshare Investments Limited ("GIL"), pursuant to which CNCB agreed to acquire from GIL its entire 70.32% interest in CKWB's holding company, CITIC International Financial Holdings Limited ("CIFH") ("Share Purchase Agreement"). The Share Purchase Agreement was approved at CNCB's annual general meeting held on 29 June 2009 and the transaction was duly completed on 23 October 2009. The remaining 29.68% share of CIFH is held by the Bank's strategic shareholder Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"). Following completion, CNCB appointed two of its senior executives to join the Board of the Bank as Non-Executive Directors.

The realignment of interests followed the successful privatisation of CIFH by CITIC Group in November 2008, and was a critical step in completing CITIC Group's strategy to restructure its cross-border commercial banking businesses. The reorganisation enables better alignment of CITIC Group's onshore and offshore commercial banking businesses which are currently operated through CNCB and CKWB respectively, and facilitates and maximises synergies from the cooperation among CNCB, CKWB and BBVA.

As the offshore expansion platform for CNCB, the Bank will be renamed CITIC Bank International Limited ("CBI") in May 2010 to fully reflect its role within the CNCB Group to extend the CITIC commercial banking franchise's presence to the ASEAN region and beyond.

On 30 June 2009, CIFH successfully completed a HK$1.7 billion capital injection into CKWB, significantly boosting the Bank's capital adequacy ratio. The capital injection fulfilled the undertaking by GIL and BBVA at the time of CIFH's privatisation to support the Bank's future development. Upon maturity in November 2009, the Bank redeemed US$300 million five-year fixed-rate senior debt. Without issuing new debt, CKWB managed to maintain its average liquidity ratio at a healthy level of 48.8% through a series of successful deposit acquisition campaigns. *(See section on Asset Quality – Financial Position for details of the Bank's capital adequacy ratio and average liquidity ratio.)*

Separately, the sudden collapse of Lehman Brothers in the US in September 2008 led to demands by a large segment of the investing public for compensation by banks that had distributed structured notes involving Lehman Brothers counter-party risk. A large proportion of such structured investments sold were known as Minibonds. On 22 July 2009, 16 Minibonds distributing banks (including CKWB) jointly announced their voluntary offer of a scheme to repurchase Minibonds from eligible customers ("Repurchase Scheme"). The distributing banks believed that the Repurchase Scheme offered Minibonds investors an opportunity to optimise their ultimate recovery from those investments through a combination of cash equal to 60% to 70% of the nominal value of the Minbond investments plus the proceeds of any recovery from the collateral underlying the Minibonds. The Repurchase Scheme was endorsed by the Hong Kong Monetary Authority ("HKMA") and the Securities and Futures Commission. As at the end of March 2010, the Repurchase Scheme has been accepted by over 97% of CKWB's eligible customers. The aggregate repurchase amount payable together with Minibonds-related commissions to be applied towards efforts to maximise the recovery from the underlying collateral was fully provided for and included in operating expenses in the Bank's 2009 results.

Business Performance

Earnings

Despite the challenging economic environment and the local challenges presented by the failure of Lehman Brothers, CKWB achieved encouraging results. During the year, the Bank's net interest income and net fee income increased by 25.3% and 15.4% respectively. Its operating profit before impairment rose 206.1% year-on-year to HK$1,599 million due to the outstanding performance in its businesses.

Notwithstanding signs of credit quality starting to stabilise in the latter half of the year, the lingering impact of the abrupt turning of the credit cycle brought on by the financial crisis placed pressure on the Bank's impairment provisioning level in the latter half of 2009. During the year, the Bank's net impairment losses increased by 46.0% year-on-year to HK$559 million, however, operating profit exceeded HK$1 billion. The Bank's operating profit rose significantly by 6.4 times to HK$1,040 million. Coupled with HK$43 million in net gain on disposal of property and HK$36 million in revaluation gain on investment properties, the Bank's net profit before tax increased by 5.8 times to HK$1,120 million while profit attributable to shareholders surged by 6.4 times to HK$953 million as compared to the previous year. Both net profit before tax and profit attributable to shareholders were close to the historic high.

Net Interest Income

CKWB's net interest income rose 25.3% year-on-year to HK$1,937 million partly due to the positive effect of the repricing of the corporate loan portfolio. The interest spread benefited from the Prime Lending Rate ("Prime") and Hong Kong Interbank Offered Rate ("HIBOR") gap at above 4% during the year helped to improve the net interest income of the Bank's Prime-based loan portfolio. Net interest income was further improved as the Bank successfully resolved a legacy impaired loan that occurred several years ago allowing for related interest income to be booked during the year. All of these favourable factors contributed to improve the Bank's net interest margin by 20 basis points compared to a year ago to 1.73%.

Non-Interest Income

In 2009, the Bank's non-interest income grew substantially by 3.2 times to HK$1,257 million. The growth was partly due to the impact of the full write-downs of structured investment vehicles ("SIVs") in 2008. In addition, a significant year-on-year growth of 72.9% in the Bank's corporate loans related fee income more than offset a 23.9% decline in wealth management related income on the drop in investment products selling and a 13.5% decline in trade bills commission income on the contraction in imports and exports. As a result, overall net fee and commission income grew by 15.4% year-on-year to HK$858 million which also helped to lift non-interest income during the year.

Operating Expenses

As mentioned above, the amount payable under the Repurchase Scheme and related expenses were fully provided for in the Bank's 2009 results and reflected in its operating expenses. As a result, operating expenses during the year rose 20.3% to HK$1,595 million. In fact, the Bank continued to exercise prudent cost disciplines. During the year, staff costs rose by a single-digit rate only and recorded a 2.1% rise as compared to 2008 while rental of premises only registered a mild 0.8% increase. Free from the impact of SIV-related write-downs in 2009, the cost to income ratio improved significantly to 49.9% from last year's 71.7%. Excluding the amount payable under the Repurchase Scheme and related expenses, the cost to income ratio would have dropped to 42.2%.

Impairment Allowances

As the adverse impact of the sharp turn in the credit cycle extended to the second half of 2009, the Bank adopted a defensive impairment provisioning strategy during the year and registered a net charge in impairment losses totalling HK$559 million, representing a 45.9% increase as compared to 2008. The net charge on individually assessed loans increased by 33.6% year-on-year to

HK$545 million, while the net charge on collectively assessed loans increased by 218.7% year-on-year to HK$99 million. Bad debt recoveries increased 53.3% year-on-year to HK$85 million.

Asset Quality

Asset, Loan, and Deposit Sizes

In the first half of 2009, the Bank adopted a prudent and conservative approach to lending and capital management as a measure against challenges from the economic downturn, which has in turn affected loan and asset growth. As the economic situation stabilised in the second half of 2009, the Bank with enhanced capital strength resumed its efforts to secure quality lending. As a result, the Bank's total assets and total loans were maintained at about the same level as in the previous year, registering a slight reduction of 1.4% and 1.3% to HK$120.1 billion and HK$73.3 billion respectively. Total deposits stood at HK$97.9 billion, representing a mild contraction of 1.5% compared to the previous year-end. The Bank registered a marked improvement in its deposit profile, with core deposits comprising current and savings account balances accounting for 43.3% of total customer deposits as at 2009 year-end, significantly higher than the 22.2% at the previous year-end and contributing to more effective funding cost control by the Bank.

Asset Quality Indicators

Faced with fast-changing economic environment, the Bank continued to adopt stringent measures to manage its asset quality. During the year, it has successfully resolved a legacy impaired loan that occurred several years ago, helping to lower the impaired loans ratio to 1.81% which is not only below the 2008 year-end level but also showed significant improvement as compared to the 2.49% as at end-June 2009. CKWB also made improvements in other asset quality indicators during the year. Its collective assessment coverage and loan loss coverage improved by 11 basis points and 12.3 percentage points to 0.43% and 47.3% respectively. The Bank's residential mortgage delinquency ratio further improved from 0.03% at the end of 2008 to nil at the end of 2009. This compared favourably to the industry average of 0.03% as announced by the HKMA.

Financial Position

The Bank's capital adequacy ratio benefited from the HK$1.7 billion capital injection by its parent CIFH to reach 16.4% as at the end of December 2009. This represented a significant improvement by 1.7 percentage points compared to the previous year-end. Its core capital adequacy ratio improved by 2.3 percentage points to 11.9%. Not only has this strengthened the Bank's ability to renew its drive to grow its loan portfolio, it also gives the Bank the necessary foundation to pursue new business development in Asia in future. Meanwhile, with improving market liquidity coupled with the Bank's deposit campaigns and active asset and liability management programmes, its average liquidity ratio and loans to deposits ratio stood at the healthy levels of 48.8% and 74.8% respectively as at the end of December 2009.

CKWB's Key Financial Ratios

	31 December 2009	**31 December 2008**
Capital adequacy	16.4%	14.7%
Core capital adequacy	11.9%	9.6%
Average liquidity	48.8%	37.0%
Loans to deposits	74.8%	74.6%
Loans to total assets	61.0%	60.9%
Impaired loans	1.81%	1.89%
Coverage[1]	48.5%	81.2%
Loan loss coverage	47.3%	35.0%
Collective assessment coverage	0.43%	0.32%
Mainland loans to total customer advances	17.2%	16.5%

[1] Calculated by dividing the sum of individually assessed impairment allowances and collateral of impaired loans by the gross impaired loans.

Business Development

Retail Banking Group ("RBG")

Notwithstanding the challenges amidst market uncertainties and increased regulatory requirements, RBG continued its strong revenue generating capability. With the successful roll-out of various deposit and mortgage initiatives to meet clients' needs, both deposits and loans grew by 7.3% year-on-year to HK$48.8 billion and HK$27.0 billion respectively. Together with the favourable Prime-HIBOR gap, net interest income recorded a 20.0% year-on-year growth to HK$759 million, which offset a 23.9% drop in wealth management income. As a result, operating income edged up 2.0% to HK$1,091 million during the year.

The continuous focus on operating efficiency paid off with a 10% year-on-year drop in recurring operating expense. However, the aggregate expense was increased by 34.8% year-on-year to

HK$960 million, mainly due to the amount payable to resolving customer claims relating to Lehman Brothers-related products. With the prudent lending approach adopted over the years, credit cost was successfully contained at a relatively low level of 24 basis points. As a result of higher operating expenses, net profit before tax fell by 78.2% year-on-year to HK$66 million.

RBG steadily continued its efforts in growing CITIC*first*, its private wealth management franchise, during the year. An upgraded wealth management process was put in place to enhance customers' understanding of their own risk appetite and wealth objectives to derive appropriate wealth management strategy. This successfully attracted new customers and deepened relationship with existing customers, complemented by the launch of special offers and financial solutions. Its total number of customers thus grew by 8% since the end of 2008 to exceed the 14,800 mark. Meanwhile, total customer assets under management grew by 16% compared to last year to reach HK$43 billion. CITIC*first*'s solution-based approach will continue to underpin the future focus for further upgrade of RBG's wealth management platform.

Wholesale Banking Group ("WBG")

WBG made a strong business turnaround in the second half of 2009. With the positive effect of loan pricing adjustments, net interest margin continued to improve throughout the year, resulting in net interest income reaching a new high of HK$864 million. Thanks to the innovation and execution capabilities of the Structured Finance and Syndication team, non-interest income also reached a record HK$557 million. As a result, operating income rose by 39.7% to HK$1,421 million. With well-managed operating expenses, net profit before tax increased by 54.4% to HK$596 million. All these highlighted the success of WBG in strengthening its core customer services, rigorous risk-based loan pricing, stringent cost management, and enhanced risk management standards.

WBG continued to focus on enhancing its product capabilities during the year. Non-lending fee and commission income rose by 29% to HK$164 million. With slower trade activities resulted from the economic downturn, WBG's bills commission registered an 8% year-on-year decline to HK$56 million. This shortfall was more than offset by increased treasury-related income attributable to continued investments in product development and the continuous pursuit of appropriate solutions for customers.

Deepening collaboration with CNCB was another key focus in 2009. *(Also see section on China Banking.)* WBG endeavoured to build an integrated platform between the two banks and provide value-added financial solutions to better serve CNCB's offshore customers. The efforts generated encouraging results. Approved facilities for business referrals from CNCB rose by 17% from

HK$7.4 billion to HK$8.7 billion. For the collaboration among the Bank, CNCB and BBVA, WBG solidified the working model by increasing the depth and frequency of discussions among them and establishing joint marketing plans to develop key strategic customers.

China Banking

Greater progress was made in the Bank's strategic collaboration with CNCB in 2009, uninterrupted by the impact of the financial crisis. Their closer shareholding relationship opened further the opportunities to expand the width and depth of collaboration. The Bank extended cooperation to more CNCB branches, spanning across most of CNCB's major geographical coverage in Mainland China. A series of new business cooperation initiatives were successfully introduced during the year, including RMB trade settlement programme, structured financing, pre-Initial Public Offering financing, offshore account opening, i-banking services and offshore bill operation and services. In a very positive development, the Bank successfully delivered RMB-related currency hedging solutions to a large number of CNCB customers, with both transaction volume and profit from RMB non-deliverable forward contracts reaching a historic high in 2009.

To fuel collaboration with CITIC Group subsidiaries' downstream and upstream businesses and explore opportunities with CITIC Group-affiliated infrastructure, energy and manufacturing firms, a Group Partners Business Development Office was established in 2009. The new establishment is set to proceed with its business development plan and related infrastructure in 2010.

CITIC Ka Wah Bank (China) Limited ("CKWB China") continued to serve as the onshore collaboration platform with CNCB and BBVA, capitalising on its status as a foreign bank in Mainland China. It greatly enhanced the efficiency in the implementation of the collaboration strategy and also referred a large number of outbound business deals to the Bank's Hong Kong business teams. CKWB China, incorporated in April 2008, managed to post an encouraging performance in its first full-year operation in 2009 amidst difficult economic conditions, far exceeding its original target.

Treasury and Markets Group ("TMG")

Driven by growth in both its customer-driven revenues and investment returns, TMG registered HK$318 million in net profit before tax in 2009, in contrast to its net loss of HK$590 million last year which was due to SIV-related write-downs.

Leveraging on the rebound of the financial markets from their lows, TMG expanded its professional talent base to strengthen its product development and sales capabilities. The launch of a number of new equity, foreign currency or interest rate-linked products enabled TMG to deepen its cross-selling efforts with both WBG and RBG, resulting in an increase in related income by 74.0% year-on-year to HK$83 million.

In the area of central treasury management, reduced funding cost as a result of the low interest rate environment helped to lift the performance of the Bank's available-for-sale ("AFS") investment securities portfolio. Meanwhile, TMG took advantage of market conditions to sell part of its AFS portfolio and captured a profit of HK$55 million. Concurrently, TMG worked closely with the Risk Management Group to upgrade its risk management methodologies and implemented new investment guidelines in November 2009 for its bond portfolio. The initiatives are designed to ensure that the market risk profiles of the Bank's investment portfolios are managed within management defined risk parameters.

Risk Management

Despite improved global market activity and sentiment, economic recovery in 2009 was slow and sporadic. Amidst this turbulent economic environment, the Risk Management Group proactively focused efforts in tightening underwriting standards, implementing rigorous risk reviews, managing vulnerable portfolios and developing critical risk tools including the risk-based pricing model and economic capital measurements.

The Bank has been keen to leverage on the world-class risk management capabilities of its strategic shareholder, BBVA to accelerate development of its risk management area. In January 2009, the Bank appointed a new Director of Risks from BBVA to lead the immediate transfer of skill sets and best practices from BBVA. By the end of the first quarter of 2009, a comprehensive Risk Management Plan ("RMP") was put in place with the primary goal of actively integrating the expertise of BBVA to upgrade and promote ongoing enhancement of the Bank's risk infrastructure and management.

The ultimate objective of the RMP is to create a world-class risk infrastructure to identify, quantify, monitor and mitigate the risks of the Bank and facilitate value creation whilst preserving financial strength. The RMP is focused on ensuring that appropriate tools, methodologies and processes are in place in key risk areas to meet the requirements of the New Basel Accord ("Basel

II") on risk management. Of the numerous projects, key initiatives include the development of appropriate risk-based pricing models, economic capital measurements, refinement of the Bank's investment strategy in line with the Bank's defined market risk appetite and risk review disciplines to name a few. The rollout of these initiatives has also led to substantial enhancements, particularly in the credit risk and market risk management areas.

In the area of corporate governance, the Credit and Risk Management Committee is empowered by the Board to oversee and approve the strategies, risk systems, policies and exposures of the Bank. The prime responsibility of the Director of Risks is to ensure that an effective risk control framework and processes are in place to align with the Bank's strategies.

The Bank's risk policies and procedures are subject to a high degree of oversight and they provide guidance to ensure that all types of risks are systematically identified, quantified, monitored and necessary mitigation plans are put in place. In addition, the internal Audit Department conducts regular independent reviews of the Bank's risk management practices to ensure compliance with internal policies as well as regulatory requirements.

Established comprehensive policies and procedures are in place to identify and analyse the risks to which the Bank is exposed, set appropriate risk control limits, monitor risks and limits continually by means of reliable and up-to-date management and information systems. The Bank continually modifies and enhances its risk management frameworks and infrastructure in line with the market, product offering and international best practices.

The Bank's market risk appetite is controlled through a well-defined limit-setting process. Rigorous risk controls are in place, and market risk limits are monitored daily. Stress testing is performed regularly and monitored for rare but plausible events. Front line businesses and the market risk department interact closely to proactively review limits arising from strategic changes.

The strategic collaboration among the Bank, CNCB and BBVA is well underway with substantial focus on achieving synergies in the risk management area. The ongoing risk knowledge sharing and skills transfer has contributed significantly to the establishment of a more advanced risk management model and best practices. This formidable alliance has enabled the Bank to better capture opportunities from the growing economic pre-eminence of the Greater China and Asian region.

The Bank has adopted the standardised approach for credit risk and market risk, and the basic indicator approach for operational risk. Accordingly, the Bank has overhauled its systems and controls in order to meet the standards required for these approaches. Based on the Basel II framework, the Bank has developed the risk-based pricing model and economic capital measurement tool for more effective capital management to cater to the Bank's strategic decisions and future growth. The concept of economic capital is a very significant factor in evaluation of a bank's risk profile and can provide a more accurate calculation of risk-weighted return for different areas in a bank.

Risk management remains a fundamental and integral part of the Bank's business activities and will continue to be a priority in 2010 and subsequent years. The Bank will continue to enhance its risk management practices and capabilities to respond effectively and coherently in different stressed scenarios, particularly given the persisting climate of economic uncertainties.

Human Resources Development

The effects of the global financial crisis continued to impact on the operating environment during 2009. The Hong Kong economy remained volatile in the early part of 2009 and subsequently experienced a V-shaped turnaround. The Bank's competent and motivated workforce played a key role to enable the Bank to weather the numerous challenges resulting from the financial crisis and emerged with such strong business results.

Best talents were recruited to cope with business development and to enhance management competency of the Bank. Among them, the new Head of Wholesale Banking Group ("WBG"), Mr. Nick Huang joined in November 2009 to take over from Mr. Roger Spyer who retired after a successful career with the Bank; and, in April 2010, Mr Archie Tsim was appointed Director of Finance and Corporate Planning.

Dedication and teamwork, two of the strengths of the CKWB workforce, served the Bank well in the handling of the Lehman Brothers Minibond fall-out. A special taskforce was rapidly established with the staff putting in extra effort to resolve customer claims with utmost professionalism and accuracy.

The Bank continued to build for the future through staff training and development programmes. To improve the internalisation of the Bank's core values, a new training programme entitled "iREADY" workshop was developed and rolled-out to all staff members. This innovative and effective programme designed to assist the Bank and its staff in building a desired organisational culture also won an industry training award at "The Best Practice Financial Services Award 2009". Overall, an average of five training days per staff member was attained in 2009. The Bank will continue to build its talent base to support its growth strategy.

A good variety of staff communications forums were held during the course of the year to enable the Bank to share its strategic direction, plans and achievements with staff members and to obtain direct feedback from them. The Bank also organised and hosted "Team Power Olympics", a series of sporting events for staff to encourage a competitive yet collaborative working culture and to promote work-life balance.

With the solid talent base created and nurtured by CKWB, it will enable the Bank to seize opportunities as they arise with timely execution of its business strategies and continue to deliver excellent results.

Future Outlook

The financial tsunami that took hold in 2008 wrought havoc on the world. The repercussions of extensive government intervention worldwide continued to impact markets. There is consensus, however, that the worst of the financial crisis is over and the global economy is on the mend although the pace of recovery remains slow and uneven.

Hong Kong's economy, backed by its sound and solid fundamentals, emerged from the financial crisis without serious mishap. Bolstered by the central government's favourable policies, Hong Kong is embracing tremendous growth opportunities with its development as an offshore RMB centre and growing economic integration with the Greater Pearl River Delta Region.

Following the completion of CNCB's stake acquisition in CIFH, the Bank's renaming as CITIC Bank International Limited will mark the integration of CITIC Group's commercial banking businesses. As the external business environment continues to improve and with its profitability back on track and enhanced capital position following the capital injection by CIFH, the Bank will aim to realise its role as CNCB's platform to pursue international expansion. Possible expansion opportunities include Singapore, Australia and Taiwan.

Looking ahead, the Bank will pick up the pace of its business development by growing its high quality loan portfolio and upgrading its RMB product capabilities to capture the opportunities arising from Hong Kong's role as an offshore RMB centre. With an enhanced shareholding relationship, the partnership with CNCB will be further deepened to consolidate the collective advantages which will be complemented by positive synergy effect from the alliance with their strategic shareholder, BBVA. CKWB will continue to strive to deliver the best-in-class services for customers with its vision to become the "China Bank of Choice".

Chan Hui Dor Lam Doreen
Chief Executive Officer
Hong Kong, 28 April 2010