

## Focus on Fundamentals as We Scale New Heights

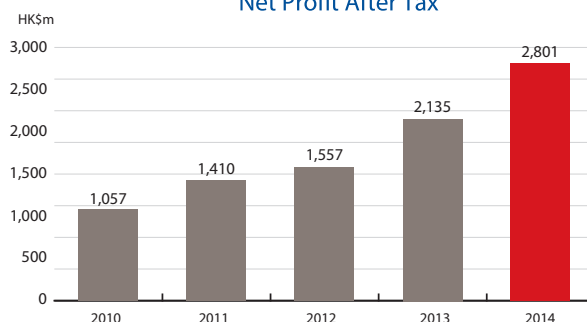
# 2014 Results Highlights

### Financial Performance

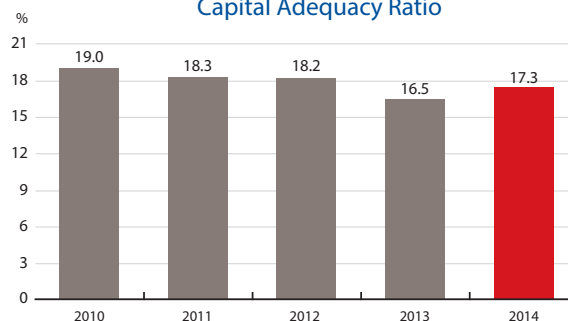
China CITIC Bank International Limited and its subsidiaries dedicated efforts to driving product innovation and diversification in a bid to provide efficient and convenient services to satisfy customer demand for trade, investment and risk hedging, achieving robust growth in many financial indicators

- **Net profit after tax** surged 31.2% year-on-year to a record of HK\$2,801 million, up 165.0% in 4 years, or a 27.6% compound annual growth rate since 2010
- **Operating income** grew 26.5% year-on-year to HK\$6,006 million, of which 69.2% was contributed by **net interest income** of HK\$4,157 million. **Non-interest income** rose 30.6% to HK\$1,849 million, driven by remarkable growth in insurance and loan fee revenue
- **Operating expenses** increased by 17.4% year-on-year to HK\$2,453 million, below revenue growth considerably by 9.1 ppts. Enhanced operational efficiency continued as was evidenced by **cost to income ratio** improvement of 3.2 ppts to 40.9%
- Despite pressure on RMB and non-RMB interbank loan yields, **net interest margin** rose 1 bp year-on-year to 1.84%
- **ROA** enhanced by 8 bps year-on-year to 1.19%
- **ROE** increased by 1.6 ppts year-on-year to 14.86%
- **Total assets** soared 15.2% from end-2013 to HK\$249.1 billion, while **customer deposits and loans** grew in tandem by about 19.0% year-on-year, reflecting better management of scale and structure

Net Profit After Tax



Capital Adequacy Ratio



### Core Businesses

- **Wholesale & Cross-border Banking Group:** Further fortified and developed the referral base contributed by CITIC Group and China CITIC Bank, and propelled a 62.9% growth in referral business revenue. Collaboration between the Hong Kong head office and overseas branches strengthened continuously, driving customer deposit and loan growth by 45.0% and 59.6% respectively. Singapore branch delivered a growth of more than 60.0% year-on-year in customer deposits and loans to HK\$10.48 billion and HK\$13.13 billion. Total wholesale customer loans rose 24.6% year-on-year to HK\$111.49 billion, while net interest income increased 33.9% to HK\$2,560 million, and non-interest income soared 50.5% to HK\$540 million.
- **Personal & Business Banking Group:** Riding on the launch of the "Shanghai-Hong Kong Stock Connect" programme, the Bank capitalised on the opportunity and rolled out a variety of RMB-related products. During the year, the Bank was the first commercial bank in Hong Kong to launch WeChat Banking services and received an Outstanding e-Banking Award 2014 from Quamnet. The number of CITICfirst and private banking high net worth customers increased by 16.1% year-on-year to 28,058. Retail deposits reached HK\$88 billion, up 19.0% year-on-year, while net interest income and non-interest income rose 7.6% and 43.3% year-on-year respectively to HK\$1,157 million and HK\$670 million.



# CHINA CITIC BANK INTERNATIONAL LIMITED

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

## ANNOUNCEMENT OF 2014 ANNUAL RESULTS

The Board of Directors of China 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 2014.

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

(Expressed in Hong Kong dollars)

	2014 HK\$'000	2013 HK\$'000
Interest income	7,414,726	5,664,037
Interest expense	(3,258,058)	(2,333,080)
<b>Net interest income</b>	<b>4,156,668</b>	<b>3,330,957</b>
Fee and commission income	1,005,511	733,683
Fee and commission expense	(34,219)	(38,144)
<b>Net fee and commission income</b>	<b>971,292</b>	<b>695,539</b>
Net trading income	769,804	665,324
Net gain from financial instruments designated at fair value through profit or loss	1,073	3,017
Net hedging (loss)/gain	(2,584)	1,970
Net gain on disposal of available-for-sale securities	14,879	12,324
Other operating income	94,795	38,116
<b>Operating income</b>	<b>6,005,927</b>	<b>4,747,247</b>
<b>Operating expenses</b>	<b>(2,453,169)</b>	<b>(2,089,057)</b>
<b>Operating profit before impairment</b>	<b>3,552,758</b>	<b>2,658,190</b>
Impairment losses on loans and advances and other accounts	(180,857)	(84,356)
Impairment losses on available-for-sale securities	–	(35,590)
<b>Impairment losses</b>	<b>(180,857)</b>	<b>(119,946)</b>
<b>Operating profit</b>	<b>3,371,901</b>	<b>2,538,244</b>
Net (loss)/gain on disposal of property and equipment	(334)	13,936
Revaluation gain on investment properties	2,842	2,174
<b>Profit before taxation</b>	<b>3,374,409</b>	<b>2,554,354</b>
Income tax	(573,264)	(418,873)
<b>Profit for the year</b>	<b>2,801,145</b>	<b>2,135,481</b>
<b>Attributable to equity shareholders of the Bank</b>	<b>2,801,145</b>	<b>2,135,481</b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****For the year ended 31 December 2014***(Expressed in Hong Kong dollars)*

	<b>2014</b> <b>HK\$'000</b>	2013 HK\$'000
<b>Profit for the year</b>	<b>2,801,145</b>	2,135,481
<b>Other comprehensive income for the year</b> <b>(after tax and reclassification adjustments)</b>		
<b>Item that will not be reclassified to income statement</b>		
Property revaluation reserve		
– transfer to deferred tax on disposal	–	921
<b>Items that may be reclassified subsequently to income statement</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	<b>(43,347)</b>	42,751
Available-for-sale securities		
– change in fair value	<b>127,443</b>	(91,487)
– transfer from income statement on disposal	<b>(14,613)</b>	(11,269)
– transfer to income statement on impairment	–	35,590
– transfer (from)/to deferred tax	<b>(21,094)</b>	12,174
<b>Other comprehensive income for the year</b>	<b>48,389</b>	(11,320)
<b>Total comprehensive income for the year</b>	<b>2,849,534</b>	2,124,161
<b>Attributable to equity shareholders of the Bank</b>	<b>2,849,534</b>	2,124,161

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**At 31 December 2014**

*(Expressed in Hong Kong dollars)*

	2014 HK\$'000	2013 HK\$'000
<b>Assets</b>		
Cash and balances with banks, central banks and other financial institutions	20,676,200	12,621,484
Placements with and advances to banks, central banks and other financial institutions	43,893,840	46,089,324
Trading assets	3,291,332	2,398,265
Securities designated at fair value through profit or loss	–	63,204
Loans and advances to customers and other accounts	153,872,296	132,531,544
Available-for-sale securities	26,513,380	21,661,781
Property and equipment		
– Investment property	182,898	180,056
– Other property and equipment	676,035	719,624
Tax recoverable	2,775	6
Deferred tax assets	32,115	42,618
<b>Total assets</b>	<b>249,140,871</b>	<b>216,307,906</b>
<b>Equity and liabilities</b>		
Deposits and balances of banks and other financial institutions	4,129,401	7,522,382
Deposits from customers	188,929,559	154,658,966
Trading liabilities	2,974,807	1,568,640
Certificates of deposit issued	14,156,976	16,175,173
Debt securities issued	–	1,151,253
Current taxation	162,951	179,394
Deferred tax liabilities	4,327	12,124
Other liabilities	7,777,093	9,206,405
Loan capital	8,754,408	8,657,552
<b>Total liabilities</b>	<b>226,889,522</b>	<b>199,131,889</b>
<b>Equity</b>		
Share capital	7,566,271	7,283,341
Reserves	12,374,910	9,892,676
<b>Total equity attributable to equity shareholders of the Bank</b>	<b>19,941,181</b>	<b>17,176,017</b>
<b>Additional equity instruments</b>	<b>2,310,168</b>	<b>–</b>
<b>Total equity</b>	<b>22,251,349</b>	<b>17,176,017</b>
<b>Total equity and liabilities</b>	<b>249,140,871</b>	<b>216,307,906</b>

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the year ended 31 December 2014**

*(Expressed in Hong Kong dollars)*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Exchange differences reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Regulatory general reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total reserves <i>HK\$'000</i>	Additional equity instruments <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
<b>At 1 January 2014</b>	<b>7,283,341</b>	<b>282,930</b>	<b>6,589</b>	<b>100,000</b>	<b>140,901</b>	<b>55</b>	<b>(4,846)</b>	<b>38,349</b>	<b>149,500</b>	<b>9,179,198</b>	<b>9,892,676</b>	<b>-</b>	<b>17,176,017</b>
Changes in equity for 2014:													
Profit for the year	-	-	-	-	-	-	-	-	-	2,801,145	2,801,145	-	2,801,145
Other comprehensive income for the year	-	-	-	-	(43,347)	-	91,736	-	-	-	48,389	-	48,389
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(43,347)</b>	<b>-</b>	<b>91,736</b>	<b>-</b>	<b>-</b>	<b>2,801,145</b>	<b>2,849,534</b>	<b>-</b>	<b>2,849,534</b>
Issue of Additional Tier 1 Capital Securities ("AT1 Capital Securities")	-	-	-	-	-	-	-	-	-	-	-	2,310,168	2,310,168
Distribution payment for AT1 Capital Securities	-	-	-	-	-	-	-	-	-	-	-	(84,370)	(84,370)
Transition to no-par value regime on 3 March 2014	282,930	(282,930)	-	-	-	-	-	-	-	-	(282,930)	-	-
Transfer from retained profits	-	-	-	-	-	-	-	17,490	-	(101,860)	(84,370)	84,370	-
<b>At 31 December 2014</b>	<b>7,566,271</b>	<b>-</b>	<b>6,589</b>	<b>100,000</b>	<b>97,554</b>	<b>55</b>	<b>86,890</b>	<b>55,839</b>	<b>149,500</b>	<b>11,878,483</b>	<b>12,374,910</b>	<b>2,310,168</b>	<b>22,251,349</b>
<b>At 1 January 2013</b>	<b>7,283,341</b>	<b>282,930</b>	<b>6,589</b>	<b>100,000</b>	<b>98,150</b>	<b>4,718</b>	<b>50,146</b>	<b>33,241</b>	<b>124,915</b>	<b>7,067,826</b>	<b>7,768,515</b>	<b>-</b>	<b>15,051,856</b>
Changes in equity for 2013:													
Profit for the year	-	-	-	-	-	-	-	-	-	2,135,481	2,135,481	-	2,135,481
Other comprehensive income for the year	-	-	-	-	42,751	921	(54,992)	-	-	-	(11,320)	-	(11,320)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,751</b>	<b>921</b>	<b>(54,992)</b>	<b>-</b>	<b>-</b>	<b>2,135,481</b>	<b>2,124,161</b>	<b>-</b>	<b>2,124,161</b>
Transfer from retained profits	-	-	-	-	-	-	-	5,108	24,585	(29,693)	-	-	-
Release of reserve upon disposal of property	-	-	-	-	-	(5,584)	-	-	-	5,584	-	-	-
<b>At 31 December 2013</b>	<b>7,283,341</b>	<b>282,930</b>	<b>6,589</b>	<b>100,000</b>	<b>140,901</b>	<b>55</b>	<b>(4,846)</b>	<b>38,349</b>	<b>149,500</b>	<b>9,179,198</b>	<b>9,892,676</b>	<b>-</b>	<b>17,176,017</b>

**CONSOLIDATED CASH FLOW STATEMENT****For the year ended 31 December 2014***(Expressed in Hong Kong dollars)*

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>Operating activities</b>		
Profit before taxation	3,374,409	2,554,354
Adjustments for non-cash items:		
Impairment losses on loans and advances and other accounts	180,857	84,356
Impairment losses on available-for-sale securities	–	35,590
Net gain on disposal of available-for-sale securities	(14,879)	(12,324)
Net loss/(gain) on disposal of property and equipment	334	(13,936)
Revaluation gain on investment properties	(2,842)	(2,174)
Amortisation of deferred expenses	104,578	55,558
Depreciation on property and equipment	132,628	116,258
Dividend income from equity securities	(5,699)	(5,568)
Interest expense on loan capital	503,308	385,388
Foreign exchange differences	(696,382)	394,870
	<u>3,576,312</u>	<u>3,592,372</u>
<b>(Increase)/decrease in operating assets</b>		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	9,986,948	(8,106,403)
Treasury bills with original maturity beyond 3 months	(814,529)	(397,794)
Certificates of deposit held with original maturity beyond 3 months	2,036,451	(1,469,741)
Trading assets	(893,067)	(548,921)
Securities designated at fair value through profit or loss	63,204	28,296
Loans and advances to customers and other accounts	(21,660,229)	(25,202,223)
Available-for-sale securities	(2,867,026)	(3,757,083)
	<u>(14,148,248)</u>	<u>(39,453,869)</u>
<b>Increase/(decrease) in operating liabilities</b>		
Deposits and balances of banks and other financial institutions	(3,392,981)	3,836,807
Deposits from customers	34,270,593	23,939,305
Trading liabilities	1,406,168	661,297
Certificates of deposit issued	(1,401,281)	1,519,989
Debt securities issued	(1,136,032)	–
Other liabilities	(1,345,928)	4,171,848
	<u>28,400,539</u>	<u>34,129,246</u>
<b>Cash generated from/(used in) operations</b>	<u>17,828,603</u>	<u>(1,732,251)</u>

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>Cash generated from/(used in) operations</b>	<b>17,828,603</b>	(1,732,251)
<b>Income tax paid</b>		
Hong Kong Profits Tax paid	(469,328)	(193,587)
Overseas tax paid	(79,153)	(46,757)
<b>Net cash generated from/(used in) operating activities</b>	<b>17,280,122</b>	(1,972,595)
<b>Investing activities</b>		
Dividends received from equity securities	5,699	5,568
Purchase of property and equipment	(90,400)	(176,028)
Proceeds from disposal of property and equipment	123	84,317
<b>Net cash used in investing activities</b>	<b>(84,578)</b>	(86,143)
<b>Financing activities</b>		
Proceeds from AT1 Capital Securities issued	2,310,168	–
Distribution paid on AT1 Capital Securities	(84,370)	–
Proceeds from loan capital issued	–	2,325,852
Interest paid on loan capital	(496,376)	(357,034)
<b>Net cash from financing activities</b>	<b>1,729,422</b>	1,968,818
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>18,924,966</b>	(89,920)
<b>Cash and cash equivalents at 1 January</b>	<b>43,612,527</b>	43,702,447
<b>Cash and cash equivalents at 31 December</b>	<b>62,537,493</b>	43,612,527
<b>Cash flows from operating activities include:</b>		
Interest received	7,412,772	5,578,775
Interest paid	(2,566,296)	(1,830,143)

**NOTES:**

*(Expressed in Hong Kong dollars unless otherwise indicated)*

**1 BASIS OF PREPARATION**

The financial information relating to the financial year ended 31 December 2014 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 2014 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 several amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*

The Group has not applied any new standards or interpretations not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are disclosed below:

*Amendments to HKAS 32, Offsetting financial assets and financial liabilities*

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

*Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets*

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

*Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting*

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

**3 INTEREST INCOME AND INTEREST EXPENSE****(a) Interest income**

	<b>2014</b> <b>HK\$'000</b>	2013 HK\$'000
Listed securities	<b>46,904</b>	1,189
Unlisted securities	<b>451,857</b>	357,073
Others ( <i>Note</i> )	<b>6,915,965</b>	5,305,775
Interest income on financial assets that are not at fair value through profit or loss	<b>7,414,726</b>	5,664,037



**(b) Interest expense**

	<b>2014</b> <b>HK\$'000</b>	<b>2013</b> <b>HK\$'000</b>
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others	<b>2,721,516</b>	1,904,390
Debt securities issued	<b>33,234</b>	43,302
Loan capital issued	<b>503,308</b>	385,388
Interest expense on financial liabilities that are not at fair value through profit or loss	<b>3,258,058</b>	2,333,080
Of which:		
Loan capital issued repayable after 5 years	<b>267,588</b>	170,909

*Note:*

Included in the above is interest income accrued on impaired financial assets of HK\$4,352,000 (2013: HK\$7,217,000), which includes interest income on the unwinding of the discount on loan impairment losses of HK\$3,978,000 (2013: HK\$4,828,000) for the year ended 31 December 2014.

**4 NET FEE AND COMMISSION INCOME**

	<b>2014</b> <b>HK\$'000</b>	<b>2013</b> <b>HK\$'000</b>
Fee and commission income:		
Bills commission	<b>141,547</b>	131,639
Card-related income	<b>25,765</b>	24,187
General banking services	<b>108,613</b>	86,130
Insurance	<b>285,589</b>	167,791
Investment and structured investment products	<b>137,783</b>	126,873
Loans, overdrafts and facilities fees	<b>305,500</b>	196,481
Others	<b>714</b>	582
	<b>1,005,511</b>	733,683
Fee and commission expense	<b>(34,219)</b>	(38,144)
	<b>971,292</b>	695,539
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	<b>472,812</b>	352,307
– Fee and commission expense	<b>(13,373)</b>	(12,901)
	<b>459,439</b>	339,406

## 5 NET TRADING INCOME

	2014 HK\$'000	2013 HK\$'000
Gains less losses from dealing in foreign currencies	414,149	120,257
Gains less losses from trading securities	658	577
Gains less losses from other dealing activities	227,720	492,800
Interest income on trading assets	127,277	51,690
	<u>769,804</u>	<u>665,324</u>

## 6 NET GAIN FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 HK\$'000	2013 HK\$'000
Net gain	732	2,546
Interest income – Unlisted	341	471
	<u>1,073</u>	<u>3,017</u>

## 7 NET HEDGING (LOSS)/GAIN

	2014 HK\$'000	2013 HK\$'000
Net (loss)/gain on fair value hedge	(2,584)	1,970

## 8 NET GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE SECURITIES

	2014 HK\$'000	2013 HK\$'000
Net revaluation gain transferred from reserves	14,613	11,269
Net gain arising in current year	266	1,055
	<u>14,879</u>	<u>12,324</u>

## 9 OTHER OPERATING INCOME

	2014 HK\$'000	2013 HK\$'000
Dividend income from available-for-sale equity securities		
– Listed	199	268
– Unlisted	5,500	5,300
Rental income from investment properties		
less direct outgoings of HK\$289,000 (2013: HK\$315,000)	7,051	6,208
Others	82,045	26,340
	<u>94,795</u>	<u>38,116</u>

## 10 OPERATING EXPENSES

	2014 HK\$'000	2013 HK\$'000
<b>(a) Staff costs</b>		
Salaries and other staff costs	1,454,437	1,201,473
Retirement costs	76,137	72,748
	<u>1,530,574</u>	<u>1,274,221</u>
<b>(b) Depreciation</b>		
Depreciation of property and equipment		
– Assets held for use under operating leases	27,749	25,763
– Other assets	104,879	90,495
	<u>132,628</u>	<u>116,258</u>
<b>(c) Other operating expenses</b>		
Property and equipment expenses (excluding depreciation)		
– Rental of properties	246,507	238,269
– Others	159,923	149,333
Auditor's remuneration	8,634	7,184
Advertising	60,807	47,674
Communication, printing and stationery	84,641	77,738
Legal and professional fees	39,081	29,653
Others	190,374	148,727
	<u>789,967</u>	<u>698,578</u>
<b>Total operating expenses</b>	<u><u>2,453,169</u></u>	<u><u>2,089,057</u></u>

## 11 IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER ACCOUNTS

	2014 HK\$'000	2013 HK\$'000
Impairment losses charged		
– Loans and advances	(181,697)	(84,356)
– Other accounts	840	–
	<u>(180,857)</u>	<u>(84,356)</u>
Impairment losses on loans and advances and other accounts		
– Individual assessment	(105,266)	(36,674)
– Collective assessment	(75,591)	(47,682)
	<u>(180,857)</u>	<u>(84,356)</u>
of which:		
– Additions	(416,796)	(226,491)
– Releases	209,339	122,878
– Recoveries	26,600	19,257
	<u>(180,857)</u>	<u>(84,356)</u>

## 12 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	2014 HK\$'000	2013 HK\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	495,234	374,852
Under-provision in respect of prior years	5,406	2,992
	<u>500,640</u>	<u>377,844</u>
<b>Current tax – Overseas</b>		
Provision for the year	82,450	31,936
Under/(over)-provision in respect of prior years	8,528	(944)
	<u>90,978</u>	<u>30,992</u>
<b>Deferred tax</b>		
(Reversal)/origination of temporary differences	(18,354)	10,037
	<u>573,264</u>	<u>418,873</u>

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2013-2014 subject to a maximum reduction of HK\$10,000 for each business (2013: the same statutory concession was granted for the year of assessment 2012-13 and was taken into account in calculating the provision for 2013). Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## 13 TRADING ASSETS

	2014 HK\$'000	2013 HK\$'000
Debt securities	8,348	–
Investment funds	2,204	2,675
	<u>10,552</u>	<u>2,675</u>
Trading securities	10,552	2,675
Positive fair values of derivatives	3,280,780	2,395,590
	<u>3,291,332</u>	<u>2,398,265</u>
Issued by:		
Banks and other financial institutions	8,348	–
Corporate entities	2,204	2,675
	<u>10,552</u>	<u>2,675</u>
Analysed by place of listing:		
Listed outside Hong Kong	8,348	–
Unlisted	2,204	2,675
	<u>10,552</u>	<u>2,675</u>

**14 SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2014</b> <b>HK\$'000</b>	2013 <i>HK\$'000</i>
Debt securities	–	63,204
Issued by:		
Sovereigns	–	12,927
Corporate entities	–	50,277
	–	63,204
Analysed by place of listing:		
Unlisted	–	63,204

**15 LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS**
**(a) Loans and advances to customers and other accounts less impairment allowances**

	<b>2014</b> <b>HK\$'000</b>	2013 <i>HK\$'000</i>
Gross loans and advances to customers	<b>150,720,146</b>	127,016,841
Impairment allowances		
– Individually assessed	(163,880)	(160,920)
– Collectively assessed	(373,664)	(315,055)
	<b>150,182,602</b>	126,540,866
Accrued interest and other accounts	<b>3,690,462</b>	5,992,286
Impairment allowances		
– Individually assessed	(768)	(1,608)
	<b>3,689,694</b>	5,990,678
	<b>153,872,296</b>	132,531,544
Included in loans and advances to customers are:		
Trade bills	<b>9,287,362</b>	8,610,825
Impairment allowances		
– Collectively assessed	(2,181)	(854)
	<b>9,285,181</b>	8,609,971

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

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority (“HKMA”).

	<b>2014</b>		<b>2013</b>	
	<b>Gross loans and advances to customers <i>HK\$'000</i></b>	<b>Impaired loans and advances to customers <i>HK\$'000</i></b>	<b>Gross loans and advances to customers <i>HK\$'000</i></b>	<b>Impaired loans and advances to customers <i>HK\$'000</i></b>
Industrial, commercial and financial				
– Property development	5,594,282	–	15,227	–
– Property investment	17,016,206	11,601	14,074,440	1,375
– Financial concerns	8,429,777	–	4,073,785	–
– Stockbrokers	771,179	–	255,937	–
– Wholesale and retail trade	16,727,330	3,048	13,762,091	4,353
– Manufacturing	7,167,172	118,503	5,843,972	51,344
– Transport and transport equipment	2,163,895	196	2,252,707	218
– Recreational activities	273,556	–	271,979	–
– Information technology	15,202	–	882,728	–
– Others	4,663,393	2,191	2,272,510	–
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	10,756	–	17,790	–
– Loans for the purchase of other residential properties	11,296,562	4,796	10,254,515	6,137
– Credit card advances	357,418	297	318,683	435
– Others	6,830,531	7,638	5,853,436	7,127
Gross loans and advances for use in Hong Kong	81,317,259	148,270	60,149,800	70,989
Trade finance	15,691,063	150,865	15,489,383	197,296
Gross loans and advances for use outside Hong Kong	53,711,824	412,503	51,377,658	138,180
Gross loans and advances to customers	<b>150,720,146</b>	<b>711,638</b>	<b>127,016,841</b>	<b>406,465</b>

**(c) Impaired loans and advances to customers**

	<b>2014 <i>HK\$'000</i></b>	<b>2013 <i>HK\$'000</i></b>
Gross impaired loans and advances to customers	<b>711,638</b>	406,465
Impairment allowances – Individually assessed	<b>(163,880)</b>	(160,920)
	<b>547,758</b>	245,545
Gross impaired loans and advances as a % of total loans and advances to customers	<b>0.47%</b>	0.32%

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\$472,737,000 (2013: HK\$202,649,000) of the Group. This collateral mainly comprised mortgage interest over residential or commercial properties and cash with the Group.

## 16 AVAILABLE-FOR-SALE SECURITIES

	2014 HK\$'000	2013 HK\$'000
Certificates of deposit held	4,104,439	6,140,890
Debt securities	14,217,767	11,231,492
Treasury bills (including Exchange Fund Bills)	8,106,952	4,213,637
Equity securities	84,222	75,762
	<b>26,513,380</b>	<b>21,661,781</b>
Issued by:		
Sovereigns	8,239,847	4,444,409
Banks and other financial institutions	9,615,782	11,475,530
Corporate entities	8,595,459	5,741,842
Public entities	62,292	—
	<b>26,513,380</b>	<b>21,661,781</b>
Analysed by place of listing:		
Listed in Hong Kong	2,385,545	77,144
Listed outside Hong Kong	1,214,469	134,165
Unlisted	22,913,366	21,450,472
	<b>26,513,380</b>	<b>21,661,781</b>
Fair value of individually impaired debt securities (Note)	<b>96,761</b>	<b>211,309</b>

Note:

In 2013, the Group's management decided to provide an impairment loss to the profit or loss on the carrying values of two debt securities held by the Group, in consideration of the prolonged underperformance in their market prices and their entities' declining profit outlook. As a result, an investment revaluation reserve deficit of approximately HK\$35.6 million was transferred and recognised as an impairment loss in the income statement for the year ended 31 December 2013. In 2014, substantial amounts of the two impaired debt securities were disposed of and an impairment loss of approximately HK\$19.1 million was released to the income statement accordingly. No individually assessed impairment allowances were newly made for any of debt securities of the Group at 31 December 2014.

## 17 CAPITAL AND RESERVES

### (a) Ordinary shares

	At 31 December 2014		At 31 December 2013	
	No. of shares	HK\$'000	No. of shares	HK\$'000
<b>Authorised:</b>				
8,000,000,000 ordinary shares of HK\$1 each			8,000,000,000	8,000,000
<b>Ordinary shares, issued and fully paid:</b>				
<b>At 1 January</b>	<b>7,283,341,176</b>	<b>7,283,341</b>	7,283,341,176	7,283,341
Transition to no-par value regime on 3 March 2014	—	282,930	—	—
<b>At 31 December</b>	<b>7,283,341,176</b>	<b>7,566,271</b>	7,283,341,176	7,283,341

At 31 December 2013, 8,000,000,000 ordinary shares, with par value of \$1 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), effective 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amount standing to the credit of the share premium account on 3 March 2014 has become part of the Bank's share capital under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have impacts on the number of shares in issue or the relative entitlement of any of the members.

**(b) Share premium**

Prior to 3 March 2014, the application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Bank's share capital. The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

**(c) Reserves**

	2014 HK\$'000	2013 HK\$'000
Share premium	–	282,930
Capital reserve	6,589	6,589
General reserve	100,000	100,000
Exchange differences reserve	97,554	140,901
Property revaluation reserve	55	55
Investment revaluation reserve	86,890	(4,846)
Statutory reserve	55,839	38,349
Regulatory general reserve	149,500	149,500
Retained profits*	11,878,483	9,179,198
Total	12,374,910	9,892,676

\* 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 2014, HK\$2,172,126,000 (2013: HK\$1,816,253,000) 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 ASSETS SUBJECT TO SALE AND REPURCHASE TRANSACTIONS**

At 31 December 2014, the Group had entered into repurchase agreements ("the Agreements") with certain banks or financial institutions to sell available-for-sale securities which were subject to the Agreements to repurchase these securities at the agreed dates and prices. The consideration received under the Agreements was reported as 'Deposits and balances of banks and financial institutions' at 31 December 2014. At 31 December 2014, no outstanding transferred financial assets in which the Group has a continuing involvement had been derecognised in their entirety.

According to the Agreements, there was no transfer of the legal ownership of these securities to the counterparty banks during the cover period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agreed with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as 'collateral' for the secured lending from these counterparty banks, which could only claim the collateral when an event of default existed.

**Carrying amounts of financial assets and associated financial liabilities not qualifying for derecognition**

	2014 HK\$'000	2013 HK\$'000
Included in available-for-sale securities	313,979	2,080,745
Included in deposits and balances of banks and other financial institutions	288,900	1,884,363



## 19 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:

	2014 HK\$'000	2013 HK\$'000
Direct credit substitutes	4,583,293	12,032,661
Transaction-related contingencies	681,837	1,007,433
Trade-related contingencies	2,046,934	3,822,937
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	84,205,202	68,522,761
– with an original maturity of not more than 1 year	1,395,605	1,458,250
– with an original maturity of more than 1 year	1,476,055	1,014,658
	<b>94,388,926</b>	<b>87,858,700</b>
Credit risk-weighted amounts	<b>3,466,453</b>	<b>5,840,792</b>

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2013: 0% to 150%).

## 20 CURRENCY RISK

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. The Group's foreign exchange positions are subject to exposure limits approved by the 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 2014, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK\$596,000 (2013: HK\$570,000) with a standard deviation of HK\$3,654,000 (2013: HK\$1,180,000).

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

Equivalent in HK\$'000	2014			
	USD	RMB	Others	Total
Spot assets	92,263,766	61,239,085	7,190,989	160,693,840
Spot liabilities	(66,363,801)	(46,790,020)	(15,063,212)	(128,217,033)
Forward purchases	162,866,061	126,678,463	25,266,889	314,811,413
Forward sales	(193,736,878)	(137,239,255)	(15,105,431)	(346,081,564)
Net options position	6,632,868	(4,035,342)	(2,482,148)	115,378
Net long/(short) position	<b>1,662,016</b>	<b>(147,069)</b>	<b>(192,913)</b>	<b>1,322,034</b>
Net structural position	<b>–</b>	<b>748,417</b>	<b>48,522</b>	<b>796,939</b>
Equivalent in HK\$'000	2013			
	USD	RMB	Others	Total
Spot assets	79,645,849	59,058,951	4,355,246	143,060,046
Spot liabilities	(46,860,315)	(48,203,556)	(17,850,334)	(112,914,205)
Forward purchases	121,528,234	93,438,490	17,922,579	232,889,303
Forward sales	(152,152,154)	(103,337,170)	(4,564,835)	(260,054,159)
Net options position	89,661	(52,740)	34,676	71,597
Net long/(short) position	<b>2,251,275</b>	<b>903,975</b>	<b>(102,668)</b>	<b>3,052,582</b>
Net structural position	<b>–</b>	<b>767,871</b>	<b>48,532</b>	<b>816,403</b>

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

## 21 SEGMENT REPORTING

Segment information is presented consistently with reportable segments which are regularly reviewed or evaluated internally by the 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 and cross-border banking business includes wholesale banking business in Hong Kong and overseas branches, and China banking. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas. China banking mainly includes a branch and a subsidiary bank in China, and the China banking management office in Hong Kong.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services, and Small and Medium Enterprises (“SMEs”) banking business, wealth management services and private banking.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central cash management.

Others mainly comprises 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 the internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and the apportionment of overheads on a reasonable basis to the business segments. Rental charges at the market rate for the use 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

	2014				
	Wholesale and cross-border banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Others HK\$'000	Consolidated HK\$'000
Net interest income	2,564,238	1,157,214	395,821	39,395	4,156,668
Other operating income	539,083	669,139	614,896	11,262	1,834,380
Net gain on disposal of available-for-sale securities	1,751	–	13,128	–	14,879
<b>Operating income</b>	<b>3,105,072</b>	<b>1,826,353</b>	<b>1,023,845</b>	<b>50,657</b>	<b>6,005,927</b>
Operating expenses	(486,353)	(596,083)	(50,580)	(1,320,153)	(2,453,169)
Inter-segment (expenses)/income	(355,112)	(482,271)	(128,685)	966,068	–
<b>Operating profit/(loss) before impairment</b>	<b>2,263,607</b>	<b>747,999</b>	<b>844,580</b>	<b>(303,428)</b>	<b>3,552,758</b>
Impairment losses (charged)/written back on loans and advances and other accounts	(144,852)	(37,873)	–	1,868	(180,857)
<b>Operating profit/(loss)</b>	<b>2,118,755</b>	<b>710,126</b>	<b>844,580</b>	<b>(301,560)</b>	<b>3,371,901</b>
Net gain/(loss) on disposal of property and equipment	(1)	(440)	–	107	(334)
Revaluation gain on investment properties	–	–	–	2,842	2,842
<b>Profit/(loss) before taxation</b>	<b>2,118,754</b>	<b>709,686</b>	<b>844,580</b>	<b>(298,611)</b>	<b>3,374,409</b>
Income tax	–	–	–	(573,264)	(573,264)
<b>Profit/(loss) for the year</b>	<b>2,118,754</b>	<b>709,686</b>	<b>844,580</b>	<b>(871,875)</b>	<b>2,801,145</b>
<b>Other segment items:</b>					
Depreciation	20,228	22,796	1,028	88,576	132,628
<b>Segment assets</b>	<b>130,351,057</b>	<b>39,694,486</b>	<b>99,685,253</b>	<b>(20,589,925)</b>	<b>249,140,871</b>
<b>Segment liabilities</b>	<b>126,065,104</b>	<b>94,067,374</b>	<b>27,986,539</b>	<b>(21,229,495)</b>	<b>226,889,522</b>
<b>Capital expenditure incurred during the year</b>	<b>10,446</b>	<b>29,622</b>	<b>755</b>	<b>49,577</b>	<b>90,400</b>

	2013				
	Wholesale and cross-border banking HK\$'000	Personal and business banking HK\$'000	Treasury and markets HK\$'000	Others HK\$'000	Consolidated HK\$'000
Net interest income	1,915,735	1,075,798	304,133	35,291	3,330,957
Other operating income/(expense)	357,681	466,780	610,162	(30,657)	1,403,966
Net gain on disposal of available-for-sale securities	1,747	–	10,577	–	12,324
Operating income	2,275,163	1,542,578	924,872	4,634	4,747,247
Operating expenses	(535,052)	(607,369)	(62,490)	(884,146)	(2,089,057)
Inter-segment (expenses)/income	(213,318)	(317,666)	(99,862)	630,846	–
Operating profit/(loss) before impairment	1,526,793	617,543	762,520	(248,666)	2,658,190
Impairment losses (charged)/written back on loans and advances and other accounts	(49,569)	(36,840)	(35,590)	2,053	(119,946)
Operating profit/(loss)	1,477,224	580,703	726,930	(246,613)	2,538,244
Net gain/(loss) on disposal of property and equipment	(6)	(2,786)	–	16,728	13,936
Revaluation gain on investment properties	–	–	–	2,174	2,174
Profit/(loss) before taxation	1,477,218	577,917	726,930	(227,711)	2,554,354
Income tax	–	–	–	(418,873)	(418,873)
Profit/(loss) for the year	<u>1,477,218</u>	<u>577,917</u>	<u>726,930</u>	<u>(646,584)</u>	<u>2,135,481</u>
Other segment items:					
Depreciation	<u>22,805</u>	<u>21,210</u>	<u>1,171</u>	<u>71,072</u>	<u>116,258</u>
Segment assets	<u>113,582,102</u>	<u>37,828,073</u>	<u>80,366,118</u>	<u>(15,468,387)</u>	<u>216,307,906</u>
Segment liabilities	<u>104,843,268</u>	<u>79,625,938</u>	<u>30,640,754</u>	<u>(15,978,071)</u>	<u>199,131,889</u>
Capital expenditure incurred during the year	<u>6,749</u>	<u>66,156</u>	<u>14,770</u>	<u>88,353</u>	<u>176,028</u>

**(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.

	2014				
	Profit before taxation <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Operating income <i>HK\$'000</i>	Contingent liabilities and commitments <i>HK\$'000</i>
Hong Kong	3,016,222	227,842,192	206,440,191	5,165,917	70,727,803
Mainland China	105,014	16,034,172	14,172,138	382,721	4,026,303
United States	944	5,161,545	5,109,847	114,848	730,180
Singapore	211,225	17,643,601	17,415,840	302,955	16,673,743
Others	39,646	1,745,167	1,723,713	38,455	2,230,897
Inter-segment items	1,358	(19,285,806)	(17,972,207)	1,061	–
	<u>3,374,409</u>	<u>249,140,871</u>	<u>226,889,522</u>	<u>6,005,957</u>	<u>94,388,926</u>
	2013				
	Profit before taxation <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Operating income <i>HK\$'000</i>	Contingent liabilities and commitments <i>HK\$'000</i>
Hong Kong	2,284,302	194,916,371	178,534,484	4,161,496	67,812,885
Mainland China	141,919	19,015,509	17,198,708	285,361	4,878,624
United States	50,826	3,874,987	3,800,062	82,469	1,427,437
Singapore	58,098	13,671,664	13,581,566	189,840	11,478,559
Others	19,221	1,345,525	1,332,175	28,342	2,261,195
Inter-segment items	(12)	(16,516,150)	(15,315,106)	(261)	–
	<u>2,554,354</u>	<u>216,307,906</u>	<u>199,131,889</u>	<u>4,747,247</u>	<u>87,858,700</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

### (A) CAPITAL ADEQUACY

#### (i) Capital base

Capital adequacy ratios (“CARs”) are complied with in accordance with the Banking (Capital) Rules issued by the HKMA. The CARs are computed on a consolidated basis covering the Bank and some of its subsidiaries as required by the HKMA. The Bank has adopted the “standardised approach” for calculating the risk-weighted amount for credit risk and market risk and the “basic indicator approach” for calculating operational risk.

	2014 HK\$'000	2013 HK\$'000
<b>Common Equity Tier 1 (“CET1”) capital: instruments and reserves</b>		
Directly issued qualifying CET1 capital instruments plus any related share premium	7,566,271	7,566,271
Retained earnings	11,895,973	9,208,893
Disclosed reserves	478,938	400,856
<b>CET1 capital before regulatory deductions</b>	<b>19,941,182</b>	<b>17,176,020</b>
<b>CET1 capital: regulatory deductions</b>		
Deferred tax assets net of deferred tax liabilities	27,788	39,347
Gains and losses due to changes in own credit risk on fair valued liabilities	(255,928)	(165,522)
Cumulative fair value gains arising from the revaluation of land and buildings	108,282	105,440
Regulatory reserve for general banking risks	2,172,126	1,816,253
Debt valuation adjustments in respect of derivative contracts	5,536	1,141
<b>Total regulatory deductions to CET1 capital</b>	<b>2,057,804</b>	<b>1,796,659</b>
<b>CET1 capital</b>	<b>17,883,378</b>	<b>15,379,361</b>
<b>Additional Tier 1 capital</b>		
<b>Total Additional Tier 1 capital</b>	<b>2,313,467</b>	<b>—</b>
<b>Tier 1 capital</b>	<b>20,196,845</b>	<b>15,379,361</b>
<b>Tier 2 capital: instruments and provisions</b>		
Qualifying Tier 2 capital instruments plus any related share premium	7,277,935	7,893,661
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	48,727	47,448
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,942,736	1,752,118
<b>Tier 2 capital base before deductions</b>	<b>9,269,398</b>	<b>9,693,227</b>
<b>Tier 2 capital: regulatory deductions</b>		
Total regulatory deductions to Tier 2 capital	—	—
<b>Tier 2 capital</b>	<b>9,269,398</b>	<b>9,693,227</b>
<b>Total capital (Total capital = Tier 1 + Tier 2)</b>	<b>29,466,243</b>	<b>25,072,588</b>

(ii) **Risk-weighted amount**

	2014 HK\$'000	2013 HK\$'000
– Credit risk	156,635,831	141,390,871
– Market risk	4,913,000	3,413,838
– Operational risk	9,042,513	7,425,588
	<b>170,591,344</b>	<b>152,230,297</b>

(iii) **Capital adequacy ratios**

	2014	2013
– CET1 capital ratio	10.5%	10.1%
– Tier 1 capital ratio	11.8%	10.1%
– Total capital ratio	17.3%	16.5%

(iv) **Capital instruments**

The following is a summary of the Group's CET1, Additional Tier 1 Capital Securities and Tier 2 capital instruments.

	2014 HK\$'000	2013 HK\$'000
<b>CET1 capital instruments issued by the Bank</b>		
Ordinary shares:		
7,283,341,176 issued and fully paid ordinary shares	<b>7,566,271</b>	<b>7,283,341</b>

	2014 HK\$'000	2013 HK\$'000
<b>Additional Tier 1 Capital Securities</b>		
Undated non-cumulative subordinated capital securities with US\$300 million	<b>2,310,168</b>	<b>–</b>

	2014 HK\$'000	2013 HK\$'000
<b>Tier 2 capital instruments</b>		
<u>Issued by the Bank</u>		
– Subordinated note due 2020 (nominal value: US\$500 million)	4,150,696	4,098,142
– Subordinated note due 2022 (nominal value: US\$300 million)	2,291,268	2,277,706
– Subordinated note due 2024 (nominal value: US\$300 million)	2,312,444	2,281,704
	<b>8,754,408</b>	<b>8,657,552</b>

(v) **Additional information**

To comply with the Banking (Disclosure) Rules (“BDR”), the Group has established “Regulatory Disclosure” section on its corporate website, [www.cncbinternational.com](http://www.cncbinternational.com), and included all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published financial statements. The Regulatory Disclosure section will include the following information:

- A description of the main features and the full terms and conditions of the Group's capital instruments.
- A detailed breakdown of the Group's CET1 capital, Additional Tier 1 Capital Securities, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Group's accounting and regulatory balance sheet, using the standard template as specified by the HKMA.

**(B) LIQUIDITY RATIO**

	2014	2013
Average liquidity ratio for the year ended 31 December *	<b>64.9%</b>	55.3%

\* 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.

**(C) 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.

	2014	% of gross loans and advances to customers covered by collateral	2013	% of gross loans and advances to customers covered by collateral
	Gross loans and advances to customers HK\$'000		Gross loans and advances to customers HK\$'000	
Industrial, commercial and financial				
– Property development	5,594,282	40	15,227	100
– Property investment	17,016,206	82	14,074,440	100
– Financial concerns	8,429,777	46	4,073,785	33
– Stockbrokers	771,179	51	255,937	40
– Wholesale and retail trade	16,727,330	85	13,762,091	91
– Manufacturing	7,167,172	46	5,843,972	57
– Transport and transport equipment	2,163,895	40	2,252,707	46
– Recreational activities	273,556	81	271,979	78
– Information technology	15,202	100	882,728	5
– Others	4,663,393	80	2,272,510	57
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	10,756	100	17,790	100
– Loans for the purchase of other residential properties	11,296,562	100	10,254,515	100
– Credit card advances	357,418	–	318,683	–
– Others	6,830,531	85	5,853,436	87
Gross loans and advances for use in Hong Kong	81,317,259	74	60,149,800	82
Trade finance	15,691,063	18	15,489,383	20
Gross loans and advances for use outside Hong Kong	53,711,824	38	51,377,658	34
Gross loans and advances to customers	<b>150,720,146</b>	<b>55</b>	<b>127,016,841</b>	<b>55</b>

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:

2014					
	Overdue loans and advances to customers <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Impairment charged to/ (written back) on income statement during the year <i>HK\$'000</i>
Property investment	8,278	–	1,128	11,601	(180)
Wholesale and retail trade	3,048	743	56,097	3,048	56,787
Trade finance	128,344	61,715	169,997	150,865	6,625
Gross loans and advances for use outside Hong Kong	579,992	92,561	6,206	412,503	(2,164)
	<u>719,662</u>	<u>155,019</u>	<u>233,428</u>	<u>578,017</u>	<u>61,068</u>
2013					
	Overdue loans and advances to customers <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Impaired loans and advances to customers <i>HK\$'000</i>	Impairment charged to/ (written back) on income statement during the year <i>HK\$'000</i>
Property investment	1,375	–	84	1,375	(1,022)
Wholesale and retail trade	4,353	4,354	47,797	4,353	67,189
Trade finance	197,296	127,773	43,924	197,296	3,962
Gross loans and advances for use outside Hong Kong	97,271	25,224	156,887	138,180	(3,796)
	<u>300,295</u>	<u>157,351</u>	<u>248,692</u>	<u>341,204</u>	<u>66,333</u>



**By geographical areas**

	<b>Loans and advances to customers HK\$'000</b>	<b>Overdue loans and advances to customers HK\$'000</b>	<b>2014 Impaired loans and advances to customers HK\$'000</b>	<b>Individual impairment allowances HK\$'000</b>	<b>Collective impairment allowances HK\$'000</b>
Hong Kong	78,018,916	298,667	402,842	67,166	153,841
Mainland China	50,439,354	538,048	301,405	93,692	147,056
United States	1,485,746	–	–	–	5,075
Singapore	10,826,984	–	–	–	40,176
Others	9,949,146	7,406	7,391	3,022	27,516
	<b>150,720,146</b>	<b>844,121</b>	<b>711,638</b>	<b>163,880</b>	<b>373,664</b>
	<b>Loans and advances to customers HK\$'000</b>	<b>Overdue loans and advances to customers HK\$'000</b>	<b>2013 Impaired loans and advances to customers HK\$'000</b>	<b>Individual impairment allowances HK\$'000</b>	<b>Collective impairment allowances HK\$'000</b>
Hong Kong	65,078,764	216,992	256,066	102,230	129,448
Mainland China	44,105,532	103,357	87,403	31,917	84,595
United States	1,213,184	3,032	26,524	–	1,476
Singapore	7,377,259	–	–	–	58,104
Others	9,242,102	36,472	36,472	26,773	41,432
	<b>127,016,841</b>	<b>359,853</b>	<b>406,465</b>	<b>160,920</b>	<b>315,055</b>

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 for more than three months.

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

**(D) OVERDUE ASSETS****Overdue loans and advances to customers**

	2014	% of total loans and advances to customers	2013	% 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	357,292	0.24	52,155	0.04
– 1 year or less but over 6 months	276,202	0.18	117,966	0.09
– over 1 year	210,627	0.14	189,732	0.15
	<b>844,121</b>	<b>0.56</b>	<b>359,853</b>	<b>0.28</b>
Secured overdue loans and advances	618,750		156,932	
Unsecured overdue loans and advances	225,371		202,921	
	<b>844,121</b>		<b>359,853</b>	
Market value of collateral held against the secured overdue loans and advances	722,497		244,069	
Individual impairment allowances made	152,749		160,920	

Loans and advances with specific repayment dates 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 is 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.
- (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 three months at 31 December 2014 and 2013.

**(E) RESCHEDULED LOANS**

	2014		2013	
	<i>HK\$'000</i>	<i>% of total loans and advances to customers</i>	<i>HK\$'000</i>	<i>% of total loans and advances to customers</i>
Rescheduled loans	<b>659,530</b>	<b>0.44</b>	728,855	0.57

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 three months and are reported as overdue advances in note (D).

There were no advances to banks and other financial institutions which were rescheduled at 31 December 2014 and 2013.

**(F) Repossessed assets**

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Included in loans and advances to customers and other accounts	<b>27,667</b>	3,533

The amount represents the estimated market value of the repossessed assets at 31 December 2014.

**(G) 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:

	2014			
	<b>Banks and other financial institutions <i>HK\$'000</i></b>	<b>Public sector entities <i>HK\$'000</i></b>	<b>Others <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
Asia Pacific excluding Hong Kong	<b>52,628,231</b>	<b>100,162</b>	<b>51,177,858</b>	<b>103,906,251</b>
of which mainland China	<b>47,098,571</b>	<b>93,619</b>	<b>38,969,292</b>	<b>86,161,482</b>
of which Singapore	<b>160,305</b>	<b>621</b>	<b>10,218,723</b>	<b>10,379,649</b>
	2013			
	<b>Banks and other financial institutions <i>HK\$'000</i></b>	<b>Public sector entities <i>HK\$'000</i></b>	<b>Others <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
Asia Pacific excluding Hong Kong	53,435,320	267,743	42,926,522	96,629,585
of which mainland China	49,224,819	102,346	34,078,518	83,405,683

**(H) Non-bank mainland China Exposures**

Non-bank mainland China exposures are 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.

	<b>2014</b>			<b>Individual impairment allowances HK\$'000</b>
	<b>On-statement of financial position exposure HK\$'000</b>	<b>Off-statement of financial position exposure HK\$'000</b>	<b>Total HK\$'000</b>	
Mainland China entities	<b>65,666,820</b>	<b>8,829,973</b>	<b>74,496,793</b>	<b>92,799</b>
Companies and individuals outside mainland China where the credit is granted for use in mainland China	<b>12,267,824</b>	<b>2,151,472</b>	<b>14,419,296</b>	<b>7,070</b>
Other counterparties the exposures to whom are considered to be non-bank mainland China exposures	<b>15,975,333</b>	<b>1,624,931</b>	<b>17,600,264</b>	<b>52,045</b>
	<b>93,909,977</b>	<b>12,606,376</b>	<b>106,516,353</b>	<b>151,914</b>
	<b>2013 (Restated) (Note)</b>			<b>Individual impairment allowances HK\$'000</b>
	<b>On-statement of financial position exposure HK\$'000</b>	<b>Off-statement of financial position exposure HK\$'000</b>	<b>Total HK\$'000</b>	
Mainland China entities	44,786,344	16,169,750	60,956,094	82,847
Companies and individuals outside mainland China where the credit is granted for use in mainland China	11,452,121	2,747,418	14,199,539	62
Other counterparties the exposures to whom are considered to be non-bank mainland China exposures	19,918,337	3,459,172	23,377,509	72,300
	76,156,802	22,376,340	98,533,142	155,209

*Note:*

Certain comparative figures at the year ended 31 December 2013 have been restated in order to conform with current year's presentation.

## REPORT OF THE CHIEF EXECUTIVE OFFICER

**China CITIC Bank International Limited ("CNCBI") and its subsidiaries** ("the Group") generated record profits again in 2014 despite an uninspired operating environment, attesting to the Group's strong market position and implementation of a rewarding business strategy and stringent risk control. There is no room for complacency though, as the year ahead is conceivably full of challenges, such as uncertain economic conditions, larger currency fluctuations and intensifying competition. To add value to our customers and shareholders, we will continue to emphasise product innovation, business management and operational efficiency. Specifically, RMB business has been and will continue to be a key development area for the Group. CNCBI has launched the Cross-Border Banking Demand Index, which helps the Group to capture business opportunities ahead and maintain a leading position in the market.

### Operating Environment

Major economies of the world showed mixed performances in 2014. After getting off to a slow start, the US enjoyed a faster pace of recovery in the second and third quarters of the year, with full-year real GDP growth of 2.4% for 2014, compared with 2.2% in 2013. On the contrary, growth of the Eurozone appeared to have run out of steam while Japan slipped into recession despite its government's stimulus package. In mainland China, as a result of the ongoing structural reforms, the economy expanded at a slower speed of 7.4% in real terms last year, which was in line with expectations.

In the absence of strong external demand, the Hong Kong trade sector was sluggish, with total merchandise exports in 2014 up merely 3.2% compared with a year earlier. The consumer sector fared worse. Despite a persistently low unemployment rate of 3.3%, total retail sales value in 2014 decreased slightly by 0.2% year-on-year, which was mainly due to reduced demand for luxury goods. The property sector was a pleasant surprise. Notwithstanding the government's cooling measures to dampen housing demand, it remained active with approximately 15.5% and 20% year-on-year gains in transaction volumes and values respectively last year. As a whole, the Hong Kong economy expanded moderately by 2.4% in real terms in the first three quarters of 2014.

The banking sector was resilient against this economic backdrop, with solid earnings growth, steady net interest margin, sound asset quality and strong capital position. Notably, Renminbi ("RMB") business remained brisk during the year. As at end-2014, total RMB deposits and certificates of deposit increased by 10% from end-2013, while the growth in total outstanding RMB loans was 63%. In 2014, RMB trade settlement handled by banks in Hong Kong surged by 63% year-on-year, while RMB bond issuance totalled RMB197 billion, which was 69% more than the amount issued in 2013.

Meanwhile, the "Shanghai-Hong Kong Stock Connect" programme was launched last November, allowing investors in Hong Kong and mainland China to trade the stocks on the other side's bourse via their local exchanges. Subsequently the daily conversion cap of RMB20,000 for Hong Kong residents was scrapped. These measures represented an important step in liberalising China's capital account and internationalising the RMB, with Hong Kong being a major beneficiary.

### Financial Performance

In 2014 the Group's operating income increased by 26.5% year-on-year to HK\$6.01 billion. Profit after impairments was up 32.8% to HK\$3.37 billion. Profit attributable to shareholders surged by 31.2% to reach yet another record high of HK\$2.80 billion. Return on average assets rose 8 basis points year-on-year to 1.19% from 1.11%, while return on average shareholders' equity was 14.86%, well above 13.22% in the previous year.

The respectable profit growth in 2014 was partly underpinned by a healthy 24.8% rise in net interest income to HK\$4.16 billion, which was driven by a steady expansion in interest-earning assets. Net interest margin was up one basis point from 2013 to 1.84% despite some pressure on RMB and non-RMB interbank loan yields.

The growth in non-interest income, at 30.6% to HK\$1.85 billion, was also impressive. During the year under review, a widened RMB trading band gave rise to a 2.5% depreciation in the RMB. As a result, the Group's trading income and its RMB structured products commission were adversely affected, but the impact was offset by a surge in loan fees and insurance commission.

As the Group increased its investment in developing mobile banking, improving core infrastructure and strengthening internal controls, operating expenses rose by 17.4% year-on-year in 2014. But this increase was lower than the sharp rise of 26.5% in revenue, indicating greater operational efficiency. Cost to income ratio therefore fell by 3.2 percentage points from a year ago to 40.9% in 2014.

## **Financial Position**

The Group has continued to attach great importance to effective balance sheet management and prudent risk management, adjusting the scale and structure of loans and deposits to sustain sound asset quality, ample liquidity and decent profitability.

As at 31 December 2014, the Group's total deposits reached HK\$203.09 billion, up 18.9% from a year earlier. Customer loans and total assets increased by 18.7% and 15.2% year-on-year to HK\$150.72 billion and HK\$249.14 billion respectively. Impaired loan ratio edged up 15 basis points to 0.47%, while non-performing loan coverage ratio stood at 75.5%, compared with 117.1% in 2013. The lower non-performing loan coverage ratio was warranted as a much larger portion of the loan book was secured against tangible collateral, namely high-quality properties. These properties were conservatively valued in the Group's book with a reasonable discount to prevailing market prices.

In April 2014, CNCBI successfully launched its inaugural US\$300 million Basel III compliant undated non-cumulative subordinated additional tier 1 capital securities ("AT1 Capital Securities"). This was the first ever Basel III compliant additional tier 1 capital issuance in USD from an Asian bank. The AT1 Capital Securities have enhanced CNCBI's tier 1 capital under Basel III and its overall capital position, thereby sharpening the Group's competitive edge against its peers and building a solid foundation for business growth.

As at end-2014, the Group's total capital adequacy ratio increased by 80 basis points from a year ago to 17.27% whereas its common equity tier 1 capital ratio reached 10.48%. These levels were well above the regulatory requirements set by the Hong Kong Monetary Authority. Average consolidated liquidity ratio also stayed healthy at 64.9%.

## **Business Review**

Wholesale & Cross-Border Banking Group ("WBG") posted strong growth in 2014. Operating income grew by 36.5% year-on-year to HK\$3.11 billion while profit before taxation increased by 43.4% to HK\$2.12 billion. Its balance sheet also expanded reasonably with customer loans and deposits up more than 20% compared with 2013. Partnering with Treasury & Markets Group ("TMG"), WBG effectively leveraged its cross-border RMB business development capability and promoted innovative products to create the best financial solutions for its clients. Moreover, it has broadened its customer coverage and strengthened its overseas presence through closer collaboration with China CITIC Bank and CITIC Group, which has paved the way for sustainable business growth.

Meanwhile, Personal & Business Banking Group ("PBG") posted a record operating income of HK\$1.83 billion in 2014, representing an 18.4% growth year-on-year. Profit before taxation increased by 22.8% to HK\$710 million, which was also a new record. While customer deposits grew to a new high of HK\$88.04 billion, up 19% from 2013, customer loans increased 5.1% year-on-year to HK\$39 billion. During the year, PBG continued to increase its range of deposit, insurance and investment products. It also successfully rolled out a number of "inMotion" banking initiatives and won the Outstanding e-Banking Award in the Quamnet Outstanding Enterprise Awards 2014. Moreover, PBG's customer base and customer assets under management continued to expand at a favourable pace, especially with the growth in business with high net worth individuals from mainland China.

## **Risk Management**

The Credit and Risk Management Committee of the Board is entrusted with the task of approving and monitoring the Group's risk appetite, strategy and exposure. It has established policies and procedures to identify, quantify, monitor and mitigate the risks to which the Group is exposed. The Assets and Liabilities Committee, Credit Committee, Non-Performing Loan Committee, Investment Review Committee and Operational Risk Management Committee at the managerial level have been formed to oversee the implementation of these policies and procedures. Besides, the Audit Department conducts regular independent reviews to ensure compliance with both internal policies and regulatory requirements.

Meanwhile, Risk Management Group (“RMG”) has continued to promote best practices that are within its remit. These include enforcing a more rigorous credit approval and review process, managing loan portfolios proactively, formulating investment strategies and strengthening capital and liquidity management as befits the Group’s risk appetite. Moreover, an Internal Control Group (“ICG”) has been established with the focus of fortifying the Group’s operational risk culture and internal control practices.

Various Risk Management tools are in place and continue to be enhanced including (i) the Global Risk Indicator (“GRI”), (ii) the Internal Capital Adequacy Assessment Process (“ICAAP”) and (iii) the bank-wide stress testing practices. The GRI articulates the Group’s Risk Appetite Framework and is used in monitoring the Group’s risk profile against the risk appetite, which entails credit, market, operational (including legal), liquidity, interest rate, strategic and reputation risks.

The risk management information system, infrastructure and the methodologies are constantly reviewed to ensure strict adherence to regulatory requirements. Moreover, the Group has imposed a risk-based pricing regime and introduced disciplined capital management practices to its overseas branches and subsidiaries to enable it to make informed decisions and feasible development plans.

Regarding market risk management, clear risk limits have been set within a robust management framework, whereby these limits are monitored daily, stress tests are conducted periodically and close tracking is performed whenever unusual events occur in the market.

To strengthen credit risk management, workshops were conducted throughout 2014 involving frontline and risk management staff in Hong Kong, Macau, Singapore and CBI (China). Drawing lessons from past cases, staff are acutely aware of potential impaired loans and related mitigating measures. The Group also conducted reviews of the loan portfolios in high-risk segments, and strengthened communication with the parent bank to assess the creditworthiness of the industry sectors in mainland China.

As regards the strengthening of operational risk management, the Group engaged its staff from Hong Kong, Macau, Singapore, CBI (China) and the US in a Safe Operations and Risk Management workshop series during the first half of 2014 to improve risk management culture and awareness. Aside from training in operational risk management, the Group also had in place various enhanced methodology and tools. These have included a half-yearly operational risk self-assessment for identifying potential risk areas, a set of departmental key risk indicators for monitoring related risks, and a risk assessment checklist for managing the risks of launching new products.

## **Human Resources Development**

In light of more demanding regulatory regimes in Hong Kong and elsewhere, coupled with inadequate supply of experienced high-calibre professionals specialising in compliance, audit and operational risk management, the competition for human resources has intensified across all geographies where we operate. Management have always given priority to workforce stability and staff development. The Group offers a range of financial and non-financial incentives to attract, retain and engage talent. As a result, the voluntary staff attrition rate reduced substantially by more than 30% in 2014.

Despite market-driven increases in staff costs, productivity improved markedly for the year. Per capita performance indicators showed good progress, notably with a 21.6% year-on-year increase in operating income per full-time employee.

On people development, the Group continued to provide targeted and structured workshops to enhance overall competence and professional standards of staff. During the year, the Effective People Manager Programme was extended to a wider group of managers. To strengthen governance, the Group held compliance seminars for all managers to raise awareness and reinforce understanding of compliance disciplines.

Balanced Scorecard was applied throughout the Group to provide an objective, quantitative and integrated approach to performance management. Review was based on a matrix of performance metrics including business growth, risk management, compliance performance and people management.

Good corporate governance and a strong team spirit can boost the Group’s human capital which is instrumental in building a solid foundation for more encouraging results in the years ahead.



## Outlook

The external environment appears increasingly complex and variable in the coming year. The US economy continues to stand out as its recovery gathers momentum, but its prospects can be clouded if the Federal Reserve, having withdrawn its quantitative easing programme, raises interest rates prematurely. Meanwhile, European and Japanese policymakers, gripped by fears of recession and deflation, have attempted to jump-start their weak economies with a strong dose of quantitative easing. In mainland China, the government is ready to accept lower headline GDP growth as long as restructuring of the economy progresses well. Yet it has also been fine-tuning monetary policy to ensure that sufficient credit is available especially for small- and medium-sized enterprises.

While most countries are inclined to maintain accommodative monetary policies, it is doubtful whether consumer demand and investment spending can be substantially stimulated soon. In the meantime, competing monetary easing can precipitate fluctuations in currency values and changes in international fund flows. Volatility is increasing as oil prices have plummeted in recent months and Switzerland has unexpectedly abolished its currency peg. Besides, diplomatic mediation has yet to defuse geopolitical tensions caused by the dispute between Russia and Ukraine, and the confrontation between Russia and other western countries may add uncertainties to global financial markets.

Both the World Bank and the International Monetary Fund have revised down their growth forecasts for the global economy for 2015. As there is also a lack of clear growth drivers for domestic demand, the Hong Kong economy is expected to expand only at a moderate pace again this year, which in itself is insufficient to spur business expansion of the banking sector. Consequently the development of cross-border and offshore RMB businesses is crucial for banks in Hong Kong.

Looking ahead, as the “Shanghai-Hong Kong Stock Connect” programme has been running smoothly, a similar scheme is being developed for the Shenzhen and Hong Kong stock exchanges, which should further facilitate capital flows between Hong Kong and the Mainland, as well as reinforcing Hong Kong’s status as the leading offshore RMB centre. While replication of the Shanghai Pilot Free Trade Zone in other areas of China and continued liberalisation of the country’s financial system may pose challenges to the banking industry of Hong Kong in the future, a rapid increase in trade and fund flows to and from the Mainland can also create tremendous business opportunities for us and our peers.

The Group is well positioned to capitalise on the financing needs of enterprises involved in cross-border activities given its strong connections with parent bank China CITIC Bank, and CITIC Group. It will continue to benefit from an extensive customer network and collaboration with group companies. In the coming year, an expected further slowdown of China’s economy, coupled with potential interest-rate cuts and two-way fluctuations of the RMB, may impact on the Group’s asset quality, net interest margin and business development. Nevertheless, we are confident that by adhering to high standards of corporate governance and risk management, together with our strong product development capabilities, we can sustain good quality growth ahead.

To lay a solid foundation for future business development, we have been expanding our retail deposit base and actively acquiring new customers, particularly medium-sized enterprises and high net worth individuals. We are also encouraging innovation and cross-selling amongst our business units to diversify the Group’s income base and drive revenue growth, with tailor-made products to answer the needs of our customers in light of changing economic conditions. Moreover, we will continue to promote our mobile banking platform, which can enhance customers experience while improving service and operational efficiency.

Furthermore, we will invest heavily in technology, with a view to upgrading our core banking systems, improving the connectivity between Hong Kong and all overseas branches, and enhancing our digital infrastructure to safeguard our operations against IT-related risks. We have also planned to develop a centralized database that can consolidate existing application systems so that our management team will be provided with timely and valuable information. In addition, we are developing new business applications and streamlining our customer relationship management system to ensure that our customers are always offered premium products and quality services.

Our ultimate task is to manage the scale and structure of the Group’s business well so that we may achieve an optimal balance between growth and risk. As we continue to stay in tune with changing circumstances, devise creative solutions to cope with them and maintain our customer-oriented culture, we believe the Group’s success can be sustained ahead.

**Zhang Xiaowei**

*President & Chief Executive Officer*

Hong Kong, 19 March 2015