Gearing for Growth

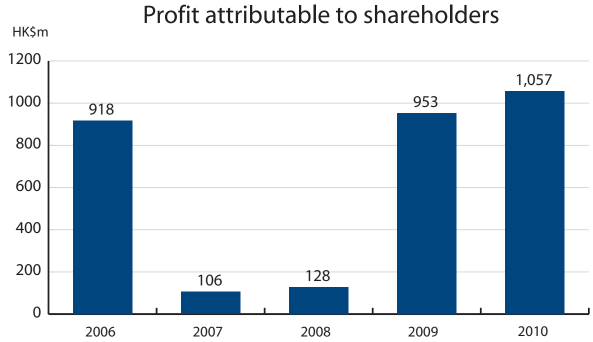
中信銀行國際
CITIC BANK INTERNATIONAL

2010 Annual Results Highlights

Results Highlights

- Profit attributable to shareholders up by 10.9% to a historical high of HK$1,057 million
- Operating income down by 5.9% to HK$3,006 million, partially due to the narrowing of interest margins in tandem with the market trend
- Operating expenses down by 8.9% to HK$1,452 million
- Net impairment losses reduced by 53.1% to HK$262 million
- Operating profit up 24.2% to HK$1,292 million

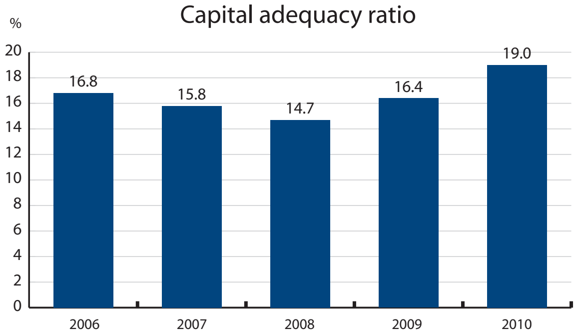
Profit attributable to shareholders



Robust Financial Position

- The Bank achieved outstanding results in balance sheet building. Total loans and total assets were up by 21.3% and 23.4% to HK$88.8 billion and HK$148.2 billion respectively
- Expanded variety of customer-driven deposit products boosted total deposits by 23.0% to HK$120.5 billion
- Capital adequacy ratio improved by 2.6 percentage points to 19.0%

Capital adequacy ratio



Core Performance

- **Retail Banking Group:** CITIC*first* wealth management franchise grew to over 16,900 customers with over HK$50 billion customer assets under management, driving wealth management fee income up by 23.5%. Private banking business was launched in Hong Kong as a strategic move to serve offshore needs of CNCB customers
- **Wholesale Banking Group:** Net interest income and non-lending fee income (including treasury income), both achieved record highs. In particular, non-lending fee income (including treasury income), as a result of strategic re-allocation of resources into non-lending business activities, surged by 92.5%
- **China Banking:** Enhanced collaboration with CNCB drove strong growth in cross-border business, establishing robust momentum in RMB trade settlement volume
- **Treasury & Markets Group:** Total client-driven revenue almost doubled to an historical high of HK$161 million, spurred by cross-selling of treasury products
- **International Business:** The opening of Singapore Branch in December 2010 established a strategic foothold for the CNCB Group in the ASEAN region and marked a major milestone in the implementation of the Bank as a CNCB offshore platform

CNCB – China CITIC Bank Corporation Limited

CITIC BANK INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

ANNOUNCEMENT OF 2010 ANNUAL RESULTS

The Board of Directors of CITIC Bank International Limited ("the Bank") is pleased to announce the consolidated results of the Bank and its subsidiaries ("the Group") for the year ended 31 December 2010.

Consolidated Income Statement
For the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	2010	2009
	HK$'000	HK$'000
Interest income	**2,830,882**	2,963,256
Interest expense	**(1,018,087)**	(1,026,056)
Net interest income	**1,812,795**	1,937,200
Fee and commission income	**721,607**	884,853
Fee and commission expense	**(30,877)**	(26,603)
Net fee and commission income	**690,730**	858,250
Net trading income	**421,184**	286,850
Net gain/ (loss) from financial instruments designated at fair value through profit or loss	**23,152**	(4,719)
Net hedging loss	**(1,022)**	(3,734)
Net gain on disposal of available-for-sale securities	**16,799**	57,751
Other operating income	**42,551**	62,463
Operating income	**3,006,189**	3,194,061
Operating expenses	**(1,452,197)**	(1,594,713)
Operating profit before impairment	**1,553,992**	1,599,348
Impairment losses on loans and advances and other accounts	**(261,936)**	(558,895)
Impairment losses written back on available-for-sale securities	**7**	4
Impairment losses	**(261,929)**	(558,891)
Operating profit	**1,292,063**	1,040,457
Impairment and write-down on capital notes investments	**(668,385)**	-
Net gain on disposal of property and equipment	**521,672**	42,948
Revaluation gain on investment properties	**14,858**	36,116
Profit before taxation	**1,160,208**	1,119,521
Income tax	**(103,551)**	(166,622)
Profit for the year	**1,056,657**	952,899

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	2010	2009
	HK$'000	HK$'000
Profit for the year	**1,056,657**	952,899
Other comprehensive income for the year (after tax and reclassification adjustments)		
Exchange differences on translation of financial statements of overseas subsidiaries	**22,430**	(40,863)
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	**3,204**	-
Available-for-sale securities		
- change in fair value	**(121,018)**	155,371
- transfer to income statement on disposal	**(18,919)**	(59,546)
- transfer to income statement on impairment	**186,402**	-
- transfer to deferred tax	**(7,660)**	(15,811)
	64,439	46,870
Total comprehensive income for the year	**1,121,096**	999,769
Attributable to equity shareholders of the Bank	**1,121,096**	999,769

Consolidated Statement of Financial Position

At 31 December 2010

(Expressed in Hong Kong dollars)

	2010	2009
	HK$'000	HK$'000
ASSETS		
Cash and balances with banks, central banks and other financial institutions	**21,225,122**	6,898,339
Placements with and advances to banks, central banks and other financial institutions	**12,229,126**	15,562,509
Trading assets	**1,633,657**	1,783,875
Securities designated at fair value through profit or loss	**646,508**	580,636
Loans and advances to customers and other accounts	**90,714,680**	74,069,969
Available-for-sale securities	**20,857,745**	20,073,727
Property and equipment		
- Investment property	**159,250**	183,192
- Other property and equipment	**582,496**	845,147
Tax recoverable	**59,744**	24,036
Deferred tax assets	**100,573**	101,355
TOTAL ASSETS	**148,208,901**	120,122,785
EQUITY AND LIABILITIES		
Deposits and balances of banks and other financial institutions	**1,850,372**	2,794,355
Deposits from customers	**113,466,113**	94,240,980
Trading liabilities	**1,477,528**	1,108,009
Certificates of deposit issued	**6,985,054**	3,693,598
Debt securities issued	**231,900**	71,800
Current taxation	**18,972**	11,564
Deferred tax liabilities	**2,197**	1,718
Other liabilities	**3,061,233**	2,054,037
Loan capital	**7,763,729**	3,916,017
TOTAL LIABILITIES	**134,857,098**	107,892,078
EQUITY		
Share capital	**7,283,341**	7,283,341
Reserves	**6,068,462**	4,947,366
Total equity attributable to equity shareholders of the Bank	**13,351,803**	12,230,707
TOTAL EQUITY AND LIABILITIES	**148,208,901**	120,122,785

Consolidated Statement of Changes in Equity
For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Share capital	Share premium	Capital reserve	General reserve	Exchange differences reserve	Property revaluation reserve	Investment revaluation 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
At 1 January 2010	**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**
Changes in equity for 2010:												
Profit for the year	-	-	-	-	-	-	-	-	-	**1,056,657**	**1,056,657**	**1,056,657**
Other comprehensive income for the year	-	-	-	-	**22,430**	**3,204**	**38,805**	-	-	-	**64,439**	**64,439**
Total comprehensive income for the year	-	-	-	-	**22,430**	**3,204**	**38,805**	-	-	**1,056,657**	**1,121,096**	**1,121,096**
Transfer from retained profits	-	-	-	-	-	-	-	**5,235**	**16,537**	**(21,772)**	-	-
Release of reserve upon disposal of property	-	-	-	-	-	**(19,418)**	-	-	-	**19,418**	-	-
At 31 December 2010	**7,283,341**	**282,930**	**6,589**	**100,000**	**22,415**	**4,718**	**(232,010)**	**11,802**	**73,636**	**5,798,382**	**6,068,462**	**13,351,803**
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:												
Profit for the year	-	-	-	-	-	-	-	-	-	952,899	952,899	952,899
Other comprehensive income for the year	-	-	-	-	(40,863)	7,719	80,014	-	-	-	46,870	46,870
Total comprehensive income for the year	-	-	-	-	(40,863)	7,719	80,014	-	-	952,899	999,769	999,769
Issuance and allotment of shares	1,700,000	-	-	-	-	-	-	-	-	-	-	1,700,000
Transfer from retained profits	-	-	-	-	-	-	-	3,092	9,863	(12,955)	-	-
Release of reserve upon disposal of property	-	-	-	-	-	(7,719)	-	-	-	7,719	-	-
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

Consolidated Cash Flow Statement
For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	2010	2009
	HK$'000	HK$'000
Operating activities		
Profit before taxation	**1,160,208**	1,119,521
Adjustments for non-cash items:		
Impairment losses on loans and advances and other accounts	**261,936**	558,895
Impairment losses written back on available-for-sale securities	**(7)**	(4)
Impairment and write-down on capital notes investments	**668,385**	-
Net gain on disposal of available-for-sale securities	**(16,799)**	(57,751)
Net gain on disposal of property and equipment	**(521,672)**	(42,948)
Revaluation gain on investment properties	**(14,858)**	(36,116)
Amortisation of deferred expenses	**52,895**	55,269
Depreciation on property and equipment	**74,778**	75,428
Dividend income from equity securities	**(4,660)**	(4,445)
Interest expense on loan capital	**355,904**	229,600
Foreign exchange differences	**51,757**	(38,357)
	2,067,867	1,859,092
(Increase)/ decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond three months	**6,770,594**	(6,354,262)
Treasury bills with original maturity beyond three months	**(721,050)**	(20,385)
Certificates of deposit held with original maturity beyond three months	**13,408**	(1,344,057)
Trading assets	**150,218**	281,871
Securities designated at fair value through profit or loss	**(65,872)**	(58,802)
Loans and advances to customers and other accounts	**(16,957,496)**	1,320,238
Available-for-sale securities	**469,696**	1,621,941
	(10,340,502)	(4,553,456)
Increase/ (decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**(943,983)**	1,867,018
Deposits from customers	**19,225,133**	(1,091,358)
Trading liabilities	**369,519**	(277,877)
Certificates of deposit issued	**3,267,812**	(430,927)
Debt securities issued	**160,100**	61,178
Other liabilities	**969,156**	(2,195,805)
	23,047,737	(2,067,771)
Cash generated from/ (used in) operations	**14,775,102**	(4,762,135)

	2010	2009
	HK$'000	HK$'000
Cash generated from/ (used in) operations	**14,775,102**	(4,762,135)
Income tax paid		
Hong Kong Profits Tax paid	**(122,649)**	(2,622)
Overseas tax paid	**(14,415)**	(28,025)
Net cash generated from/ (used in) operating activities	**14,638,038**	(4,792,782)
Investing activities		
Dividends received from equity securities	**4,660**	4,445
Purchase of property and equipment	**(111,023)**	(38,391)
Proceeds from disposal of property and equipment	**859,585**	57,277
Net cash generated from investing activities	**753,222**	23,331
Financing activities		
Proceeds from shares issued	**-**	1,700,000
Proceeds from loan capital issued	**3,876,200**	-
Interest paid on loan capital	**(352,284)**	(232,837)
Redemption of debt securities issued	**-**	(2,325,005)
Net cash generated from/ (used in) financing activities	**3,523,916**	(857,842)
Net increase/ (decrease) in cash and cash equivalents	**18,915,176**	(5,627,293)
Cash and cash equivalents as at 1 January	**11,988,356**	17,615,649
Cash and cash equivalents as at 31 December	**30,903,532**	11,988,356
Cash flows from operating activities included:		
Interest received	**2,724,407**	3,076,165
Interest paid	**(591,547)**	(918,864)

Notes:
(Expressed in Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

The financial information relating to the financial year ended 31 December 2010 included in this annual 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 2010 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 two revised Hong Kong Financial Reporting Standards ("HKFRSs"), a number of amendments to HKFRSs and two 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 3 (revised 2008), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations - plan to sell the controlling interest in a subsidiary
- Amendment to HKAS 39, Financial instruments: Recognition and measurement - eligible hedged items
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, Distributions of non-cash assets to owners
- HK(Int) 5, Presentation of financial statements - classification by the borrower of a term loan that contains a repayment on demand clause

The amendment to HKAS 39 and the issuance of HK(Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current of comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevent transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

- The amendment introduced by the Improvements to HKFRSs (2009) omnibus standard in repsect of HKAS 17, Leases, resulted in a change of classification of certain of the Group's leasehold land interests located in the Hong Kong Special Administrative Region, but this had no material impact on the amounts recognised in respect of these leases as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

3 Interest income and interest expense

(a) Interest income

	2010	2009
	HK$'000	HK$'000
Listed securities	**87,863**	204,430
Unlisted securities	**362,308**	416,787
Others (Note)	**2,380,711**	2,342,039
Interest income on financial assets that are not at fair value through profit or loss	**2,830,882**	2,963,256

(b) Interest expense

	2010	2009
	HK$'000	HK$'000
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others	**661,915**	796,414
Debt securities issued	**268**	42
Loan capital issued	**355,904**	229,600
Interest expense on financial liabilities that are not at fair value through profit or loss	**1,018,087**	1,026,056
Of which:		
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others repayable after 5 years	**4,277**	-
Loan capital issued repayable after 5 years	**139,980**	-

Note:
Included in the above is interest income accrued on impaired financial assets of HK$26,598,000 (2009: HK$2,364,000), which includes interest income on unwinding of discount on loan impairment losses of HK$8,817,000 (2009: HK$1,874,000) for the year ended 31 December 2010.

4 Net fee and commission income

	2010	2009
	HK$'000	HK$'000
Fee and commission income:		
Bills commission	**76,117**	67,646
Cards related income	**21,554**	24,020
General banking services	**65,480**	74,201
Insurance	**136,667**	116,391
Investment and structured investment products	**101,176**	86,089
Loans, overdrafts and facilities fees	**319,950**	515,678
Others	**663**	828
	721,607	884,853
Fee and commission expense	**(30,877)**	(26,603)
	690,730	858,250
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	**341,504**	539,698
- Fee and commission expense	**(14,286)**	(12,511)
	327,218	527,187

5 Net trading income

	2010	2009
	HK$'000	HK$'000
Gains less losses from dealing in foreign currencies	**280,634**	209,751
Gains less losses from trading securities	**(25,008)**	(909)
Gains less losses from other dealing activities	**168,338**	65,791
Interest income on trading assets		
- Unlisted	**77**	12,217
Interest expense on trading liabilities	**(2,857)**	-
	421,184	286,850

6 Net gain/ (loss) from financial instruments designated at fair value through profit or loss

	2010	2009
	HK$'000	HK$'000
Net gain / (loss)	**3,898**	(19,354)
Interest income		
- Listed	**4,953**	5,749
- Unlisted	**14,343**	12,170
Interest expense	**(42)**	(3,284)
	23,152	(4,719)

7 Net hedging loss

	2010	2009
	HK$'000	HK$'000
Net loss on fair value hedge	**1,022**	3,734

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

	2010	2009
	HK$'000	HK$'000
Net revaluation gain transferred from reserves	**18,919**	59,546
Net loss arising in current year	**(2,120)**	(1,795)
	16,799	57,751

9 Other operating income

	2010	2009
	HK$'000	HK$'000
Dividend income from available-for-sale equity securities		
- Listed	**100**	85
- Unlisted	**4,560**	4,360
Rental income from investment properties less direct outgoings of HK$242,000 (2009: HK$322,000)	**3,970**	4,202
Others	**33,921**	53,816
	42,551	62,463

10 Operating expenses

	2010	2009
	HK$'000	HK$'000
(a) Staff costs		
Salaries and other staff costs	**852,554**	721,253
Retirement costs	**50,368**	48,514
	902,922	769,767
(b) Depreciation		
Depreciation of property and equipment		
- Assets held for use under operating leases	**9,034**	13,054
- Other assets	**65,744**	62,374
	74,778	75,428
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation)		
- Rental of properties	**110,119**	88,843
- Others	**90,544**	79,462
Auditor's remuneration	**5,292**	4,924
Advertising	**44,780**	29,937
Communication, printing and stationery	**59,298**	61,429
Legal and professional fees	**35,204**	31,247
Others (Note)	**129,260**	453,676
	474,497	749,518
Total operating expenses	**1,452,197**	1,594,713

Note:

On 22 July 2009, the Bank entered into an agreement with the Hong Kong Monetary 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. No additional provision on LB Minibonds was made by the Group in 2010.

11 Impairment losses on loans and advances and other accounts

	2010	2009
	HK$'000	HK$'000
Impairment losses charged for		
- Loans and advances	**(200,807)**	(556,948)
- Other accounts	**(61,129)**	(1,947)
	(261,936)	(558,895)
Impairment losses on loans and advances and other accounts		
- Individual assessment	**(207,078)**	(467,485)
- Collective assessment	**(54,858)**	(91,410)
	(261,936)	(558,895)
of which:		
- Additions	**(307,927)**	(666,670)
- Releases	**25,315**	21,703
- Recoveries	**20,676**	86,072
	(261,936)	(558,895)

12 Income tax in the consolidated income statement

	2010	2009
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
Provision for the year	**88,073**	159,660
Over-provision in respect of prior years	**(80)**	-
	87,993	159,660
Current tax - Overseas		
Provision for the year	**20,658**	12,849
(Over)/ Under-provision in respect of prior years	**(2,417)**	2,812
	18,241	15,661
Deferred tax		
Reversal of temporary differences	**(2,683)**	(8,699)
	103,551	166,622

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 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

	2010	2009
	HK$'000	HK$'000
Debt securities	**-**	624,148
Equity securities	**3,029**	2,567
Investment funds	**4,162**	3,606
Trading securities	**7,191**	630,321
Positive fair values of derivatives	**1,626,466**	1,153,554
	1,633,657	1,783,875
Issued by:		
Banks and other financial institutions	**-**	624,148
Corporate entities	**7,191**	6,173
	7,191	630,321
Analysed by place of listing:		
Listed outside Hong Kong	**3,029**	2,567
Unlisted	**4,162**	627,754
	7,191	630,321

14 Securities designated at fair value through profit or loss

	2010	2009
	HK$'000	HK$'000
Debt securities	**646,508**	580,636
Issued by:		
Sovereigns	**29,729**	34,160
Banks and other financial institutions	**485,181**	415,162
Corporate entities	**131,598**	131,314
	646,508	580,636
Analysed by place of listing:		
Listed outside Hong Kong	**81,992**	84,080
Unlisted	**564,516**	496,556
	646,508	580,636

15 Loans and advances to customers and other accounts

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

	2010	2009
	HK$'000	HK$'000
Gross loans and advances to customers	**88,818,235**	73,250,584
Impairment allowances		
- Individually assessed	**(297,634)**	(311,137)
- Collectively assessed	**(359,960)**	(313,090)
	88,160,641	72,626,357
Accrued interest and other accounts	**2,619,750**	1,460,975
Impairment allowances		
- Individually assessed	**(65,711)**	(17,363)
	2,554,039	1,443,612
	90,714,680	74,069,969
Included in loans and advances to customers are:		
Trade bills	**1,658,060**	1,035,773
Impairment allowances		
- Collectively assessed	**(655)**	(7,157)
	1,657,405	1,028,616

Other accounts included an equity interest of HK$174,602,000 (2009: HK$240,000,000) acquired through recovery of an impaired loan which the Group has planned to dispose of in the near future. In 2010, an impairment provision of HK$59,984,000 (2009: Nil) was made for the equity interest, which was carried at the lower of its carrying amount and fair value less costs to sell. Subsequent to 31 December 2010, the Group has entered into a share transfer agreement to sell all of its equity interest in this held-for-sale asset, to an independent third party at a consideration of RMB275,000,000 (equivalent to approximately HK$326,000,000). In addition, another held-for-sale asset has been disposed of during the year with a gain of HK$4,116,000 recognised in the income statement.

(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.

	2010		2009	
	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	**313,400**	**-**	303,000	-
- Property investment	**11,585,272**	**-**	9,226,709	49,610
- Financial concerns	**4,386,559**	**-**	4,407,441	-
- Stockbrokers	**182,000**	**-**	21,428	-
- Wholesale and retail trade	**9,189,862**	**43,769**	3,775,792	90,648
- Manufacturing	**9,490,999**	**130,950**	5,212,804	67,058
- Transport and transport equipment	**2,940,451**	**218**	2,878,221	284
- Recreational activities	**261,747**	**-**	190,354	-
- Information technology	**16,370**	**-**	24,061	-
- Others	**2,692,537**	**11**	2,472,175	14,976
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**25,806**	**-**	28,981	-
- Loans for the purchase of other residential properties	**10,912,294**	**13,793**	10,673,018	936
- Credit card advances	**267,441**	**1,719**	310,487	2,530
- Others	**4,430,096**	**9,269**	3,626,044	8,211
Gross loans and advances for use in Hong Kong	**56,694,834**	**199,729**	43,150,515	234,253
Trade finance	**7,360,087**	**111,142**	4,416,212	103,566
Gross loans and advances for use outside Hong Kong	**24,763,314**	**919,941**	25,683,857	966,318
Gross loans and advances to customers	**88,818,235**	**1,230,812**	73,250,584	1,304,137

(c) Impaired loans and advances to customers

	2010	2009
	HK$'000	HK$'000
Gross impaired loans and advances to customers	**1,230,812**	1,304,137
Impairment allowances - Individually assessed	**(297,634)**	(311,137)
	933,178	993,000
Gross impaired loans and advances as a % of total loans and advances to customers	**1.39%**	1.78%

Impaired loans and advances are mainly 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$282,912,000 (2009: HK$330,365,000) for the Group. This collateral mainly comprises mortgage interest over residential or commercial properties and cash with the Group.

16 Available-for-sale securities

	2010	2009
	HK$'000	HK$'000
Certificates of deposit held	**1,480,621**	1,344,057
Debt securities	**16,727,106**	17,741,780
Treasury bills (including Exchange Fund Bills)	**2,610,576**	888,313
Equity securities	**39,442**	43,244
Investment funds	**-**	56,333
	20,857,745	20,073,727
Issued by:		
Sovereigns	**2,771,218**	972,558
Public sector entities	**-**	384,285
Banks and other financial institutions	**14,480,134**	14,123,245
Corporate entities	**3,606,393**	4,593,639
	20,857,745	20,073,727
Analysed by place of listing:		
Listed in Hong Kong	**-**	173,397
Listed outside Hong Kong	**1,608,651**	3,198,066
	1,608,651	3,371,463
Unlisted	**19,249,094**	16,702,264
	20,857,745	20,073,727
Fair value of individually impaired debt securities	**124**	1,222
Fair value of individually impaired investment funds	**-**	56,333
	124	57,555

At 31 December 2010 and 2009, certain of the Group's available-for-sale securities comprising debt securities and investment funds which were determined to be individually impaired on the basis of a significant and prolonged decline in the fair value below cost. Impairment losses on these investments were recognised in the income statement.

Prior to 31 December 2010, the Group's capital notes investments issued by Farmington Finance Limited ("Farmington investments") was accounted for as available-for-sale securities and its fair value has been based on the net present value as determined by discounting the projected cash flow of the underlying investment portfolio assuming the investment vehicle would be held until all underlying assets mature. Starting from April 2010, certain basic assumptions have been changed in cash flow model, which include (a) actual defaults at estimated recovery for principal and interest, and (b) updated market price assumptions for projected defaults resulting in a reduced weighted average price.

In the second-half of 2010, certain trigger events ("trigger events") that take into account of both the credit quality of the underlying assets and the cash flow of the investment portfolio appeared which led to the net present value of Farmington investment's discounted projected cash flow model close to zero value under the fair value assessment by the Investment Manager. In response to the above trigger events, the management of the Group considered the fair value for Farmington investments would likely be zero value and thus, decided to make full impairment on its carrying value of approximately HK$481,983,000 (included in the available-for-sale securities) and transfer the investment revaluation reserve deficit of HK$186,402,000 to the income statement. Accordingly, the Group has recognised an impairment and write-down on Farmington capital notes investments of HK$668,385,000 in the income statement in 2010.

In previous two years, the Group had entered into two credit default swaps ("CDS") with notional value of US$456,000,000 (equivalent to HK$ 3,536,100,000) 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. Management has assessed the probability that the senior loan provider of Farmington would exercise its right to recover certain amount of loss under the CDS arrangement from the Group and has made the necessary provision accordingly.

Other than the above Farmington capital notes for collateralized debt obligations investments ("CDO"), the Group has not made nor does it hold any other CDO investments as at 31 December 2010 and 2009.

17 Reserves

	2010	2009
	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	**22,415**	(15)
Property revaluation reserve	**4,718**	20,932
Investment revaluation reserve	**(232,010)**	(270,815)
Statutory reserve	**11,802**	6,567
Regulatory general reserve	**73,636**	57,099
Retained profits*	**5,798,382**	4,744,079
Total	**6,068,462**	4,947,366

* 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. At 31 December 2010, HK$732,504,000 (2009: HK$587,892,000) 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:

	2010	2009
	HK$'000	HK$'000
Direct credit substitutes	**5,514,355**	4,580,235
Transaction-related contingencies	**394,540**	614,836
Trade-related contingencies	**1,840,502**	1,299,902
Other commitments:		
- which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**21,470,921**	19,531,304
- with an original maturity of not more than 1 year	**9,295,373**	4,066,281
- with an original maturity of more than 1 year	**5,984,814**	3,140,984
	44,500,505	33,233,542
Credit risk-weighted amounts	**9,130,072**	6,558,920

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2009: 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 the Asset and Liability Committee ("ALCO"). 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). For the year ended 31 December 2010, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$115,000 (2009: a profit of HK$105,000) with a standard deviation of HK$571,000 (2009: HK$242,000).

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

	2010			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**
Spot assets	**52,053,543**	**13,545,912**	**3,866,923**	**69,466,378**
Spot liabilities	**(35,441,270)**	**(9,597,738)**	**(10,928,279)**	**(55,967,287)**
Forward purchases	**68,147,181**	**42,123,945**	**13,801,988**	**124,073,114**
Forward sales	**(84,304,550)**	**(45,427,531)**	**(6,753,175)**	**(136,485,256)**
Net options position	-	-	-	-
Net long/ (short) position	**454,904**	**644,588**	**(12,543)**	**1,086,949**
Net structural position	**-**	**236,058**	**48,489**	**284,547**

	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

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

	2010				
	Wholesale banking	Retail banking	Treasury and markets	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Net interest income/ (expense)	**882,040**	**819,278**	**(88,564)**	**200,041**	**1,812,795**
Other operating income	**376,467**	**409,858**	**363,928**	**26,342**	**1,176,595**
Net gain on disposal of available-for-sale securities	**-**	**-**	**16,799**	**-**	**16,799**
Operating income	**1,258,507**	**1,229,136**	**292,163**	**226,383**	**3,006,189**
Operating expenses	**(178,168)**	**(424,564)**	**(41,420)**	**(808,045)**	**(1,452,197)**
Inter-segment (expenses)/ income	**(181,866)**	**(236,835)**	**(79,553)**	**498,254**	**-**
Operating profit/ (loss) before impairment	**898,473**	**567,737**	**171,190**	**(83,408)**	**1,553,992**
Impairment losses (charged for)/ written back on loans and advances and other accounts	**(264,357)**	**(1,119)**	**-**	**3,540**	**(261,936)**
Impairment losses written back on available-for-sale securities	**-**	**7**	**-**	**-**	**7**
Impairment losses (charged for)/ written back	**(264,357)**	**(1,112)**	**-**	**3,540**	**(261,929)**
Operating profit/ (loss)	**634,116**	**566,625**	**171,190**	**(79,868)**	**1,292,063**
Impairment and write-down on capital notes investments	**-**	**-**	**(668,385)**	**-**	**(668,385)**
Net (loss)/ gain on disposal of property and equipment	**(3,398)**	**(235)**	**(388)**	**525,693**	**521,672**
Revaluation gain on investment properties	**-**	**-**	**-**	**14,858**	**14,858**
Profit/ (loss) before taxation	**630,718**	**566,390**	**(497,583)**	**460,683**	**1,160,208**
Income tax	**-**	**-**	**-**	**(103,551)**	**(103,551)**
Profit/ (loss) for the year	**630,718**	**566,390**	**(497,583)**	**357,132**	**1,056,657**
Other segment items:					
Depreciation	**2,747**	**9,338**	**220**	**62,473**	**74,778**
Segment assets	**56,094,264**	**31,841,713**	**56,515,297**	**3,757,627**	**148,208,901**
Segment liabilities	**59,455,273**	**57,108,175**	**18,700,806**	**(407,156)**	**134,857,098**
Capital expenditure incurred during the year	**22,269**	**36,684**	**11,738**	**40,332**	**111,023**

	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 (expense)/ income	(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 and other accounts	(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 (loss)/ gain 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

(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.

	2010				
	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	**1,054,082**	**142,400,913**	**129,529,906**	**2,744,970**	**41,535,834**
Mainland China	**95,448**	**9,016,339**	**7,642,692**	**201,880**	**838,691**
USA	**(974)**	**1,558,498**	**1,452,247**	**35,120**	**560,413**
Others	**6,659**	**1,077,551**	**1,054,452**	**26,665**	**1,565,567**
Inter-segment items	**4,993**	**(5,844,400)**	**(4,822,199)**	**(2,446)**	**-**
	1,160,208	**148,208,901**	**134,857,098**	**3,006,189**	**44,500,505**

	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

(21) Non-adjusting post balance sheet events

The Bank, together with 15 other distributing banks of the Lehman Brothers Minibonds ("LB Minibonds") issued by Pacific International Finance Limited (the "Issuer"), have been working towards a satisfactory outcome for the recovery of the Minibonds collateral, and have reached to a final resolution proposal for Series 10 to 12, 15 to 23 and 25 to 36 of the LB Minibonds (the "Relevant Minibonds").

Following the offer of the Repurchase Scheme entered on 22 July 2009 as disclosed in note 10, each of the distributing banks committed to assist in and to expedite the recovery of the collateral for, among other outstanding LB Minibonds, the Relevant Minibonds ("Collateral") by the trustee for the LB Minibonds (the "Trustee"). The Trustee had already appointed receivers (the "Receivers") for the Collateral.

On 28 March 2011, the Receivers announced that Lehman Brothers Special Financing Inc. ("Lehman Brothers"), the Trustee, the Receivers (as agents of the Issuer and without personal liability) and others have reached into the Conditional Agreement to settle opposing claims asserted by LB in respect of the Collateral (the "Conditional Agreement"). The Receivers advised that the agreement will, upon it becoming unconditional, enable investors of Relevant Minibonds to recover between 70% and 93% of the amounts they invested. The actual distribution to each investor (the "Recovery Payment") will depend on the specific circumstances of the investor. Investors should also refer to the Receiver's announcement for further details.

The Conditional Agreement mentioned above is dependent on the following:

(i) the US Bankruptcy Court confirming that its previous orders which lay down procedures for Lehman Brothers to enter into settlements in respect of claims arising under certain derivatives contracts apply to settlements relating to the Collateral. The Receivers have advised that an application will be made by Lehman Brothers to the US Bankruptcy Court on 29 March 2011 for this purpose; and

(ii) the passing of extraordinary resolutions for each and every Relevant Minibonds. For this purpose, the Issuer will convene a meeting for each series of the Relevant Minibonds which can only be attended by persons ("noteholders") who hold a beneficial title in the Relevant Minibonds. If investors have transferred the beneficial title in their Relevant Minibonds to the Bank pursuant to either the Repurchase Scheme or some other settlements with the Bank, the Bank will participate and vote in such noteholder meetings. The Bank, based on the information available to it on 28 March 2011, decided to accept the Receivers' recommendation for the Relevant Minibonds owned by it and will vote in favour of the extraordinary resolution at the noteholder meetings so that this matter can be resolved in a way which maximises the benefits to investors within a reasonable timeframe.

In addition to the Collateral recovery amount, as a goodwill gesture and not part of the Repurchase Scheme, the Bank and other distributing banks have resolved to offer an ex-gratia payment scheme to Eligible Customers (as defined in the Repurchase Scheme) of Relevant Minibonds. The amount of ex-gratia payment is investor-specific and will depend on the Collateral recovery amount as well as the amount (if any) previously received from the Bank as part of a settlement. Based on the rates of recovery of between 70% and 93% as advised by the Receivers, the total level of recovery to Eligible Customers, after taking into account the offer of ex-gratia payments, will be in the range of 85% to 96.5% of the principal amount of their investments.

As part of this final resolution proposal, the Bank and the other distributing banks will increase the funding available to the Trustee to approximately HK$662 million from HK$291 million, by way of the Expense Funding Agreement dated 30 October 2009, to pay for all related fees and expenses which may be incurred in connection with the recovery of the Collateral of the outstanding LB Minibonds and the Trustee's role in respect of the LB Minibonds.

No additional or release of provision has been made for the year ended 31 December 2010 as the management of the Bank is of the opinion that the outcome of above resolution proposal cannot be reliably estimated as at the date of this report because it is subject to (i) certain conditions as mentioned above; (ii) investor specific circumstances; and (iii) the net amount which could be recovered from the LB Minibonds on collateral recovery.

Unaudited supplementary financial information

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Capital adequacy ratio

(i) Capital adequacy ratio

	2010	2009
Capital adequacy ratio as at 31 December	**19.03%**	16.44%
Core capital ratio as at 31 December	**11.23%**	11.91%

The capital adequacy ratio ("CAR") and core capital ratio, at 31 December 2010 and 31 December 2009, 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

	2010	2009
	HK$'000	HK$'000
Core capital		
Paid up ordinary share capital	**7,283,341**	7,283,341
Share premium	**282,930**	282,930
Reserves	**3,991,655**	3,082,578
Profit and loss account	**1,056,657**	950,994
Less: Net deferred tax assets	**(98,376)**	(99,637)
Total core capital before deductions	**12,516,207**	11,500,206
Less: Deductions from core capital	**(514,786)**	(720,880)
Total core capital after deductions	**12,001,421**	10,779,326
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
Regulatory reserve for general banking risks	**732,504**	587,892
Collectively assessed impairment allowances	**359,960**	313,096
Perpetual subordinated debt	**1,972,153**	1,977,356
Term subordinated debt	**5,791,576**	1,938,661
Total supplementary capital before deductions	**8,856,193**	4,826,923
Total eligible supplementary capital before deductions	**8,856,193**	4,826,923
Less: Deductions from supplementary capital items	**(514,786)**	(720,880)
Total supplementary capital after deductions	**8,341,407**	4,106,043
Total capital base after deductions	**20,342,828**	14,885,369
Total deductions from the core capital and supplementary capital	**1,029,572**	1,441,760
Risk-weighted amount		
- credit risk	**99,703,001**	84,297,234
- market risk	**2,195,788**	2,315,613
- operational risk	**5,000,600**	3,935,475
	106,899,389	90,548,322

(iii) Liquidity ratio

	2010	2009
Average liquidity ratio for the year ended 31 December *	**44.71%**	48.78%

* 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.

	2010		2009	
	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	**313,400**	**100**	303,000	100
- Property investment	**11,585,272**	**98**	9,226,709	98
- Financial concerns	**4,386,559**	**45**	4,407,441	33
- Stockbrokers	**182,000**	**7**	21,428	100
- Wholesale and retail trade	**9,189,862**	**34**	3,775,792	48
- Manufacturing	**9,490,999**	**39**	5,212,804	29
- Transport and transport equipment	**2,940,451**	**71**	2,878,221	76
- Recreational activities	**261,747**	**80**	190,354	92
- Information technology	**16,370**	**41**	24,061	75
- Others	**2,692,537**	**47**	2,472,175	57
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**25,806**	**100**	28,981	100
- Loans for the purchase of other residential properties	**10,912,294**	**100**	10,673,018	100
- Credit card advances	**267,441**	**-**	310,487	-
- Others	**4,430,096**	**95**	3,626,044	93
Gross loans and advances for use in Hong Kong	**56,694,834**	**69**	43,150,515	74
Trade finance	**7,360,087**	**25**	4,416,212	28
Gross loans and advances for use outside Hong Kong	**24,763,314**	**36**	25,683,857	36
Gross loans and advances to customers	**88,818,235**	**56**	73,250,584	58

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:

	2010				
	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	**-**	**-**	**1,975**	**-**	**(1,209)**
Wholesale and retail trade	**40,066**	**18,337**	**69,472**	**43,769**	**(13,498)**
Manufacturing	**97,632**	**59,219**	**94,796**	**130,950**	**119,726**
Loans for the purchase of other residential properties	**-**	**865**	**85**	**13,793**	**577**
Gross loans and advances for use outside Hong Kong	**888,048**	**153,582**	**70,766**	**919,941**	**(6,279)**
	1,025,746	**232,003**	**237,094**	**1,108,453**	**99,317**

	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

By geopraphical areas

	2010				
	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	**59,947,840**	**307,795**	**349,791**	**133,449**	**229,106**
Mainland China	**19,626,028**	**78,498**	**56,132**	**1,461**	**90,087**
USA	**1,795,773**	**-**	**-**	**-**	**5,528**
Others	**7,448,594**	**744,438**	**824,889**	**162,724**	**35,239**
	88,818,235	**1,130,731**	**1,230,812**	**297,634**	**359,960**

	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	51,070,380	261,836	383,367	130,818	217,646
Mainland China	12,860,500	52,244	54,070	1,492	52,646
USA	1,740,451	-	38,195	24,053	8,437
Others	7,579,253	256,587	828,505	154,774	34,361
	73,250,584	570,667	1,304,137	311,137	313,090

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

	2010		2009	
		% of total loans and advances to customers		% 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	**56,383**	**0.06**	23,682	0.03
- 1 year or less but over 6 months	**808,971**	**0.91**	121,699	0.17
- over 1 year	**265,377**	**0.30**	425,286	0.58
	1,130,731	**1.27**	570,667	0.78
Secured overdue loans and advances	**207,008**		186,700	
Unsecured overdue loans and advances	**923,723**		383,967	
	1,130,731		570,667	
Market value of collateral held against the secured overdue loans and advances	**384,033**		969,663	
Individual impairment allowances made	**241,294**		121,110	

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.

Eligible collateral, which held in respect of the overdue loans and advances, is "Eligible Physical Collateral" which mainly comprises 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.

There were no advances to banks and other financial institutions which were overdue for over 3 months at 31 December 2010 and 2009.

(ii) Other overdue assets

	2010	2009
	HK$'000	HK$'000
Available-for-sale securities which have been overdue for:		
- over 1 year	**13,421**	14,519

(D) Rescheduled loans

	2010		2009	
		% of total loans and advances to customers		% of total loans and advances to customers
	HK$'000		HK$'000	
Rescheduled loans	**283,179**	**0.32**	136,982	0.19

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 at 31 December 2010 and 31 December 2009.

(E) Repossessed assets

	2010	2009
	HK$'000	HK$'000
Included in loans and advances to customers and other accounts	**4,000**	48,498

The amount represents the estimated market value of the repossessed assets at 31 December 2010 and 31 December 2009.

(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:

	2010			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Asia and Pacific excluding Hong Kong	**16,406,753**	**236,008**	**21,761,227**	**38,403,988**
of which Australia	**2,970,715**	**1,950**	**733,512**	**3,706,177**
of which Mainland China	**8,362,781**	**66,054**	**18,290,877**	**26,719,712**
Western Europe	**10,087,353**	**2,401**	**2,141,922**	**12,231,676**
of which France	**1,285,045**	**-**	**6,614**	**1,291,659**
of which Netherlands	**951,367**	**-**	**719,951**	**1,671,318**
of which Spain	**1,112,956**	**-**	**215,048**	**1,328,004**
of which Switzerland	**1,161,563**	**-**	**158,524**	**1,320,087**
of which United Kingdom	**2,580,236**	**971**	**567,109**	**3,148,316**

	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

(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.

	2010			
	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	**16,096,399**	**7,878,958**	**23,975,357**	**11,048**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**26,151,097**	**14,784,059**	**40,935,156**	**35,600**
	42,247,496	**22,663,017**	**64,910,513**	**46,648**

	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

Report of the Chief Executive Officer

Operating Environment

Hong Kong's economy continued to gain traction in 2010 with an apparent improvement in investment and consumption sentiment of the public buoyed by the stock and property market rallies as well as salary rises. An escalation in deposit competition among banks raised the cost of funding and narrowed net interest margins, but stronger growth in the loan book were registered and credit quality has also stood in good shape. The development of offshore RMB business in Hong Kong took a leap forward during the year under the Chinese central government's further liberalisation policy, and all these positive factors contributed to a more benign operating environment for banks in Hong Kong.

Economic conditions elsewhere in the world have been very much different, though. In Europe, a sovereign debt crisis swept through the continent; and in the US, continued weakness of the economy prompted policy makers into unveiling a further round of quantitative easing measures to prop up recovery. The consequence of excess liquidity across the globe has significantly increased the risk of asset bubbles forming in Hong Kong, China, and other markets, thus presenting new challenges to Hong Kong's financial industry.

CITIC Bank International Limited ("CBI" or "the Bank") capitalised on the local economy's buoyancy in 2010 to drive quality loan growth and forged ahead to launch new businesses such as private banking and transaction banking. With the official renaming as CITIC Bank International in May 2010, the Bank continued to deepen cross-border business collaboration with its parent bank, China CITIC Bank Corporation Limited ("CNCB"). In fulfilling its role as CNCB Group's offshore platform to pursue international expansion, CBI opened its Singapore Branch in December 2010. The new branch has established a strategic foothold for the CNCB Group in the ASEAN region and marked a major milestone in the implementation of its international expansion strategy.

Business Performance

Earnings

CBI actively sought business development and expanded its network in 2010 in a bid to further strengthen the foundation for deepening its Hong Kong business, while developing its regional business against the backdrop of a favourable economic setting in Mainland China and Hong Kong. Nevertheless, interest margins narrowed in tandem with the market trend. The recovery of interest on an exceptional legacy impaired loan in 2009 led to a relatively high basis for comparison. As a result, the Bank's operating income and operating profit before impairment dropped by 5.9% and 2.8% year-on-year to HK$3,006 million and HK$1,554 million, respectively.

The Bank has strived to upgrade its risk management standards over the past two years. Leveraging on the advanced techniques of its strategic shareholder, Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), the Bank put in place a comprehensive Risk Management Plan to further enhance its asset quality. This, coupled with improvement in Hong Kong's overall economic environment, contributed to a significant 53.1% year-on-year reduction in the Bank's net impairment losses to HK$262 million during the year. As a result, the Bank's operating profit rose 24.2% year-on-year to HK$1,292 million.

During the year, the Bank recorded two one-off items including a one-off disposal gain of HK$522 million from the sale of its properties in Lippo Centre in Admiralty, Hong Kong and the write-down of HK$668 million on the Bank's capital notes investments issued by Farmington Finance Limited ("Farmington"). With this write-down, the Bank has made full provision on all its investments in Farmington capital note. In addition, with HK$15 million in revaluation gain on investment properties, the Bank's profit before taxation increased by 3.6% year-on-year to HK$1,160 million while its profit attributable to shareholders also surged by 10.9% year-on-year to a historical high of HK$1,057 million.

Net Interest Income

In 2010, the Bank's net interest income dropped by 6.4% to HK$1,813 million, partly because the fierce competition for deposits among local banks had pushed up the funding costs for deposits. As a further step to bolster its capital strength to meet the business and regional development needs, the Bank issued US$500 million 10-year subordinated debts carrying a coupon of 6.875% in June 2010. The issuance of sub-debts added considerable pressure on the Bank's overall interest expenses, which offset the positive effect of faster loan growth on net interest income. Influenced by the above mentioned factors, the Bank's net interest margin therefore contracted 34 basis points to 1.38% in 2010.

Non-Interest Income

During the year, the Bank recorded encouraging results in non-interest income from various businesses. The Bank achieved a 23.5% year-on-year growth in wealth management related income and a 12.5% year-on-year growth in trade bills commission income. Through close collaboration with Wholesale Banking Group and Retail Banking Group, Treasury and Markets Group successfully cross-sold many of its treasury products to their customers and boosted related income by almost 100%. However, net gain from the sale of available-for-sale securities reduced significantly by 70.9% to HK$17 million. A handsome fee gained from the successful listing of a corporate customer in Hong Kong in 2009 was not repeated in 2010. As a result, the Bank's non-interest income fell 5.1% year-on-year to HK$1,193 million.

Operating Expenses

In 2010, the Bank's operating expenses dropped by 8.9% year-on-year to HK$1,452 million due to a relatively high basis for comparison created by the full provision on the amount payable under the Lehman-Brothers Minibonds Repurchase Scheme and related expenses in 2009. Excluding this one-off item, the Bank's operating expenses would have recorded a low double-digit growth mainly because of increased investments and expenses for new business development and branch network expansion in Hong Kong and Asia. Overall, the Bank's cost to income ratio improved to 48.3% from the previous year's 49.9%.

Impairment Allowances

As the overall economic environment improved and the Bank upgraded its risk management standards, the Bank registered a net charge in impairment losses on loans and advances and other accounts totalling HK$262 million during the year, representing a significant 53.1% reduction over 2009. The net charge on individually assessed loans reduced by 59.6% year-on-year to HK$221 million; while the net charge on collectively assessed loans reduced by 37.4% year-on-year to HK$62 million. Bad debt recoveries dropped by 76.0% year-on-year to HK$21 million.

Asset Quality

Asset, Loan, and Deposit Sizes

In 2010, the Bank delivered outstanding results in stepping up to grow quality lending. As at end-December 2010, the Bank's total loans grew by 21.3% to HK$88.8 billion as compared to 2009 year-end while its total assets increased by 23.4% to HK$148.2 billion. Meanwhile, under the prolonged low interest rate environment, Retail Banking Group and Wholesale Banking Group worked closely with Treasury and Markets Group to introduce an expanded variety of customer-driven deposit products which received encouraging response from customers. As a result, total deposits grew by 23.0% to HK$120.5 billion.

In July 2010, the Bank became the first Hong Kong financial institution to issue offshore RMB Certificate of Deposit ("CD"). The total issue size of the one-year RMB CD was RMB500 million. This RMB CD issuance optimised the Bank's RMB asset and liability position and diversified its RMB investment product portfolio, while spearheading the Bank to make its contribution to the development of Hong Kong as an offshore RMB centre.

Asset Quality Indicators

As at end-December 2010, impaired loans ratio dropped to 1.39% from 1.78% as at end-December 2009. Separately, the Bank's residential mortgage delinquency ratio also continued to perform better than industry average.

Financial Position

To support its rapid business growth and in preparation for its regional expansion, the Bank issued US$500 million 10-year subordinated debts in June 2010. The issuance of sub-debts further enhanced the Bank's capital strength. As at end-December 2010, the Bank's capital adequacy ratio reached 19.0%, representing an improvement by 2.6 percentage points from 2009 year-end. Meanwhile, despite tightening market liquidity, the roll-out of a series of successful customer deposit promotional campaigns and active asset and liability management programmes enabled the Bank to maintain its average liquidity ratio and loans to deposits ratio at the healthy levels of 44.7% and 73.7% respectively as at end-December 2010.

CBI's Key Financial Ratios

	31 December 2010	31 December 2009
Capital adequacy	19.0%	16.4%
Core capital adequacy	11.2%	11.9%
Average liquidity	44.7%	48.8%
Loans to deposits	73.7%	74.8%
Loans to total assets	59.9%	61.0%
Impaired loans	1.39%	1.78%
Coverage[1]	45.5%	48.5%
Loan loss coverage	53.4%	47.9%
Mainland loans to total customer advances	22.1%	17.6%

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

Business Development

<u>Retail Banking Group ("RBG")</u>

Riding on the improved local economy and the rebranding campaign momentum of the Bank, RBG recorded a robust full-year 2010 with solid business strengths. Profit before taxation peaked to a record HK$566 million. In view of strong interest in RMB business against the background of China's sustained economic growth, a range of innovative products was launched and supported by extensive marketing campaigns. This contributed to balanced revenue growth in different business dimensions. Total retail loan balances grew by 15.9% year-on-year to HK$31.3 billion at the end of 2010 and retail deposits reached HK$52.3 billion, up 7.1% year-on-year. Net interest income increased by 7.9% year-on-year to a new high of HK$819 million, while wealth management business expansion and loan growth lifted non-interest income by 23.5% year-on-year to HK$410 million.

A continuous focus on operating efficiency and cost management ensured that operating expenses recorded just single-digit growth after excluding the costs associated with meeting customer claims in relation to Lehman Brother-linked products for 2009.

The key engines behind the growth in the Bank's retail loan portfolio were mortgages and secured SME loans. Some bad debts incurred several years ago were also successfully recovered and impairment losses fell by 98.3% year-on-year to just HK$1.1 million.

With the foundation built for CITIC*first* as the "New Standard of Private Wealth Management", the proposition made further inroad in 2010 via building up the market insights capability leveraging on stock market research and delivering a new collateralised overdraft service based on total customer assets under management. As at the end of 2010, the total number of CITIC*first* customers increased by 14.0% from 2009 year-end to over 16,900. Total customer assets under management grew by 17.0% to over HK$50 billion.

To fulfill Mainland customers' cross-border needs, RBG made significant headway with the introduction of related businesses. In addition to the wealth management service provided by CITIC*first*, private banking services were initiated in the second half of 2010 with a full launch planned for 2011. RBG also stepped up the pace of its retail network expansion by opening three new branches in Causeway Bay, Mei Foo, and Tseung Kwan O during the year. In 2011, more new branches will be opened as the Bank continues to extend its retail presence in Hong Kong.

Wholesale Banking Group ("WBG")

WBG delivered another satisfactory year as a result of remaining focused on its strategic priorities of revenue stream diversification, product capability upgrades, regional expansion, and cross business-unit collaboration. Net interest income and non-lending fee income (including treasury income), both achieved record highs with year-on-year growth of 2.1% and 92.5%, respectively.

WBG continued to deepen its collaboration with CNCB and capitalised on this edge to tap opportunities arising from the recently increased pace of growth in RMB trade settlement business. Cross-business referrals between the Bank and CNCB have increased considerably to a new level and proved that the collaboration model was crucial to the Bank's unique competitive advantage and long-term growth.

WBG was committed to growing sustainable revenues during the year by making investments in product capabilities fulfilling customer needs and up-to-date technologies meeting international bank standards. In August 2010, a high-calibre transaction banking team was formed to execute a mid- to long-term product development and channel distribution plan, with a strong focus on trade and cash management products and services.

The soft opening of the Singapore Branch in December 2010 represented a major milestone in the roll-out of WBG's network in South East Asia, delivering best-in-class support to clients with existing presence in that region. Leveraging the Bank's expertise in RMB products and China-related cross-border services, WBG is well positioned to provide an offshore financial platform for its corporate customers as well as customers of CNCB.

During the year, WBG embarked on several important initiatives to introduce strict customer management and lending disciplines, which reflected its commitment to instil a strong risk management culture among all staff. With continual prudent risk management and appetite, provision for credit losses registered a year-on-year 47.4% improvement.

China Banking

2010 witnessed a further breakthrough in the cooperation between the Bank and its parent bank, CNCB, as well as its ultimate shareholder, CITIC Group. Approved facilities and loan drawdowns arising from CNCB business referrals surged by 262% and 168% respectively over 2009. CNCB established a bank-wide key performance indicator system for cross-border business referrals which significantly accelerated the pace of such referrals. Meanwhile, the Bank made encouraging progress towards establishing collaboration with CITIC Group subsidiaries as well as their upstream and downstream companies, thus generating substantial new opportunities for its structured finance and deposit business.

Significant progress was also made by CBI and CNCB in product development that facilitated cross-border business cooperation. CBI collaborated with more CNCB branches to provide RMB non-deliverable forward ("NDF") contracts for Mainland customers and as a result the volume of RMB NDF transactions and related profit grew 55% and 60% year-on-year respectively in 2010. Robust growth was also recorded in the business volume of other new products and related profits, in particular in RMB trade settlement products. Being one of the leading banks in Hong Kong to conduct cross-border RMB trade settlement business, CBI was the first local bank to conduct cross-border RMB settlement business for service trade. It was also the first bank to conduct cross-border RMB remittances in Beijing and Hangzhou and to complete cross-border RMB transfer to non-resident accounts in Fuzhou, and one of the first to provide non-trade RMB exchange services.

During the year, CITIC Bank International (China) Limited ("CBI (China)", formerly known as CITIC Ka Wah Bank (China) Limited) took an important step towards strengthening its function as an onshore platform for cross-border business cooperation. CBI (China) played a key role in executions by establishing collaboration with CNCB and CITIC Group. In this regard, extensive business exchanges with an extensive number of

CNCB branches were conducted, resulting in the establishment of a clearer co-operative framework, closer business cooperation, and the accelerated transmission of business referrals between CBI (China) and CNCB branches. Business portfolios became more cross-border-oriented and onshore RMB trade settlement business also kicked off subsequently. As a result, CBI (China) delivered a considerably improved financial performance, with a sharp rise in both revenue and profit and a significantly better loans to deposits ratio.

Treasury and Markets Group ("TMG")

During the year, TMG actively expanded its marketing team and strengthened its capabilities to capture the opportunities arising from the prolonged low interest rate environment and the more favourable RMB business regulations. Greater efforts were put into product development, focusing especially on RMB products to fulfill customer needs. Leveraging on the large customer base and network of the parent bank, CNCB, and working in close collaboration with WBG and RBG, TMG provided customers with timely and diversified yield enhancement and hedging solutions, which enabled rapid growth in business volume. Boosted by cross-selling of treasury products to customers, TMG's total client-driven revenue for the year almost doubled over 2009 to an historical high of HK$161 million.

In the area of central treasury management, more stringent investment guidelines were applied to bond investment in the Bank's available-for-sale ("AFS") investment securities portfolio during the year in response to the European debt crisis and the overall changes in market conditions. Moreover, given the prevailing low yield on quality bonds, the Bank could only re-invest in lower yield bonds when existing bonds became mature. Quality of the bond portfolio was maintained but at the same time the overall return of the portfolio was adversely affected. Separately, the issuance of the new US$500 million subordinated debt in June 2010 also increased the interest cost for the Bank. On the other investment in the portfolio, the remaining portable alpha notes left over after the closure of the fund investment business in 2008 were unwound during the year to avoid undue volatility.

Risk Management

The economic environment in 2010 was full of asymmetries. Economic growth remained strong in some countries such as China and Germany, while others such as the US and a number of countries in Europe went through uncertainties that, in most cases, have not yet been resolved. Amidst this tumultuous climate, the Risk Management Group continued its focused efforts in tightening underwriting practices, conducting rigorous risk reviews, and enhancing critical risk tools and methodologies through the implementation of its comprehensive Risk Management Plan ("RMP").

In 2010, the Bank continued to invest in and strengthen its risk management infrastructure and risk capabilities by leveraging on the comprehensive risk management intelligence of its strategic shareholder, BBVA. The comprehensive RMP, which integrates the expertise of BBVA, aims 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 plan focuses on ensuring that appropriate tools, methodologies and processes are in place in key risk areas to meet the highest possible standard on risk management under the Basel framework. The roll-out of these initiatives has also led to substantial enhancements, particularly in the credit risk and market risk management areas.

The Bank 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 framework, the Bank has developed the risk based pricing model and economic capital measurement tools 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 the evaluation of the Bank's risk profile and can provide a more accurate calculation of risk-weighted return for different businesses across the Bank. Risk management integration with business is constantly being enhanced into the Basel framework with ultimate goals to reinforce capital planning and monitoring of the Bank's risk profile.

In the areas of corporate governance, the Credit and Risk Management Committee ("CRMC") is empowered by the Board to ensure that the risk management practices in place are commensurate with the Bank's strategies and business activities, encompassing oversight of the Bank's risk profile, policies, and risk control framework. The prime responsibility of the Director of Risks is to ensure that effective risk control framework and processes are implemented and that the CRMC is apprised of critical risk issues and developments.

Established 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 ensure that necessary mitigation plans are put in place. The Bank continually modifies and enhances its risk policies, procedures and frameworks in line with the market, product offering and international best practices. Furthermore, the Internal Audit Group conducts regular independent reviews of the Bank's risk management practices to ensure compliance with internal policies as well as regulatory requirements are met.

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 between the Bank, CNCB and BBVA is well underway with substantial focus on achieving synergies in the risk management area. This formidable alliance has enabled the Bank to better capture the opportunities from the growing economic pre-eminence of the Greater China and Asian region. Risk management remains a fundamental and integral part of the Bank's business activities. In 2011, priorities will be given to the implementation of the RMP, which will primarily focus on streamlining its processes, looking after the Bank's capital, re-assessing the Bank's risk appetite, and actively managing the asset quality.

Human Resources Development

With the improvement in economic sentiment, the manpower market quickly turned around in 2010 and drove up attrition rates. The Bank rose to the challenge and continued to grow its talent base for new business needs as well as the expansion of branches in Hong Kong and overseas. A number of executives and seasoned managers joined different business and support units of the Bank, bringing with them a wealth of experience and know-how.

On people development, the Bank conducted a series of structured learning programmes to enhance competency levels among all staff and raise professional standards. The Retail Sales Trainee Programme and the Wholesale Banking Management Associate programme were successful in building talent pipelines in those two businesses. Recognition for outstanding performance of the Bank and its staff during the year came in the form of several prestigious awards, including Manpower Developer 1st Award by the Employees Retraining Board, Grand Award in Outstanding Financial Management Planner Awards 2010 by the Hong Kong Institute of Bankers and Certificate of Merit in the Award for Excellence in Training and Development by the Hong Kong Management Association.

To drive sustainable results, the Bank continued to instil its core values through initiatives such as a new on-boarding process, the iREADY workshops, and the STAR Award staff incentive scheme. Exemplary behaviour and actions were recognised and rewarded. Also, to enable all staff to work as one, a variety of staff communication forums was held to encourage a multi-directional exchange of information and opinions. Team events, sporting activities, and community participation served to promote health awareness, social service, and environmental protection as well as enrich the work experience of the staff within the Bank.

With the support of a solid and talented workforce, CBI is poised to deliver sustainable growth.

Future Outlook

In stark contrast to lingering uncertainties over the economic health of major developed countries in Europe and the US, emerging markets in Asia have achieved remarkable recoveries. The focus of the global economy is expected to shift further eastwards in 2011 and China, the world's second-largest economy, will remain the key driver of sustained growth in the Asian region. Prospects for Hong Kong's economy look relatively positive in the coming year given its established advantages and the Chinese hinterland's robust growth.

The pool of RMB capital in Hong Kong has increased to a respectable level and given this liquidity as well as strong consumer demand, the depth and width of the market for RMB businesses will be enhanced by further diversification and the launch of more new products. This trend will lift Hong Kong's development as an offshore RMB centre to the next level and inject fresh momentum into the growth of Hong Kong's financial industry.

Underscoring its conviction in the strength and potential of the fast-growing RMB businesses in Hong Kong, the Bank will build on its existing advantages to facilitate new products development. Its partnership with CNCB will be further strengthened by integrating with its extensive Mainland customer base and network to grow RMB business in Hong Kong and across the border.

In an effort to entrench its business presence in Hong Kong, the Bank will continue to extend and enhance its retail branch network. At the same time, more resources will be allocated to develop new businesses including transaction banking and private banking services with a view to further fortifying the Bank's competitive edge.

Going forward, the Bank is committed to ensconcing its role as CNCB Group's offshore platform for international expansion. After the successful opening of its Singapore Branch, the Board of Directors has approved to push ahead with plans to establish a new foothold in Australia and preparation works are in progress. The Bank's regional network and business expansion strategy will significantly enhance its capability to better serve Hong Kong, Mainland and regional customers with business needs and aspirations in the region. With the strength and support of its parent bank CNCB and strategic shareholder BBVA, the Bank is ready to take on the opportunities offered by a vibrant, dynamic and rising Asia together with its customers in building the CITIC commercial banking franchise into a world-leading brand.

Chan Hui Dor Lam Doreen
Chief Executive Officer
Hong Kong, 30 March 2011